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# Flex Ltd. (FLEX)

Citi Global Tech Conference

## CORPORATE PARTICIPANTS

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

Kevin Kessel

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

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## OTHER PARTICIPANTS

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

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## MANAGEMENT DISCUSSION SECTION

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Day one of Citi's Global Technology Conference here in New York City. I'm very pleased that this is now a fireside chat with the company Flex, formerly known as Flextronics, but now officially known as Flex. This fireside presentation is also being webcast. Because all of you are technology experts, we've asked Flex not to give a company overview and not to come with a bunch of canned slides, but to make it more interactive.

But I do want to do a few housekeeping items. First, we do ask you to please reference Flex's Investor Relations website for the recent SEC filings as well as Safe Harbor statements. I do want to mention that after I have a few prepared comments for them about company overview of the different segments and specifically our specialists here on stage, there'll be time for you, as investors, to ask them questions. We do ask that you please raise your hand to make sure the microphone gets to you, so those on the webcast who couldn't make it here in person can hear those questions.

Joining me here on stage, in the middle of the room, is Paul Humphries. He's President of the High-Reliability Solutions. And so, when you think about your questions, remember, he's President of the High-Reliability Solutions. And as you face the stage to the left is Kevin Kessel. He can handle every other question outside of High Reliability Solutions because he knows it all.

## QUESTION AND ANSWER SECTION

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

So, to start and kick things off with, and maybe talk a little bit, Paul, can you give us a little bit overview about your background in the High Reliability Solutions segment, so people can kind of think about their questions and tailor towards your background and your specialty again in High Reliability Solutions?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

So, High Reliability Solutions focuses primarily on automotive and medical. We do have a high-precision plastics business that supports primarily the medical business, but also serves other parts of Flex. I've been in this role since 2011-2012. Prior to that, at Flex I was actually running Human Resources, which I know seems to be a big diversion from the current role. But prior to that, I was six years running Global Operations, and before that spent most of my time – most of my career in the auto industry. Since I've come into this role, the main focus has been on driving revenue at above average margin growth for Flex. I think we've been pretty successful overall in doing that, and we're pretty excited about the potential that we see going forward also.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

And your background, Paul, can you help investors who may not know you as well? I mean, Kevin, we all know Kevin for years, but they may be interacting with you relatively newer about your background?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah. So, I've been with Flex 19 years. Actually I'm not an engineer. I'm a social scientist by background. I'm a psychologist, which usually scares people when I tell them that. But I've been working in the automotive industry, started off in supply chain and materials, worked in operations, worked in program management, run technical functions. In addition to my role at Flex, running HRS, I also am responsible for the design and engineering organizations. But the last 20 years I've been in Flex in operational roles, HR roles and in business roles.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

So, Flex builds a lot of things, but I don't think they build my car. So, can you help me understand about, when you talk about automotive and you're a part of doing some of that, what exactly are you doing in automotive?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

Maybe some examples, so we can grasp what that is?

**Paul J. Humphries**

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah. So, there're four areas that we focus on, on the industry, and we refer to them as ACES, so it's autonomy, connectivity, electrification, and what we refer to as smart tech. So, that can range from auto compute solutions for autonomous vehicles. It can include things such as smart gateway modules, Ethernet switches, electronic control units, body controllers. It includes such things as DC, DC converters, inverters, battery management systems. And then, interior of the vehicle can include interior lighting, it can also include overhead consoles. We're doing new ventures such as in-cabin monitoring where we're taking expertise out of our medical group to actually penetrate the other areas in automotive. And then, we have the MCI business which does actuators for mirrors and power-folding mirrors, and we're now leveraging that technology into other areas such as active grille shutters and [indiscernible] (00:05:01).

So, it's a range of different products. About 50% of the business today is design-led where we're actually doing a significant amount of design, either working as a joint development partner with our customers or actually building products from scratch, doing it from concepts [indiscernible] (00:05:18) production. The other 50% is what you would traditionally know as [indiscernible] (00:05:23), but we refer to in auto as white box. But more and more of our business is becoming design-led and more of our business is working with our customers as joint development partners.

**Jim Suva**

*Analyst, Citigroup Global Markets, Inc.*

Q

A lot of what you said I typically don't think about as Flex doing for cars, but yet Flex has done this in a lot of the other end markets before, whether it be industrial area, whether it be high reliability and other things. So, when you talk about this for automobiles, are you having to displace current suppliers in the supply chain, or is this all new cars coming out with new concepts where it's kind of just a wide open RFP?

