25-Jan-2018

Flex Ltd. (FLEX)

Q3 2018 Earnings Call

Copyright © 2001-2018 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Kevin Kessel
Vice President-Investor Relations & Corporate Communications, Flex Ltd.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

OTHER PARTICIPANTS

Steven Milunovich
Analyst, UBS Securities LLC

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Amit Daryanani
Analyst, RBC Capital Markets LLC

Jim Suva
Analyst, Citigroup Inc.

Paul Coster
Analyst, JPMorgan Securities LLC

Steven Fox
Analyst, Cross Research LLC

Timothy Sweetnam
Analyst, Goldman Sachs & Co. LLC

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Flex Third Quarter Fiscal 2018 Earnings Conference Call. Today's call is being recorded and all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

At this time, for opening remarks and introductions, I would like to turn the call over to Mr. Kevin Kessel, Flex's Vice President of Investor Relations and Corporate Communications. Sir, you may begin.

Kevin Kessel
Vice President-Investor Relations & Corporate Communications, Flex Ltd.

Thank you and welcome to Flex's third quarter fiscal 2018 conference call. We have published slides for today's discussion that can be found on the Investor Relations section of our website at flex.com. Joining me on today's call is our CEO, Mike McNamara; and our CFO, Chris Collier. Following their remarks, we will open up the call to questions.

Before we begin, let me remind everyone that today's call is being webcast and recorded and contains forward-looking statements which are based on current expectations and assumptions that are subject to risks and uncertainties, and actual results could materially differ. Such information is subject to change and we undertake no obligation to update these forward-looking statements. For a discussion of the risks and uncertainties, see our most recent filings with the SEC, including our current annual and quarterly reports.

Copyright © 2001-2018 FactSet CallStreet, LLC

If this call references non-GAAP financial measures for the current period, they can be found in our appendix slide. Otherwise, they are located on the IR section of our website along with the required reconciliations.

Before I turn the call over to Chris, I wanted to pass along a save the date for our 2018 Investor and Analyst Day. It is scheduled for May 10 and will take place in San Francisco, so mark it down on your calendars and expect more detail to be emailed by us shortly.

With that out of the way, I'd like to pass the call over to our CFO, Chris Collier. Chris?

Christopher E. Collier

Chief Financial Officer, Flex Ltd.

Good afternoon and thank you for joining us today. We'll start on slide 2 with our third quarter fiscal 2018 income statement summary. Our third quarter results were broadly in line with all key financial metrics we provided back in October, reflecting our continued growth, structural portfolio evolution and capital return commitment. Quarterly sales were approximately $6.8 billion, up 10% versus a year ago and above our guidance range. All four of our business groups met or exceeded their respective sales guidance ranges.

Our third quarter adjusted operating income was $220 million, which was in the middle of our guidance range. And adjusted net income was over $164 million, resulting in adjusted earnings per diluted share of $0.31, which was towards the high end of our guidance range. Third quarter GAAP net income amounted to $118 million and is lower than our adjusted net income due to $21 million of stock-based compensation expense, $17 million of net intangible amortization and $7 million from impairment of non-core investments. These adjustments had a $0.09 impact on our adjusted EPS, resulting in third quarter GAAP EPS of $0.22.

Now, turn to slide 3 for our quarterly financial highlights. This quarter was our fourth consecutive quarter of year-over-year quarterly revenue growth, reflecting the strong demand from our significant bookings and new business wins that we have been capturing with our Sketch-to-Scale portfolio shift and our expansion into new businesses and markets. Our third quarter adjusted profit totaled $452 million and our adjusted gross margin was 6.7%.

As highlighted last quarter, we are ramping several new programs through the balance of this year, and this is reflected in our strong revenue growth in our third quarter and evident in our fourth quarter guidance. These new programs, along with the continued development of our long-term strategic partnership with Nike contributed to a new foundational layer of revenue for Flex, although in the near term, it depressed our margin due to high levels of investment costs and under-absorbed overhead costs. Despite the higher investment and costs being carried, our adjusted gross profit dollars grew 4% year-over-year.

In our third quarter, our adjusted SG&A expense amounted to $232 million, which was up year-over-year, although sequentially, as a percentage of our net sales, it declined 20 basis points to 3.4%. As a reminder, R&D expense is a component of our SG&A and the increase in SG&A is reflective of incremental design and engineering costs as we further invest in our innovation system through our expansion of our global design footprint and engineering capabilities.

Our quarterly operating income came in at $220 million, which is modestly lower than the prior year and almost entirely attributed to the increased levels of investment required for our new businesses and to support our Sketch-to-Scale vision. Our adjusted operating margin was 3.3%, which was up nearly 30 basis points sequentially, as we benefit from our strengthening top line and begin to move away from our heavier investment year profile. Return on invested capital was 17%, remaining well above our cost of capital and reflecting our

Copyright © 2001-2018 FactSet CallStreet, LLC

elevated levels of investment which have pressured our profitability as we continue to position our company for future growth.

Turn to slide 4 for our operating performance by business group. As expected, our CEC business returned to our target adjusted operating margin range as it hit 2.5%, while it generated $50 million in adjusted operating profit. We continued to transform our CEC customer portfolio and expand our cloud data center capabilities with targeted investments in engineering and reference platforms. These elevated costs, coupled with lower overhead absorption due to lower CEC revenue levels, has pressured profitability year-over-year.

Our CTG business generated $39 million in adjusted operating profit, resulting in an adjusted operating margin of 1.9%, which was just shy of targeted range of 2% to 4%. Revenue was healthy and the business saw strong sequential growth in operating profit dollars, rising over 26%. The sequential improvement in operating profits reflected reduced [indiscernible] (00:06:56) from our strategic partnership with Nike as its transition to a new manufacturing facility during the third quarter aided in driving operational improvements. However, CTG operating margin was pressured as we had lower margin contribution from ramping new programs.

