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Flex Ltd. (FLEX)

Investor & Analyst Day

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MANAGEMENT DISCUSSION SECTION

Kevin Kessel

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

Appreciate everybody's attendance, everybody's interest. This is the second year in a row that we've had a pack house. And firstly, I'm just really happy that I was not required to read up here the safe harbor, you all heard it; it was GAAP. If I read, it would have been GAAP, but never the less, I got that out of the way outsource that before we started.

Everybody is here, because there is a lot to talk about. We're truly I'm personally truly very excited that we have this opportunity to address a lot of the important questions that arose from our recent earnings, as well as our outlook. So much is gone into today and rightfully so, because so much is expected up today, clarity around our strategy, evidence of how we're winning and investing into our business. And most importantly improvement, that's why we've got an amazing agenda set up for you today. Before I get into the agenda, this is the guidance we've provided two weeks ago that I just referenced; there are no changes to that.

In terms of the agenda, I'm not going to go through it in detail, but you can see we've broken it up into two different sessions. I really want you to think about it actually in the context of three different things; the first is the power of the platform. It's the title to my CEO's presentation, but it's also the overwriting theme you will hear about throughout the day. It's our core strategy and it's firmly intact. And our key levers like portfolio, evolution and Sketch-to-Scale are unfolding as we've talked about in the past.

Number two is evidence. We're winning in the market, our strategy is unfolding and we have plenty of evidence to show you today. Both from Flex executives that run the different businesses up here, but also and most importantly I think we're bringing in the voice of the customer, we're bringing in the voice of strategic suppliers as well as partners into the conversation and you'll see that with different panels throughout the day. We're going to have Mike Dennison, for example, talking about our Nike partnership, but he's going to also be up here with Eric Sprunk, the COO of Nike. We're going to have Tom Linton talking about running the supply chain of the future. He's also going to be up here with the CEO of Elementum. And then we're going to have Sketch-to-Scale strategic suppliers' perspective with Paul Rolls, who is the EVP and Head of Sales and Marketing for ON Semiconductor.

In terms of improvement, we're driving improvement broadly across our business this year and in the next and the result will be and you're going to see evidence of this, improvement in revenue, improvement in operating profit, improvement in free cash flow, improvement in ROIC. I couldn't think of anyone better to be able to talk to you about the power of the platform than the man who has created and shaped it more than anybody else, my CEO Mike McNamara. Mike has positioned Flex to have a unique competitive advantage rather than settling to just become another me-too company in the supply chain.

It's now pleasure to welcome Mike to the stage so that he can get us all started. Mike?

Michael M. McNamara

Chief Executive Officer & Director, Flex Ltd.

Hey. Thank you. So thanks, Kevin. So again welcome everybody. We appreciate you're spending the time to be here. It's a pretty packed agenda as you know as Kevin mentioned. So you're going to get a lot of data and you'll get a lot of information, how we think about things, how we're attacking the marketplaces with some of our strategies and we're excited to share them with you quite frankly. We think there's a lot of potential and a lot of our initiatives and we're super excited about them, so.

But, before we get really started, I want to be – I want to address two critical topics before we get going. And the first one is two weeks ago at our Analyst Day, we made an announcement that our audit committee was conducting an independent investigation into several different matters, which we described in our earnings release. So, I'm sorry to say I can't give you a lot of detail about it or any more detail on it today. But the audit committee is progressing – is progressing well to move the investigation along and they're going to get us information soon. And once we know we have – once we have information that's available, we will for sure share with you. We'll try to be as transparent as we possibly can. And – but outside of that, we actually can't take any additional questions or provide any more further clarification today, so.

So, we're just going to have to wait on that one. The second critical topic is, I want to talk about Nike. So, Nike is obviously a really, really big deal for us. It's an unbelievably challenging project for us. I mean the way I would summarize it is we're burning a lot of shareholder money to try to move this and earn a return on it. We recognize this is your money and we recognize we're the stewards of your money. So, we are really working hard to get this moved to a positive place. As you know, we missed – we had a target that we set at the beginning of last year, which was the movement to a breakeven. We did not achieve that target. We worked hard to achieve it. We made a lot of progress, but we didn't make it. So, we're obviously going to make sure that we are dialed in very aggressively to go make that happen.

And as we talk about it more, I'm going to talk a little bit more about it just now. Mike Dennison that Kevin just mentioned, he's going to come up and talk a little bit more about some of the challenges, some of the opportunities associated with the project, and we're also really, really happy to have Eric Sprunk with us today, who's the Chief Operating Officer of Nike and he's the guy that actually runs the whole manufacturing revolution project at NIKE, which is really to reinvent how manufacturing is done and to reinvent the supply chain for footwear. So – and then later on Chris will talk a little bit about it in the end.