**Paul J. Humphries**

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah. So, I mean, if you look at the business, you go back to 2006, we had \$100 million in automotive, so we weren't a major player at all. By 2008, we'd grown to around \$800 million, so we saw pretty substantial growth during that period. But it was traditionally a mass model where we were basically making any vehicle [indiscernible] (00:06:26) we could fill a manufacturing site with.

In 2011-2012, when I took over, we actually looked at where we thought the major areas of growth and margin opportunities would come from in automotive. We looked at the megatrends, and we said, look, it's key that we focus on connectivity that was significant at the time. We knew that there will be an increase in electric vehicles, initially hybrids, mild hybrids, and then finally electric vehicles. We knew that that would be a move towards self-driving vehicles, and I'm not talking about fully autonomous, but even self-driving modules. So, we actually switched our focus to focus on those areas of growth.

We invested in engineering, we did three or four acquisitions that give us IP and give us design engineering competence. And from that point, we've been able to build the business from \$800 million in 2011-2012 to \$3 billion today. And we're now securing bookings that are significantly higher than we did during that period, and also, the content per vehicle is increasing. So, we've gone from being – traditionally amassed to being more of a Tier 1. And what we've seen, and I've talked about this previously, is we're seeing in many cases the traditional OEMs starting to disaggregate the traditional Tier 1 supply base.

They don't want the Tier 1 to have full control over IP, over software, over supply chain. They want to have more control themselves. Some of them have actually gone out and acquired software companies, so they can do both hardware and software. And then we're partnering with them to provide the hardware solution and ultimately to build the integrated solution. So, we've gone from being an EMS to being more like a Tier 1, but we don't try and go head-to-head with the big guys who have thirty-odd-thousand engineers. We try and position ourselves, so we become an alternative to the Tier 1s. But we have a solution offering that's not generally capable within the other EMS suppliers.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

When we think about this, to me it sounds an awfully a lot like what Plexus does for General Electric or what Jabil is doing now for Johnson & Johnson. So, is this becoming a highly competitive area or we've seen some of these traditional companies just starting to outrace or embraced outsourcing kind of for the first time or early innings?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah. I think we don't see Plexus or Jabil too much in automotive. We, by far, have the largest automotive business at \$3 billion. And most of the work that we do in automotive, our margins are more typical of a Tier 1 margin than they are of an EMS margin. So, we're not seeing Jabil and Plexus so much in automotive. I think we've carved out almost like a unique value proposition in that space where we do see them more is in medical.

So, we also do business with Johnson & Johnson. We do business with GE. And Plexus tends to focus more on life sciences, diagnostics. Jabil, obviously with the work that they recently did with J&J was orthopedics, but that's where they acquired Johnson & Johnson's assets and got into the business that way. We're doing it with two ways. We're doing it, one, through innovation. So, we've been investing for the last several years in patient monitoring systems, consumer health, and drug delivery. We have 600 engineers that focus on those areas in particular as well as medical disposables. And then, we're also seeing an increasing trend for the medical device companies to outsource. So, we're seeing also a fair share of business coming from the medical device customers, doing outsourcing business they would previously have done in-house.

And if you start to think about the medical device market, about 80% of the products today are actually made by the medical device manufacturers themselves, but isn't traditional like Tier 1 industry within the medical device industry or whether it's ourselves, Jabil, Integer, they might be three of the largest, and we're there or thereabouts. But what we think is there's more opportunity over time as we build up competence to actually take more and more work in-house.

And we've recently had several wins. We had record bookings last year in our medical device business. We booked over \$1 billion and a lot of that came from innovation products, but some there also came from customers outsourcing work directly to us. So, it's a similar model. Being frank, I think we were one of the early onset companies in that space, certainly in automotive as well as in medical. But I think it's a trend that everybody is now adopting.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

And, Paul, what you say is all quite positive. And, Kevin, maybe my numbers or math is bad or wrong, but I think your year-over-year growth has been negative, though.

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

Yeah. So...

A

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

And it's been negative for like three quarters. So, can you help me bridge all these positive things you're talking about and why the results or negative sales growth?

Q

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

Yeah, I certainly can talk to that. So, if you look at the last year, FY 2019, our medical business grew double digits. So we had really strong growth in medical. The automotive business, we're seeing a decline in two markets in particular. Number one, China. The China market is slow, is down sort of mid-single digits. Also one of our major customers in China has been severely badly impacted. We've also seen slowness seen in Europe. One, we've seen the impact of changing emissions regulations and the testing for emissions regulations has reduced volume. We've also seen one of our customers lose market share in Europe. So, that's impacted us. North America has been flat. But the whole industry is down.