Our IEI business generated a record adjusted operating profit of $61 million, achieving a 4.1% adjusted operating margin, which placed inside our targeted range of 4% to 6% as expected. The business continues to experience strong demand across its diversified markets and is successfully ramping several large new customer Sketch-to-Scale programs. We expect to sustain this strong growth trend as IEI capitalizes on its strong design and innovation position in a rapidly digitizing industrial market.

Lastly, our HRS business delivered another record quarterly adjusted operating profit, as it generated $101 million, which pushed its operating margin to 8.2%. This business consistently operates healthily inside its target margin range while it continued to actively invest in expanding its design and engineering capabilities and truly shifting to be a valued design and manufacturing partner.

Turning to slide 5, let us review our cash flow and net working capital. We continue to generate solid operating cash flow which enables us to operate, invest and grow our business. This quarter we saw cash flow from operations at $150 million, which marked our 14th consecutive quarter of cash flow from operations over $100 million.

Our inventory levels increased over $200 million from a year ago, as we're carrying higher levels to support our revenue growth and positioning for multiple large program ramps while operating in a challenging supply environment. Our strong inventory management during the period enabled us to fulfill customer demand and achieve inventory turns of 6.7 times, up from 6.4 times a year ago.

Overall, our net working capital increased roughly $215 million from the prior year to over $1.8 billion, and amounted to 6.8% of our net sales. We believe that our current and prospective business mix will result in our net working capital as a percentage of sales to remain within our targeted range of 6% to 8%.

This quarter, our capital expenditures totaled $161 million, exceeding depreciation by over $53 million, as we continue to invest in our platform to expand capability and capacity with higher levels of investment to accelerate automation and Sketch-to-Scale as we evolve our portfolio.

We have consciously increased our capital allocation to invest deeper into our CapEx. As we preposition investments to capture and win more customers in business, we continue to earmark greater levels of investment to support our expanding IEI and HRS businesses, as well as other new business initiatives.

Copyright © 2001-2018 FactSet CallStreet, LLC

These technology investments are supporting long underlying product life cycles, and in many instances, have required us to secure this capability, capacity or technology in [ph] advance of ramps (00:10:42). These increased levels of capital expenditure and net working capital have pressured our cash flow generation, resulting in our free cash flow being modestly negative at $11 million for the quarter. Now, for the year, we are currently expecting our free cash flow to be in the range of $250 million.

We continue to fulfill our commitment to consistently return value to our shareholders. This quarter, we repurchased roughly 2 million shares for approximately $35 million.

Please turn to slide 6 to review our capital structure. Our credit metrics remain healthy. We have no near-term debt maturities until calendar year 2020 and we have over $3 billion in liquidity. We continue to operate with a balanced capital structure and we have the strength and flexibility to support our business over the long term.

Before I turn the call over to Mike, I'd like to emphasize that we continue to take deliberate actions to position and support our portfolio evolution and Sketch-to-Scale strategy, while continuing to thoughtfully allocate capital to capture meaningful future profitable growth and to fulfill our 2020 vision.

Now, I'll turn the call over to Mike.

Michael M. McNamara

Chief Executive Officer & Director, Flex Ltd.

Thank you, Chris. Our third quarter displayed continued revenue growth acceleration and the advancement of our portfolio evolution. We continue to gain momentum on both fronts, fueled by our investments to leverage our unique platform and Sketch-to-Scale strategy.

Please turn to slide 7 for Q3 fiscal 2018 business highlights. A number of positives in our Q3 performance further illustrate this momentum. This was our fourth straight quarter of accelerating year-over-year revenue growth. All four of our business groups beat the midpoint of the revenue guidance ranges and two even surpassed their high-end targets. Both HRS and IEI set new records for quarterly revenue, with year-over-year growth of 20% and 31%, respectively. As a result, fiscal 2018 is solidly on pace to be a strong growth year.

The strengthening revenue aided in improving margin performance, as our adjusted operating margin percentage increased 30 basis points from last quarter, and all four of our business groups posted sequential improvement and three business groups ended up within their target margin range. Our structural portfolio evolution remained an important theme in Q3. Our HRS and IEI businesses continued to lead the way as both achieved accelerating revenue and operating profit growth.

Individually and combined they both set new revenue and adjusted operating profit dollar records. Together, they totaled 40% of sales and 65% of our adjusted operating profit dollars for the quarter. Both businesses are also on pace to grow revenue materially above 10% in fiscal 2018, while expanding their Sketch-to-Scale engagements and improving their go-to-market capabilities.

Our momentum is being fueled by continued receptivity from customers that recognize and take advantage of our scale and cross-industry integrated solutions. We continue to improve and expand our design capabilities and reference platforms for new products and markets which are leading to many new customer and business opportunities.

Copyright © 2001-2018 FactSet CallStreet, LLC

The level of interest for our Sketch-to-Scale solutions remains very high and are a huge differentiator. This was evident at CES in Las Vegas this year where all four of our business groups were well represented and we had record customer interest in our Sketch-to-Scale solutions offering. The pace of change and disruption is intense but we are finding numerous ways to partner with customers and enable their innovation by leveraging our deep vertical focus and expertise into adjacent or complementary industries with success. For example, recent autonomous vehicle program wins by HRS leveraged CEC's complex engineering knowledge of the data center which is becoming integrated in the car. Combining that key CEC skill set with HRS experience for automotive-grade manufacturing and supply chain solutions creates significant marketplace differentiation.