So, before we – but I want to take a few minutes and talk about it a little bit. Boy, the one thing we figured out is this thing is like trying to reinvent our supply – reinvent a system and put a time liner, it was really hard. So, we actually try to put a time liner, we actually tried to move towards that goal, but if I look back at all the things we accomplished over the last year and the challenges we had over the last year, it's really hard to put it on the timeline. We weren't able to do that.

A lot of what we're doing is we're literally reinventing. If you remember the sides, I'm sure some of you were here last year, I had a slide that says, what are we trying to do with Nike, we're trying to reinvent the supply chain. We wouldn't be trying to reinvent a supply chain without a content strong partner and without a real commitment, and that's something that we got in our partnership with Nike and that's why we have always talked about it in terms of a decade long kind of project. But what we had to do is, we have to learn how to make footwear.

And what Nike had to do is learn how to design for automation, you can't actually move to regional manufacturing with high automation without having design, products designed for the automation systems. So there's a certain cadence to how that needs to happen, and you have to reinvent supply/demand processes.

And we have to figure out how to do shoes and this is actually a thoughtful way to approach a really, really difficult project when we started. We said, Nike has the content knowledge, we have the platform of Flex with many, many different capabilities, and new innovations, and different ideas from different industry that together we thought we could apply them. It took a long time, we both had to reinvent ourselves in terms of thinking about how do we re-craft this operating model, and it's hard.

You know we talked about breakeven being by the end of this year, which ended March 31, we obviously not achieved it which I mentioned earlier, it's put a substantial strain on our performance last year and our – will continue to challenge us a little bit as we go into the next couple of quarters. We now believe we have a way of operating that will move it to second half profitability. So this is the – we're moving to this is the target we're trying to achieve. We've got a lot of automation that we're driving, we actually mentioned that we have an end-to-end automation system that actually went live on April 11, we'll begin to ramp that through the course of the year, we have a lot of content that's been designed for that system, and we're driving a numerous amount of productivity and yield items that reach all different aspects because it's a really complex problem. So, we kind of view this as we now need to move to our ramp phase and we need to move to an optimization phase.

And the third thing is, I want to – you know while it's been unbelievable challenging we got a lot of teams working on it really hard, it's burdening ourselves and it's burdening our owners and our investors. At the same time we're not – we still have an eye on a price that's very high. The reason we went into this business, as we said we can probably – if we can work with our with our partner to put a whole new revenue and operating profit stream and vertical next to and alongside all the other businesses of Flex, it can be a completely additive revenue and operating profit source. And we also believed that the revenue growth would occur literally over the next 10 years. We actually thought there was enough opportunity to be able to drive this, that it was just a continuously growing revenue expansion kind of product.

And at the same time we believed then as we studied the industry in terms of the supply chain profitability and we look at it even today, we actually believe this should be an H – what we called an HRS-plus kind of model. So this continues to be why we're doing it. So it's a lot of pain, it's a lot of pain for you, it's certainly a lot of work and pain for us, we still have a lot to prove. But at the same time, if we can make it happen and we can actually move towards billions in revenue, which are completely additive, vertical for the company that is actually at higher margins and a continuous growth model. That's a huge opportunity. It's very difficult to find those kind of businesses in the world today.

So this is why we're in it. This is the – where we're trying to go to. Bear with us, we're going to work hard, we're going to make that turn. We're going to get some more information from Mike and you'll get Eric Sprunk's perspective as well. So you'll get this – you'll get to hear from me how he thinks about the opportunity.

So let me kind of shift over and move into talking about a more traditional Analyst Day. You know Kevin mentioned the power of the platform and he mentioned how we're excited about some of the capabilities that we've been able to create as part of this platform. And as we think about it and as we think about going in the world today, it's very – this is same slide I [ph] certainly (11:44) had on the Analyst Presentation last year, but the reality is, is we moved into the age of intelligence, and as you move into the age of intelligence, a simple product is not enough to compete in the marketplace, you will get disrupted on the back of only having a product today. You actually have to have a product that actually is a system and if you don't have a product that's a system and that you – you'll have a difficult time competing in the marketplace. This is a very, very connected world, its being driven by technology, there's multiple disruptions occurring, you have to move to a system level product. And not only that, the system actually has to participate in full ecosystems.

The card not only has to be a system, it actually has to be in the smart city ecosystem, it has to be in the energy ecosystem, it has to participate within its own ecosystem and a cross ecosystem. This is the world of the age of intelligence. And as a result of that, what you're seeing is that traditional boundaries in industries are really going away. And if you think about boundaries going away and you have all these converged products with multiple technologies into one product, you actually have a place where being a singular product, it's just not enough, you can't just be a single product and in some cases you can't be a single industry. You actually have to be able to participate in a broader world with multiple – multiple ecosystems. So all this – all these industry boundaries amongst products are – are disappearing.