A

And if you look at us compared to a lot of the Tier 1s, I'd actually think we're better positioned. The level of impact that we've seen is not as significant as what we've seen with some of our main competitors. A lot of that is because of the record bookings that we have the last several years. And so, we're able to offset some of the decline in the markets with new products coming online. So, yeah, clearly, we've seen a drop, but no, not as bad as it could have been because of the growth that we've been able to secure over the last several years.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Okay.

Q

Kevin Kessel

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

And I think also just to add to that, Paul, the – so, the decline, you're right, Jim, the last three quarters year-over-year that comes on the back of 36 straight quarters for Paul's businesses are being up year-over-year. So, in a way, I mean, both, his auto and his medical business got to essentially a very good size and you could say that within the case of auto, right, obviously the China driver which we talked about pretty extensively has been the major...

A

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

China has been the major impact.

A

Kevin Kessel

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

Yeah. The major impact on overall auto, now our guidance for this quarter is plus or minus single-digits. So, it's more or less flat. And when we look at auto and specifically auto, the declines there have been getting smaller as we move from last year into this year. So, at least we see some level of deceleration, if you will.

A

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

So, it sounds like, to bridge that difference of all these good things with the reported results that publicly we see, the answer is, China and auto, and these declines are not as severe as they have been a couple quarters ago.

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

That's correct.

Kevin Kessel

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

A

It's where they're getting. Yeah.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. It's good. I'm glad I grasped that. Why don't we turn it now over to investors who are in the room, if you could please raise your hand, we'll circulate the microphone over to you, so those on the webcast can hear you? If you can please raise your hand for any questions. For all the people in the room, don't be shy. Here's a question in the middle of the room.

Q

So, your recent partnership with Kinaxis which was announced a few weeks ago, I know you've been working with them for quite some time right now. So, what...

Kevin Kessel

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

A

Kinaxis is a software company. Yeah. Sorry, go ahead.

Q

Yeah. So, what kind of like prompted this partnership this month and, like, is it something that you're seeing customers going to be asking for more?

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

I think you can maybe explain the transaction, the company and stuff like that, so people...

Kevin Kessel

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

A

Yeah. So, I believe you're asking a question about Kinaxis...

Q

Yeah.

Kevin Kessel

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

A

...which is one of our software partners. So, it's one of the good partners that we have that we use it throughout Flex in our supply chain to manage different elements of it. I'm not as intimately familiar with the specifics. I just know it's an important part of what we refer to as our Pulse system that we have at Flex, which is how we manage our supply chain on a real-time basis. And I think that, as a result of the success we've had with their product to-date, there was the belief that we wanted to continue extend that partnership and do more with them and so on.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

Additional questions in the room?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

[indiscernible] (00:15:08).

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

It's coming – the microphone is coming over to this side here.

Q

Just to follow up on autos, can you talk about what you see in North America a little bit? I know you said it's been – being flat, but just curious, if you think that that can continue or if it's kind of inevitable that it's going to decline anytime soon.

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah. So, the U.S. is down slightly. Ford, GM and FCA are down slightly more than the market. So, we're seeing some softness. It's difficult to predict what's going to happen exactly. But I think we're aware that there's a potential for further downsizing. But we think we're really well-positioned because we have a lot of new products coming online at the same time. So, we don't see any significant deduction going forward, and we're basically looking at it being flat to down slightly.

Q

Additional questions from those in the audience? So, Paul, I just want to make sure, for HRS, not only automotive, which you've talked a lot, does medical also fit under automotive – I'm sorry – HRS?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah. So, it's medical and automotive, yeah.



Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Okay.

Q

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

So, the automotive business is around \$3 billion, medical is around \$2 billion.

A

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Okay.

Q

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

Within medical, we focus primarily on consumer health. So, a lot of that is around patient monitoring. Diabetes is a big part of what we do in medical [indiscernible] (00:16:44). But glucose meters are the more recent trend towards continuous glucose meters, that's a huge area for us. The other areas that we focus on are drug delivery devices that I've talked about, and a lot more focus on connectivity, on digitizing medical devices, so we can actually enable remote patient monitoring. That's a key focus for us. We're also in life sciences and diagnostics. So, that's a key area. And then, finally, we have both design and manufacturing competence in medical disposables – one-time use disposables. So, we have a very broad array of products.