Additionally, we continue to be excited about our investments and opportunities that leverage the breadth of our platform. For example, our YTWO Formative joint venture, which is focused on transforming the building and construction industry by digitizing the design through supply chain process, announced major customer wins in China, Germany and the United States, which helped to form meaningful foundation for this business. Also, Elementum continues to successfully expand its customer relationships and rapidly grow revenue.

Our investments broadly in manufacturing automation and specifically in our strategic partnership with Nike are also developing and are expected to lead to meaningful long-term value creation. We continue to be excited about our ability to leverage our platform into new business verticals that will provide for meaningful future growth.

Please turn to slide 8 as we review revenue by business group in detail. Our third quarter saw sequential growth across the board in all four business groups and year-over-year growth in three groups. Our diversification remains strong and balanced. Our top 10 customer revenue concentration improved to 43% of sales from 46% a year ago.

Our CEC business was down 6% to year-over-year versus our expectation for a 5% to 10% decline. Total revenue kicked up 4% sequentially to $2 billion. While its legacy end markets remain challenged, its design capabilities continue to improve and expand, which is leading to new customers and business opportunities, particularly in cloud data center and converged infrastructure solutions, which rose over 25% year-over-year. Additionally, CEC is instrumental in new markets, like autonomous vehicles, as mentioned earlier, and digital health.

For the March quarter we expect CEC's year-over-year revenue reduction to be 5% to 10% driven by reductions in traditional legacy businesses, offsetting the sustained growth in cloud data center and converged products.

CTG had a strong growth quarter, as revenue of $2.1 billion was up 11% year-over-year and above the high end of our guidance range of flat to up 10%, as a result of growth in connected living, audio and mobile products. The strategic partnership with Nike was further enhanced with the successful move into our new manufacturing facility during the third quarter. This move improved efficiency and helped reduce operating losses in line with expectations. Our objectives of moving this project towards the breakeven level exiting our Q4 remains unchanged.

For the March quarter, we are guiding CTG revenue to be up 5% to 10% year-over-year, benefiting from the expansion of new programs and realizing normal seasonality with consumer products. We remain committed to strategically shaping and influencing CTG's business mix as we expand our Sketch-to-Scale engagements, capturing higher technology content which leads to a higher value-added revenues and more moderate seasonality than previous years.

Copyright © 2001-2018 FactSet CallStreet, LLC

IEI's strong growth continue, with record revenues of $1.5 billion, up 31% year-over-year and above the expectation of up 20% to 30%, [ph] both by (00:18:45) successful new program launches and expanding end markets. IEI saw growth across home and lifestyle, energy, capital equipment and continues to experience strong bookings across its diverse offerings.

For the March quarter, we expect continued strong IEI revenue growth up 15% to 20% year-over-year led by new program ramps across all categories. Our solid year-over-year growth has been driven by significant fiscal 2017 bookings that continue to ramp in production. Our Q4 guidance affirmed that IEI will meaningfully continue to target the 10% growth rate for fiscal 2018.

HRS revenue grew for 32 straight quarters on a year-over-year basis. This quarter, revenue rose to a record $1.2 billion, up 20% year over year and at the high end of expectations for 10% to 20% growth, [ph] and includes (00:19:44) automotive and medical group. In the March quarter, we expect HRS's growth to remain strong, with revenue up 10% to 20% year-over-year as we introduce new programs and expand existing programs for both medical and automotive.

Our automotive business continues to lead the HRS growth as increasing electronics content and rising connectivity needs allow us to expand our automotive content [ph] to car (00:20:11). Our HRS business is providing true value-add innovation and is increasingly capturing more designs in manufacturing engagements, which, in turn, create meaningful recurring revenue stream. Similar to IEI, our Q4 guidance for HRS also implies [indiscernible] (00:20:31) achieve its 10% revenue growth target for this year.

Let's turn to our March quarter guidance on slide 9. As we have consistently mentioned over the last three to four quarters, fiscal 2018 is an important investment year for Flex. The last investment we anticipate as we move into the final quarter of the year is conducting a targeting restructuring plan that will result in a minimum charge of $50 million. The objective of our plan is make Flex a faster, more responsive company, and one that will continuously adapt to the incredible marketplace opportunities ahead of us.

Most of this optimization will be focused on corporate functions and breaking down systems that have reduced our speed and effectiveness and will be complete by fiscal year end. The world has changed and we have to build a continuously more agile model that is responsive to the future. At the same time, our investments in the future have never been higher, our revenue is accelerating and our strategy has positioned us perfectly. We are focused on executing our 2020 vision, and fiscal 2019 will have strong growth in revenue, adjusted operating profit and adjusted EPS.

For the March quarter, we expect revenue in the range of $6.1 billion to $6.5 billion. Adjusted operating income is expected to be in the range of $200 million to $230 million. Adjusted earnings per share guidance is for a range of $0.28 to $0.32 per share based on weighted average shares outstanding of 534 million. GAAP EPS is expected to be in the range of 10% to 15% (sic) [$0.10 to $0.15] (00:22:13) as a result of stock-based compensation expense, intangible amortization and restructuring charges.

With that, I'd like to open up the call for Q&A. So, Mike? Operator?

Copyright © 2001-2018 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from Steve Milunovich from UBS.

Steven Milunovich
Analyst, UBS Securities LLC

Q

Thank you. Good afternoon. You've talked a little bit about strong growth in fiscal 2019. I think you've reviewed with the board your three-year outlook. Do you still believe you can do the $1.80 in fiscal 2020? And given that you're a little behind this year due to the Nike investment, does that take away that potential upside to $2-plus that you talked about at the Analyst Day?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. Steve, I don't want to spend really time talking about 2020 or even 2019 in any kind of details. We've laid out a plan at Investor Day, last Investor Day, which was the same plan we laid out a year earlier. We have a number of initiatives that we're driving to get to those plans. 2019 is going to be the beginning of that rise as we head towards our 2020 plan, and those targets are still the ones that we're driving to at this point.

So, I think the most important thing is we stay focused at delivering, finishing up this year, finish off our investment year and really pivoting our company into really being a growth year for earnings, revenue and operating profit which we expect in 2019.

So, I think you're going to start to see the beginning of that build right from the bat as we start in Q1 and – but I don't want to give – affirm that that's the number we're going to hit. It's just that those are the targets that we remain very, very focused on.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

And Steve, maybe I'll add just to that would be that you see the company continue to operate with discipline and extreme focus around each of our strategic initiatives. All that encompass our vision of achieving the 2020 and beyond. I mean, the evolution that is underway is reflected in many different examples and you're starting to see that evidence itself in the growth in some of these new businesses, as well as us achieving the growth targets as well as the margin ranges on many of the big construction pieces of our portfolio.

So, we're going to expand further and in greater detail, as we always do, in May, but I think we're trying to evidence and display key steps along the journey that we're on as we continue to improve our execution and capture more and harness more of the [indiscernible] (00:25:08) reflects.

Steven Milunovich
Analyst, UBS Securities LLC

Q

That's great. And Chris, could you talk a bit about the free cash flow? I think it is materially below what most of us expected coming into the year, and maybe talk about that both from a working capital and a CapEx standpoint and where that's going in the near term. Do you feel like you're going to really kind of get this back in terms of the investments you're making?

Copyright © 2001-2018 FactSet CallStreet, LLC

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

Certainly. I mean, if you actually look, we set a guide for the year of, say, roughly $250 million. That's down from where we had started out the year but we're also seeing [ph] upsized (00:25:40) growth. And to fund that growth, you're seeing us, while we're staying within our targeted range of networking capital, you're seeing well over $200 million of investment into inventory to preposition and support these ramping customer demands.

You're also hearing us evidence in this past quarter, at $161 million of CapEx investment, a lion's share of that going to our growth areas in IEI and HRS. You're seeing us step harder in terms of some of the investments where we're again pre-staging technology capacity and capability in light of the book of business that we see in front of us. And that $161 million is probably the highest you've seen in a quarterly run rate for four years.

So, you're going to see us outstrip our depreciation this year, near $70-plus million, see investment of working capital north of $200 million. You take the guide that we set and that's just the natural math. But as we go forward, the three levers that we're hyper-focused around to keep the fundamental structure of our cash flow generation intact is the earnings contribution, which is meaningfully growing. Just if you look at the midpoint of our guidance for the second half – for our fourth quarter and you combine that, our second half of fiscal 2018 is up over $50 million and nearly 20% over the first half, and we see that continue to grow into 2019 and 2020. So, that's good cash flow lever, discipline management of working capital as we've elevated to this level of new revenue stream. And then, thoughtfully investing in the CapEx over over-depreciation, we actually do see that modulating as we enter into 2019 and into 2020. So, those three things combined will help us start displaying a significantly greater cash flow generation that we're fundamentally structured to deliver.

Steven Milunovich
Analyst, UBS Securities LLC

Q

Thanks.

Operator: Your next question is from Adam Tindle from Raymond James.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks and good afternoon. Mike, I just wanted to start with, what drove the decision to initiate the restructuring now? Results were in line or better, revenue is growing. It seems like you're on the precipice of some exciting stuff. So, just trying to understand the timing. And is there a particular segment that you're targeting outside of just general corporate? Thanks.

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. So, just what you said, Adam, we're actually having accelerated revenues and have a clear line of sight to having improving FY 2019. So, it's exactly why we actually want to do it now. So, we have a very strong economy. It's certainly good for the people that if we do make any changes, that the opportunity for them to get jobs is high. We're not doing the restructuring out of stress. We're actually doing it out of opportunity. I almost called it an offensive restructuring as opposed to defensive restructuring. And as we move into an offensive restructuring, we think about how do we make our company even faster and more agile and take advantage of the marketplace opportunities. Because we actually look at the world and think about this whole connected world that's happening and this whole age of intelligence, and we look across it and the amount of ideas and opportunities that are

Copyright © 2001-2018 FactSet CallStreet, LLC

available to us, given our platform and our set of capabilities, is extremely high. And we want to make sure that we have a system that is able to chase it quickly, that we're not investing in the past, we're investing in the future, and that it really enables us to really be successful. So, I kind of view it as a very, very proactive change and it's done right at a time when we're doing really well and growing revenue. So, I actually kind of like that quite a bit.

And as far as is there any particular segment or anything else, I think the way to think about it is if you listen to our past presentations and Investor Days and such, the thing we focus on is the fact that we have all these deep vertical competence and the fact that if we can leverage across this deep vertical competence in so many different industries and be able to put together cross-industry solutions that really create competitive advantage for our customers, is really what we're trying to accomplish.

So as we look at the restructuring, we're trying to make sure that we position our company that we can actually achieve cross-industry solutions easier, with less barriers or orders or silos or whatever you want to – whatever kind of name you want to call it. So, we're moving towards that cross-industry solutions for our customers and we think that's going to make us even faster and more agile or even better positioned as we come out of this.