A

Again, about 60% of the work we do is design-led. We have around 600 engineers, as I mentioned, in medical focused on – in four – three or four key areas. And we have about 65 to 70 products that are already in the market today that were Flex-developed products that are branded under our customer. But we're recognized not only for our manufacturing competence, we just recently won Frost & Sullivan Award for manufacturing excellence, but we're also known for strong design capability even in our medical business.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

And Kevin mentioned about 30-ish quarters of year-over-year growth, like quite a long...

Q

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

Yeah, we had 36 quarters of year-over-year growth.

A

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

36 quarters, that's impressive. Has that been mostly driven by the automotive side or the medical side, or 50-50 equally, or how should we think about that growth?

Q

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

So, I think initially it was driven by medical and then subsequently – so it's been cyclical during that period. We saw growth in both businesses, but we saw more growth initially in automotive than we did medical, but we've

A

seen growth in both businesses every quarter for [ph] probably (00:18:24) the last nine years. Medical was muted for a few years. We didn't see a significant amount of growth. But last year, as I mentioned, we saw revenue up about 12%. And as we look forward with some of the recent wins that we've secured, we're pretty confident with the level of growth going forward too.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

And is it fair to assume that if the global auto SAR or units sold each year starts to go positive, because right now we're facing some negative year-over-year units from China and other regions, that all of a sudden that should start to benefit Flex?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

Yeah. I mean, we're on a lot of different platforms and we have business in China, Europe and North America. So we'll definitely benefit if there's an upturn in the market. And on top of that, as I mentioned, we've secured record bookings. And so if we can see any upturn as a result of market improvement, we'll see that benefit not only on existing products, but also on new products coming to market.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Do we have some more investor questions in the audience? Kevin, maybe I'll ask you since this is kind of a broader company. You meet and talk with a lot of investors on a regular basis. Are there a couple reoccurring questions that tend to come up or reoccurring misperceptions or misinformation that people should be aware of as investors about Flex or positioning your strategy?

Kevin Kessel

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

A

Yeah. No, I would say probably the biggest ones that come up are twofold. One is based on regions. As a company, we used to be heavily centered and focused on China. China, for us, today has come down meaningfully in terms of percentage of our sales. It used to be in the mid-30% range just a few years ago. Now, it's down in the low-20% range. When we look at North America, for example, and Mexico together, those are bigger than China for us.

And also when you start getting outside of China, I think a lot of investors don't – when I first speak to them, they don't realize that we have such a big presence in the other major markets you'd want a supply chain, whether it's Mexico, North America, India, Malaysia, et cetera. So, I think that's an important part of our strategy was to be focused on regionalization. And it's clear that the current tariff environment and trade war discussion has only kind of risen the level of regionalization to another level of importance in terms of the discussion amongst customers. And so, we're in a good position to do that.

I think the other thing is just, in general, consumer. Right? The old Flextronics, as Jim mentioned, was a company that was really known for consumer products, Xbox, smartphones, you name it. The current Flex, right, we're primarily led by Paul's business HRS as well as our IEI business, which is our Industrial and Energy (sic) [Industrial and Emerging] (00:21:10) business. Together, these are almost 50% of our sales, and they're pushing over 60% of our operating profits today.

And the stated strategy and change under our new CEO Revathi is to only accelerate the growth of both of those. So, I think, over time – the consumer part is something that we're struggling with, obviously, in terms of managing it. But I think we have a well-articulated path in which to do so here over the next few quarters with the restructuring we've announced. And as a result, hopefully, it can become a lot less volatile part of our overall portfolio mix.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

And can each of you talk briefly about the interactions or strategy of your new CEO, I think her name is Revathi and I think she was in the industrial sector before?

Kevin Kessel

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

A

She works at Eaton. Yeah, she was at Eaton before.

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

And in the electrical sector of Eaton.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah. So, at Eaton, it's a very different company than Flex that we've traditionally known. So, maybe from, first, Paul and then maybe second Kevin, your interaction and strategy, what's kind of different or new where you think it's going to be the stamp of here's really what she is trying to change and accomplish for this strategy?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

A

So, I think coming from Eaton, [ph] she's used to (00:22:21) a business that has generated much higher margins than you would traditionally see at Flex. So, she comes with a perspective that we need to focus on not only revenue growth, but also on growing margins simultaneously, and that we need to do that by, one, continuing to invest in more design and engineering. I think that's part of her background.