Adam Tindle
Analyst, Raymond James & Associates, Inc.
Q

Okay. And just as a follow-up – that's helpful, Mike. Thank you. Chris, you alluded to this a little bit in the prepared remarks but operating profit dollars have declined on a year-over-year basis for three quarters now, but your guidance implies profit dollars will grow on a year-over-year basis in March. Can you just talk a little bit about this turning point and how we can think about year-over-year profit dollar growth beyond this? It would seem like fiscal 2019 and beyond has a chance to grow at a pretty accelerated rate based on the CAGRs that you've talked about in the past. Thanks.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.
A

Certainly. Yeah. I mean, if you – look, we were just modestly off year-over-year in our Q3. And as you point out, the midpoint of our guidance for Q4 does set us to be up year-over-year. We see some several distinct levers for meaningful margin and operating profit dollar expansion as we move forward. We strategically have been moving ourselves to having a greater concentration of growth business in IEI, in HRS, as well as continuously moving to a richer mix within CTG.

I think what you'll see is we're going to be benefiting from some top line growth that's reemerging.

Certainly, fiscal 2018 is growing, and each quarter, we've been showing and displaying an accelerated level of that year-over-year expansion, so that's going to provide some earnings leverage there. And I'd say, if you step back, the other strategic initiative that we've been hyper-focused on and very disciplined about where we invest as a company and position ourselves has been around driving greater Sketch-to-Scale penetration, and that's being led by having more meaningful design and engineering technology content in our offerings, and the results of which will reflect in future revenues of greater margin carry. So in several instances, you're also seeing a shift from creating and ramping and development of these initiatives into a scaling and expanding.

So, we're excited about the position. This evolution is difficult. We have to be very thoughtful and disciplined as we go but I think there's a lot of different evidential proof points that show that our trajectory is pretty firm.

Copyright © 2001-2018 FactSet CallStreet, LLC

Kevin Kessel
Vice President-Investor Relations & Corporate Communications, Flex Ltd.

A

Next question, Mike?

Operator: Your next question is from Amit Daryanani from RBC Capital Markets.

Amit Daryanani
Analyst, RBC Capital Markets LLC

Q

Thanks for taking my question, guys. Two questions from me as well. I guess maybe to start off with, it's nice to see the IEI segment margin improvement you guys saw in December quarter. I'm just wondering to the extent you have comfort and confidence this segment can sustain double-digit growth through calendar 2018, how should we think about the margin expansion? Could it start to work towards the higher end of the range as the way HRS has, for example? I'm trying to get a sense of what maybe takes you from the 4% range today to maybe 5%, 5.5% if you have double-digit growth in that segment.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

Hi, Amit. Thanks. Yeah. So certainly, we've been seeing steady improvements in margin and operating profits for this business. Just stuck you through from 2015 to 2016 to 2017, so even if you take the midpoint of guidance for 2018, you'll see us moving from 3% to 3.4% to 3.6%, and then, really closing out this year back in the range of 4%-ish. So, you've seen steady improvement and that's on the back of some accelerating growth.

We've been very thoughtful about how we've been positioning that business, and in terms of how it goes to market the investments [ph] it's (00:34:15) been doing as it retools its own structure, really focused investments into resources around business development, technical selling efforts, field application engineering and so on. So, the business has done a really nice job of posting investments up to really be in advance of this front end of this revenue growth.

We put a range out there of 4% to 6%. We have a range for a purpose. I think that the margin that we talk about, that will be a function of this mix of business. But certainly, as you see us moving forward, you'll see incremental steps as we go higher and I think you'll see a company that's driving very healthy contribution to earnings while it just stays inside that range and has this nice growth.

Amit Daryanani
Analyst, RBC Capital Markets LLC

Q

Got it. And if I could just follow-up, and I apologize if I missed this part, but just maybe talk about the Nike ramp, and in the past, you've talked about this confidence around achieving breakeven by the March quarter. Is that essentially still on track? And then, as you think about calendar 2018, just remind us how do you think about revenue and perhaps some margin contribution from the Nike ramp. That would be helpful. Thank you.

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. Kind of how we've been expecting this ramp to mature is that we hope to crossover into breakeven by the end of the year. That's still our target. We still have a line of sight to that. We actually thought at calendar year 2019, we get halfway to our margin targets or I think what we said before was we'd have CTG levels that is actually continues to be what we can see with calendar year 2020 ramping into or going into more like HRS kind

Copyright © 2001-2018 FactSet CallStreet, LLC

of margin. So, these are the margin profiles that we expect, that we're driving to, that we have a line of sight to, and I think we will achieve.

The thing that's probably more challenging is just the revenue rate is clearly a little bit slower than what we would have thought one year ago or two years ago. So, there's a lot to actually make this thing work. We actually have to align with our customer the design processes all the way through to the go-to-market processes as they start to rethink how they go to market with a regional manufacturing weapon, and it takes time to realign those things between the several companies.

So I think margins, we're going to be along the same kind of targets and I think revenue is going to be a little bit slower than what we anticipated. But that being said, I think I referred to it as a freight train last quarter. I'm kind of still in that same boat. I think it's going to take time to start and I just think it's going to build a lot of momentum and I think this is a decade long kind of initiative for us and that also has a change in our thinking about that. But I think that's how to kind of frame out the timing and the opportunity.

Amit Daryanani
Analyst, RBC Capital Markets LLC

Q

Perfect. Thank you.

Operator: Your next question is from Jim Suva from Citi.

Jim Suva
Analyst, Citigroup Inc.

Q

Thanks very much and congratulations on the quarter end results. Mike, you've mentioned on your last response there that the Nike revenue run rate is a little bit slower than what you planned maybe a year or two ago, but I believe last quarter that Chris said that their relationship was expanding or needed more CapEx or something. So, can you help us bridge those two views? Is it just taking more time or more expense than needed or how can you have the expansion – or the relationship expand put in more and more CapEx, yet have slower revenues, or at some point, it's got to kind of all equalize, I would think?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. Well, the expansion is around the difference. We're doing multiple processes, multiple shoes and multiple initiatives. Not only are we building shoes and volume on a regional basis to respond to regional marketplace in terms of just being more responsive, but also in terms of customization is a new program that we've put in place. And we've actually – there is some electronics technology in some of the shoes coming out that we're participating in.

So, we're clearly getting an expansion in terms of the kind of things that we're looking at them for them. But the amount of CapEx is not increasing. CapEx is going to more a function of the percentage of automation that each process needs and the volume that we're going to require. So, I actually don't anticipate an unusual increase in CapEx. I think a lot of the CapEx we've actually already paid for, quite frankly. I think it will go down a little bit next year as we've already funded a lot of it. So, I think we're going to have more and more processes, more and more opportunity to add value to Nike but I think, at the same time, I don't see a CapEx increase over time.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

Copyright © 2001-2018 FactSet CallStreet, LLC

And Jim, this is Chris. I have to look back to what may have been said last quarter but I will stand corrected if I had made that. I don't believe we had made a statement around incremental capital allocation or CapEx for this. It's part and parcel to the overall way we've been training out and operating that. So as Mike said, there's nothing expansive other than the way we're engaging differently with them on opportunities.

Jim Suva
Analyst, Citigroup Inc.
Q

Okay. Great. Then, my follow-up was – and this is probably for Chris – I think in your opening comments, you'd mentioned, was it a charge for a impairment or something, and I couldn't tell, was that referring to a year ago or was that this quarter? And if it was this quarter, kind of can you give us some clarity or color of what that was all about?

Christopher E. Collier
Chief Financial Officer, Flex Ltd.
A

Yeah, certainly. It was several small non-core investments that are – we made those non-strategic investments several years ago. Those underlying entities were in a state in which they were impaired. We took the modest charge then. We excluded it similarly to how we've excluded gains on some of our exercises as well as when we realized the gain on [indiscernible] (00:40:28) in Elementum last quarter. So since it's really not a non-core element, we've excluded it from our framework.

Jim Suva
Analyst, Citigroup Inc.
Q

Okay. And was that a write-off and just now they're off your P&L altogether out of your portfolio or they just...

Christopher E. Collier
Chief Financial Officer, Flex Ltd.
A

Correct.

Jim Suva
Analyst, Citigroup Inc.
Q

...write-offs of impairments we should expect to continue?

Christopher E. Collier
Chief Financial Officer, Flex Ltd.
A

No. They are a complete write-off.

Jim Suva
Analyst, Citigroup Inc.
Q

Great. Thank you, and again, congratulations on a good result. Thank you.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.
A

Thank you.

Copyright © 2001-2018 FactSet CallStreet, LLC

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Thank you.

Operator: Your next question is from Paul Coster from JPMorgan.

Paul Coster
Analyst, JPMorgan Securities LLC

Q

Oh, yeah. Thanks. So, this is sort of sense I'm getting, that a whole bunch of programs are ramping, that the investment will come to an end at the same time, the absorption rates will spike, and we'll see a step function improvement in operating margins at some point. Is that the way to characterize what's about to happen or is it such that they're all phased and it will be more of a grind over the course of the next 18 months?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. So, I think we've got a structured place which is built on the back of increasing revenues, a little bit better portfolio mix – a continuously better portfolio mix. We're going to have some improvement in SG&A as a result of some of the targeted corporate activities that we talked about to make us quicker and leaner. So, I think you've got a number of different structural changes that all of which are going to lead to operating margin improvement.

So, I don't know that it's going to be a step function because this business is – it's a big system. We have 200,000 people and it's a big system. It takes a lot to move margins but we have multiple levers that we're working that should come in to start moving into play right at the end of this year that we believe will drive operating margins and expand them going forward. But I think it's not going to be a step function. It's just going to be hopefully a continuous improvement.

Paul Coster
Analyst, JPMorgan Securities LLC

Q

Okay. Got it. And then, a follow-up question, the impression from CES is there's a proliferation of internet-enabled devices going out in various industry verticals. Are you getting to the point now we're you're actually at capacity in terms of Sketch-to-Scale? Are you turning any business away? Have you got pricing power in the Sketch-to-Scale domain alone?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. Yeah, I think if there's a good opportunity, we don't turn it away. We find a way to do it. We actually have a big system with – from a manufacturing standpoint, we've obviously got 200,000 people and have a huge presence literally everywhere that matters in terms of manufacturing. From a design engineering standpoint, we have close to 3,000 design engineers. I mean, we are pretty broad and very capable that when opportunities come up, we're able to put resources out.

From a pricing power standpoint, I don't think the right way to think about it is we have like pricing power. I think the right way to think about it is that as we move – as the world moves into everything's connected and as very often, the business model of our customers evolve more into the data and the management of the data and use the data to actually creating business models, the device itself we actually take more responsibility for and we add more value because we can take any device and help move into a connected world.

Copyright © 2001-2018 FactSet CallStreet, LLC

So whether you'd call it pricing power, I prefer to think about it as a little bit more that we're just adding a lot more value to the customer relationship and the customer recognizes that and I think it's going to yield – and it's yielding towards higher margin. And as you know, our Sketch-to-Scale percentage has continued to transition over the last couple of years and will continue to transition in the next few years. So, we've got a full pipeline of opportunities that will roll though that. We think we'll be positive from a margin standpoint.

So, I'm not going to say it's pricing power. I'm going to say more like we add a lot more value to our customers and our customers are going to recognize it and we're going to make a little more.

Paul Coster
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

You're welcome.

Operator: Your next question is from Steven Fox from Cross Research.

Steven Fox
Analyst, Cross Research LLC

Q

Hi. Good afternoon. Two questions, please. First off, with regard to the investments that you're making now. I was curious is there anything that changed in the marketplace relative to your expectations around secular trends that are picking up that are causing you to invest more or is this more company-by-company specifics where you're having more success and, in turn, need to invest more? If you can provide a little color, that would be helpful. And then, I have a follow-up.