She started off in operations. She is an engineer, so she has a strong support for design engineering capability. So, I think that's something you're going to continue to see. We probably, within HRS, do more design engineering [ph] we do in the (00:22:59) rest of Flex. So, [ph] how do we (00:23:01) actually follow a similar model and expand that across other parts of Flex, including our industrial business.

I think the other thing that she talks a lot about, and again that comes from I think her time at Eaton, is disciplined execution. She is very data-driven, very detail-oriented. She wants to see the numbers. She wants to understand where the opportunities for improvement reside. She identifies what can be done to improve and then she's assigning different members of the senior leadership team, the task forces to help improve that to improve our operating discipline over time. So, I think that's critical.

She wants to focus on the core. She doesn't want to de-focus as by engaging in other sort of, if you like, non-core activities. So if you think of our medical business, our automotive business, our industrial business, these are businesses that have had strong growth, have had decent margins, have done more design led-work and I think

she looks at those businesses as the model for what we need to be doing more of going forward. And so continuing to make the shift towards more of a design-led higher margin portfolio.

She's addressing, and Kevin can talk more to this, she's addressing the challenges that we faced with in our CTG business. She's addressing some of the challenges that we're seeing within our CEC business. So she's getting down the business and addressing some issues that have been probably outstanding for some time. So I think there's a focus there. But more than anything is what she's trying to do, is to drive us toward more disciplined execution around design engineering and manufacturing to make sure that we don't only drive higher margins, but we execute consistently over time.

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**Jim Suva**

*Analyst, Citigroup Global Markets, Inc.*

Q

Kevin, what's the message that...

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**Kevin Kessel**

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

A

That was a great overview. I mean, I think portfolio management is a big thing with Revathi. She at Eaton I think was known for the way that she managed the electrical products business and was able to grow margins a couple of hundred basis points during her tenure there. I think again like what Paul said, I think she can look at our business, she can see best practices when she gets to the manufacturing floor.

For example, maybe [ph] many of the (00:25:03) best practices that Paul has in his auto and medical businesses and she can identify how we should be better leveraging those in other parts of our business where maybe we're not doing so today. And so I think that's a big part of again attacking some of those – the weaker areas of Flex that we're looking to focus on improving, while taking advantage of the strengths. So those will be the two big ones I think about.

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**Jim Suva**

*Analyst, Citigroup Global Markets, Inc.*

Q

So...

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**Kevin Kessel**

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

A

And then maybe last one is attracting talent. I mean, there have been a couple of new executives just since she's come on board that she's helped recruit. One is a new Head of HR for us and another one is President of CEC. So, both of those should be great additions to us going forward in terms of what we're trying to do.

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**Jim Suva**

*Analyst, Citigroup Global Markets, Inc.*

Q

And before we wrap it up of me asking Paul, he's been at Flex for so long, what gets him excited to stay there, and the key message you want to leave with investors, we do have time for one more question if there's anybody asking a question in the audience. There's a question. We'll fit in both of them if you keep them kind of concise, but we'll do second row first, ladies first, and then...

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Q

Real quick.

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

...up front.

Q

Q

On electric vehicles, [ph] do you observe (00:26:09) an outlook with how that market is shaping and if it's accelerating and if there's a differential between...

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

Yeah, I mean, the adoption is definitely accelerating, and particularly in China. And it's not just purely electric vehicles, it's a combination of hybrids, mild hybrids and electric. But seeing a lot of the automakers over the next several years introducing a lot of new models, again not all purely electric, a lot of them being hybrid, mild hybrid and electric vehicles. So, we start – definitely starting to see that accelerate.

A

Q

[indiscernible] (00:26:44) auto production like everyone – like the IHS numbers are too high and everyone expects a softer production. I'm just saying, are you seeing such a differential in the EV market where it might get distortion, or might be stronger than expectations, or...

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

I'm sorry, I missed the question.

A

Q

As auto production is softening, are you seeing the shift to EV accelerating such that the expectations could be stronger?

Paul J. Humphries

*President, High-Reliability Solutions, Flex Ltd.*

Not significantly. No. We're definitely seeing an improvement, but not to the extent that it's having any sort of major impact on the overall market.

A

Jim Suva

*Analyst, Citigroup Global Markets, Inc.*

Then there was a question in front. Yeah, we have time.

Q

Q

My question is a little bit more big picture. I'm not as current on the Flex story, but if I look back 5 years, 10 years ago, there were always parts of your business where you were working hard to grow margins and find better more profitable opportunities. And it was hard to make those areas sustainable. It seemed like often there were – competition wasn't either attractive or your customers got more aggressive in how they managed pricing, and it seemed like it was hard to sustain higher margins. I just would be interested about kind of your efforts today, how you're positioning things to – and how you're thinking about building sustainable competitive advantage versus that [ph] long ago (00:28:23) history?