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. So, if I think about some of the major secular trend is it's the age of intelligence, everything's connected, there's more and more technology in every product, every product is moving more towards the system and actually has to be connected and actually has to capture data in order to meet the needs of the future use case of these products. So, I think that's a secular trend that goes across all industries. I think we identified that very effectively many years ago as we started moving into Sketch-to-Scale and started redefining the industry and the era that we're in as the age of intelligence.

One of the other trends that we've been very, very heavily invested in is things around automotive, and we always thought automotive [ph] was replaceable (00:45:52), we should be heavily investing, and as you know, we've had double-digit growth in that area for like eight years now, I don't even know how long, but many, many years. So, we called that pretty effectively, and as you know, the amount of potential disruptions in the automobile industry is high because there's automation, there's electrification, there's the connected car, there's mobility, there's a lot of different opportunities within the automobile and it's a huge industry. So, we invested very actively then. So, I don't know that – I think we've anticipated the future very well. I think we've positioned the company years before. Even the OEMs knew there was that much of a transition, quite frankly. And so, I think it's right on target.

Copyright © 2001-2018 FactSet CallStreet, LLC

And what we do now is we think about what are the new trends. I mentioned things like YTWO where we're actually thinking about how the evolution of the building and construction industry will happen in light of in intelligent age. So, we continue to have a lot of data points about how to read the world and I think we read it pretty effectively, and our locations and the amount of different engagements we have with so many different customers and so many different industries giving us a real edge in order to read the tea leaves come at us. So, I think we've invested effectively and in the right areas, so we've been pretty happy with that.

Steven Fox
Analyst, Cross Research LLC

Q

Great. That's helpful. And actually, some of those comments tie into my second question, because I was curious, in the quarter you just completed, if you could give a little bit more color around HRS, especially auto, what contributed to the growth, et cetera. Thanks.

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. It's hard to just attribute it to one thing. Once again, we're going to be – have nice double-digit growth. I think if you look at the midpoint of the guidance, we're well over 10%. It's a very, very broad-based set of products that we're after and we have a tremendous amount of Sketch-to-Scale investment already. We continue to grow China, and actually, India more and more for automobile customers in those regions. That's actually helping and it's actually growing as a percentage. So, I'd say it's actually quite broad-based and it's on the back of some of the technology that's going in the automobiles. You don't actually need SAR growth to actually have growth in the automotive business if you're only focused on the technology of the future, which is where we've been investing and where we try to position. So, it's not just one thing but it's a whole set of things.

And the one thing I would add is we would expect this to, in a couple of years, maybe even accelerate because in a couple of years is when the real autonomous growth to start kicking in, the real connected cars are going to start kicking in, and that's when there might even be a step function improvement and opportunity for a company like Flex as we go and apply our cross-industry solution to help automotive. So, it might be – I don't expect that in the next year or two, but certainly, as we get into the 2020s, I actually think the automotive opportunity for Flex is going to accelerate.

Steven Fox
Analyst, Cross Research LLC

Q

Great. That's very helpful. Thanks so much.

Operator: Your next question is from Mark Delaney from Goldman Sachs.

Timothy Sweetnam
Analyst, Goldman Sachs & Co. LLC

Q

Hi, this is Timothy Sweetnam on for Mark. Congratulations on the good result and thank you for taking the question. You mentioned the YTWO and Elementum investments in the prepared comments and briefly a to previous question. And while I know there is about $133 million recorded on the balance sheet for Flex's majority stake in Elementum, can you talk about the strategic importance of those and what type of financial impact they may have for Flex longer term?

Copyright © 2001-2018 FactSet CallStreet, LLC

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. Well, a lot of it is based on the success of those each individual company. Elementum is a company that's building a SaaS-based software supply chain solution, and its ability to book and continue to grow revenue rapidly is going to create significant opportunity for us just in terms of capital appreciation. So, that is the biggest opportunity that you would see out of Elementum. Certainly, we use Elementum as well, but the big kick for investors is going to be capital appreciation on the back of Elementum.

On YTWO, it's a more interesting construction that we have where it's actually a IT software platform for digitizing all the way from design, all the way through to supply team execution. And a lot of the – so, it's like an IT platform where once again we'd look for capital appreciation in that, but anything that travels across that IT platform as we work to bring building and construction industries into kind of the modern age and really be able to digitize them for the future, anything that goes across that platform, Flex actually goes through sources and builds. So, there's a tremendous amount of volume associated with Flex.

So, I would expect the YTWO investment to yield two different ways. One is just in terms of Flex growth as we source those products. And second, in terms of capital appreciation on the YTWO software business itself. So, we think it's a huge opportunity for us and something that we're incubating in the back here that doesn't have a lot of visibility.

Timothy Sweetnam
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. Thank you. And just a follow-up question, can you talk about the impact to your business from a trade and regulatory perspective both how the solar tariffs may impact Flex? And then, if NAFTA isn't renewed, what might it mean for your financials in the short and longer term?

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

Yeah. Let me start with the first point on the solar tariffs. Obviously, that just came out. I think the key takeaway is that the underlying module prices will be going up and that will have some impact on the U.S. market. One of the things that's been really exemplary of the leadership team driving our energy business has been their ability to really diversify away from what was a heavily-dominated U.S. presence a couple of years ago to one which you now see the U.S. less than a third of our business, and we only talked about it over the course of the last 18 months. We've done a really good job of diversifying into a multitude of other global locations from Brazil to Mexico to India, Australia. So, we're seeing some really good global penetration. And I think that when you think about our positioning, while there will be an impact to when you have roughly 20% in the U.S., there'll be some modest impact. We're seeing [ph] upsized (00:53:05) growth and performance globally.