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**Paul J. Humphries**

*President, High-Reliability Solutions, Flex Ltd.*

A

I think traditionally if you look at the history of Flex, the focus was on labor arbitrage, moving from high-cost regions to low-cost regions, trying to maximize productivity over those low-cost regions and compete primarily on price. I think you've seen a significant change over the last several years. We introduced, what we call, our Sketch-to-Scale strategy around 2012.

You see an increasing amount of the work that we're doing being design-led where either a co-development partner or we're actually doing full development. And that in itself creates two things. One it creates increasing stickiness with the customer, because they now have a different type of relationship. They can't necessarily source that as easily as they [indiscernible] (00:29:07) based on price. But secondly, you're also bringing additional value, right, that they recognize.

And so if you think of the automotive business as an example, when we started off in automotive, we were purely a mess. Then, we started doing design [indiscernible] (00:29:21) helping to make the cost of the product more competitive. And then we started doing engineering design work. But the customers wanted us to do that upfront and we could then amortize it into the price so that they wouldn't actually pay for us to do that design work upfront. We have to recover that over the lifetime of the product.

If you look at what's now happening in automotive, we're actually getting customers coming to us and paying for us to do design work for them, because they recognize that we have a competence that has value not only in terms of improving the design of that product, but we have some unique IP, a unique knowhow that can help to actually build a product that they need for the future.

And we're seeing that, for an example, in [ph] auto compute (00:30:04) space. We have an \$8 billion compute, networking and telecom business that's been doing enterprise solutions for 20 years. We've taken engineers out of that group. We've combined them with engineers who have a lot of experience in [indiscernible] (00:30:18) design and manufacturing, and now we're able to provide solutions at level 4.

But literally, we're not seeing any direct competition from our – either EMS partners or from traditional Tier 1s. We have strong capability in service storage, plus strong capability in automotive and that gives us a unique position. So that's a key example where we're confident we can not only sustain, but can improve the relationship with the customers and improve the margin over time.

Similarly, within our medical business, we do a lot of work on combination devices for pharmaceuticals for biologics. We've been building up design competence in that space for six or seven years. So we have lots of customers come to us because of the expertise that we build up that also want us to do the manufacturing.

But as a result, we're able to gain better margins by the stickiness of the customers. So, we're seeing it in that space too. We're also seeing it to some extent in our industrial customers where we've built relationships up over

time that were started off as EMS relationship, started off as build to print. But we're now doing more and more design particularly around mechanicals, which is helping to solve problems that the customers have that they wouldn't have considered Flex for previously.

So, our operating model, whilst we still do traditional EMS business, our operating model is moving much more towards being a solution provider and not just providing manufacturing solutions, but also providing design and engineering solutions that create more value for the customer and ultimately create more value for our shareholders too.

Q

Thank you.

**Kevin Kessel**

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

A

And finally, Paul, what's the one or two things that keeps you excited working at Flex since you've been there so long?

**Paul J. Humphries**

*President, High-Reliability Solutions, Flex Ltd.*

A

Not only been there so long, but I started off in running operations and then I worked in human resources, and now I run one of our fastest growing, most profitable businesses, HRS. It's an incredibly dynamic industry. The automotive industry is changing by the day. And being part of that and being part of the transition we're seeing to autonomous vehicles and electric vehicles is something that's really exciting.

I think we've been able to reposition the business to capture a lot of that new business going forward. So that's exciting. Being frank, it's exciting having a new boss. I worked for Mike for 18 years directly and I enjoyed working for Mike, but it's nice to see somebody come in with new ideas, with a fresh approach, with a focus on not only driving revenue growth, but also driving margins and being more attentive to the long-term interests of the shareholders. I think that's also something that excites me. But I've been doing this a long time, but I still enjoy every single day.

**Jim Suva**

*Analyst, Citigroup Global Markets, Inc.*

Well, with that, just let you know, there's not a session right after this in the room, but there will be IBM keynote upstairs in about 10 minutes. But both Paul and Kevin are going to hang out here for a few minutes if you have any lingering questions. And I'd like to personally thank Paul and Kevin from Flex for joining us today. Thank you.

**Paul J. Humphries**

*President, High-Reliability Solutions, Flex Ltd.*

Thanks, Jim.

**Kevin Kessel**

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

Thanks, Jim. Thank you.

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