And then, as it relates to our tracking solution, the tracking solution actually has an opportunity here as the total cost of a project goes higher with these modules, that the tracking solution, given the real strong efficiencies in the energy harvest, that it can actually create a benefit to those project owners in terms of greater yield and throughput to a better, quicker return on those investments. So quite frankly, there's an opportunity for our tracking, our global leading tracking solution to even have a greater adoption rate.

So, that's kind of high level as to how we're thinking about that recent announcement on the tariffs. And I think the market just needs to digest that news on those tariffs and we like our position globally.

Copyright © 2001-2018 FactSet CallStreet, LLC

Timothy Sweetnam
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. Thanks. And then, just on the potential impact of NAFTA as well?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

We don't know what NAFTA's going to turn out to be, and however it turns out, I think if there's incremental costs associated with tariffs [ph] and duty (00:54:15) and any of those costs are borne by Flex, those are going to be something that we pass through to the customer. If it moves revenue from different locations or if things move back to the U.S., I think we're prepared now for customers moving from Mexico to the U.S.

So, we don't actually anticipate that much of an effect. A lot of the tariffs, as we studied our product base, is kind of subject to the world trade oversight as opposed to NAFTA. So, there's a small percentage left which is more NAFTA. But if customers want to move it, we're like beautifully positioned. We're the largest electronics manufacturer in the United States. We're in 14 different states now, either with design or manufacturing operations, and we'd be thrilled if we're able to be able to build in the U.S.

So, we've said our company would be able to build for customers all around the world, and our core business proposition to our customers is that if things change around the world, we can actually live better with them. That's actually our core value proposition and why everybody should give all their business to Flex.

Timothy Sweetnam
Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful. Thank you.

Kevin Kessel
Vice President-Investor Relations & Corporate Communications, Flex Ltd.

A

Operator, I think we have time for one final question.

Operator: The last question is from Matt Sheerin from Stifel.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yes. Thanks for fitting me in. Just a couple of questions. Just one on CTG, you talked obviously about the Nike opportunity, but beyond Nike, as you look to improve margins and continue to grow that business, what are the other key drivers or catalysts we should be thinking about? Bose, obviously, is one where you're several quarters into that and I know you should see some margin improvement, but what are the other drivers there, Mike, we should be thinking about?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. You mentioned one. Bose is a good one, but I think the way to think about CTG is the consumers are inundated with a set of electronic products, and they're in everything. They're in anything from a connected coffee cup all the way through any kind of mobility solutions to any kind of communication device or speaker that will be driven by voice. And I don't know if you can just put it on one thing. The theme that we're trying to move towards is connected devices that consumers use that will actually go build. So, there's a couple of big themes like a Nike

Copyright © 2001-2018 FactSet CallStreet, LLC

and Bose, but after, that it's a very, very broad cross sections of any kind of smart- connected device. And our objective is to add some technology content to actually help them become smart connected and be able to accelerate their ability to get into the marketplace because we have underlying core process technologies, the knowhow technologies and building blocks that enable devices to be connected. So, I wouldn't think about it as any one product category, but we'll just penetrate a broad cross-section of those things.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you. And then, on the CEC business, the Communications and Computing business, you were in line actually a little bit better than expected but still down year-over-year. Some of your competitors have seen incremental weakness, particularly in optical and other parts of communications. Are you seeing some of that, too, or are you seeing some new program wins to offset that?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

A

Well, I think it's – what we're using to offset it is we're investing pretty actively at building some Sketch-to-Scale solutions so that we can have products and solutions that go into the data center. And as Chris mentioned earlier, we've had about a 25% growth – for the year, we'll probably have a 25% growth on that kind of product category, so that's a growth driver within it. So, it's not – we're actually trying to create our future as opposed to hope we're going to get some more product wins.

The category still remains a little bit structurally challenged, and as you know, we're targeting this year to be down 5% to 10%. Well, a very good target, but the reality is we expect to be down about 5% to 10%. We're going to end up being in that range somewhere. And so, I think it's structurally challenged and the ability to come up with solutions, products that actually are the right products for the future is what's important and where we're focused on. So certainly, there is some challenges associated with that business but it's been around for like three years now in my view. So, there's no new data there.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Fair enough. Thanks a lot.

Kevin Kessel
Vice President-Investor Relations & Corporate Communications, Flex Ltd.

Great. So as we wrap up here, Mike, I think you said that you want to say a few things?

Michael M. McNamara
Chief Executive Officer & Director, Flex Ltd.

Yeah. Thanks, Kevin. Just in closing, let me tell you, we appreciate your interest and support in Flex. I'd also like to reiterate the three things that really defined our Q3 and how we think about Q4 outlook. The first is growth. Q3 marked the fourth consecutive quarter of year-over-year revenue growth, and our Q4 guidance supplies the fifth consecutive quarter, as our strategy continues to gain some momentum.

The second is portfolio evolution, which is firmly on track. This evolution improves visibility and predictability. It reduces seasonality. It increases margins.

Copyright © 2001-2018 FactSet CallStreet, LLC

And last, we're investing in our future. Our consistent cash flow generation affords us the ability to strategically invest in our platform, and this enables us to pursue important new markets and create new solutions that will add significant shareholder value over time.

So, we're excited about where we are and looking forward to continue to be able to drive for a successful future.

Kevin Kessel

Vice President-Investor Relations & Corporate Communications, Flex Ltd.

Great. So, I wanted to thank everybody for dialing in, and also, a second reminder, May 10 will be the Investor and Analyst Day this year. This concludes the call.

Operator: This concludes today's conference call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.