What's interesting about Flex is that we have a broad, broad view of what's going on in the world, whether they're technology or whether they're cross customers or whether they're cross different product categories or different industries. We actually participate in all these different industries and not only do we participate, but the products we tend to build in each one of these industries tend to be the most technically advanced products, they tend to be the products of the future as opposed to the products of the past, which gives us with that lens of being able to see across industries, and be able to see the latest generation technology products, many of which that we're working on that you've never seen

It gives us a really interesting perspective of the world. And as we move into this – and as we move into this, this cross-industry world, this age of intelligence world, where horizontal capabilities matter, our customers are looking for us and looking to take advantage of that insight and that information and those capabilities of cross-industries to be able to apply into their industries. Customers tend to be very vertically deep. A car manufacturer knows how to build a car, knows everything about a car and has been doing it for a long time.

But now we have to participate in a different world, in the world of smart cities. In fact, he isn't really a car company or is it a mobility company, or is it a technology company, there are lot of different descriptions of the exact same what everybody used to call a car company just 10 years ago. So the world has changed, but most importantly our positioning to be able to look across so many different industries, to have so many experiences across so many industries all in the latest technology devices, allows us an opportunity to partner really well with our customers as we're – we're horizontally broad and it augments them being vertically deep.

So if you think about taking all this knowledge, what we've done is we've created this platform and think about the platform as being the sum of all Flex's capabilities. And we started working and honing this platform five years ago. We saw a lot of these trends and technologies and shifts in the world and the competitiveness of the world, we call that the world is changing many, many years ago and we bought him in and said, we have to develop this platform. And we've been working to refine it, to improve it, to optimize it for many, many years. But this is the sum of our capabilities and it's a way for us to go into a cross-industry world and be able to compete and be able to add value.

What you're going to see throughout the course of the day is a whole bunch of examples of us participating in ecosystems. And out of the Flex platform, there are many capabilities within that platform that we apply across into these ecosystems. And what you're seeing – what you'll see today is that, when we talk about some of those ecosystems, each one is using multiple Flex technologies in each ecosystem. And sometimes we're using the same technology, maybe we're using automation technologies in multiple different industries, it's the same technology, but it's applied across multiple industries.

One of my favorite examples, the autonomous vehicles, which I've already put up a couple slides on. What's interesting about the autonomous vehicles, here comes the car company. And the car – they were used to making cars for a long time. Now all of a sudden, an autonomous vehicle process about 5 terabits of data per day. Now all of a sudden that is no longer a car, it is a mobile data center. And when they look across horizontally across who has the experience and the technologies to enable them to go compete in this ecosystem world. They look for a company like Flex, they look across Flex and go, wow, you guys are building data center products at scale for like 20 years. And oh, by the way, you have $3 billion of automotive grade manufacturing that you have a demonstrated competence on and to put those two together creates a very unique product offering that really no other company has today. And this is the way we're leveraging our capabilities into real value creation as these ecosystems develop and penetrate around the world.

So let's switch gears a little bit. So how are we going to take all of this knowledge in this platform and all these capabilities and how do we really create value out of it, how do we drive it into the income statement and into the balance sheet. And what we did is we are driving three structural drivers of value creation. The first one I think about is portfolio evolution. Many of you've seen portfolio evolution for many years. But when I look at portfolio evolution, I think better products. And when I think about the second driver, I think about Sketch-to-Scale. This is being an early innovation and design partner for our company as they move into a more complex world and need more talent and more effort to be applied to their hardware system, so that they work on other pieces. And when I think about – really our third element, I think about using our platform to really drive value. It's really leveraging the capabilities of the platform to create upside.

So, let me talk about each one of them just real briefly. First one is portfolio evolution. We've been on this path and on this journey for about 10 years. 10 years ago, we were way imbalanced into what we would call the CTG and particularly into consumer, and we spent resources, effort, money, capital, and preference it over into building a more stable portfolio. The reason we like better products in our portfolio, longer product lifecycles, more stable earnings stream for us and for our investors, and longer product lifecycles. So, we view this to be a valuable part of the portfolio that we need to build and over the course of the years, we've built it from 15% of a $19 billion company all the way up to 43% of revenue in the company we are today.

When I look at CTG, so we made great progress. When I look at CTG, I see a lower margin business, but higher velocity business, it still comes with roughly the same ROIC as the other business. But what CTG does, it's our eyes and ears into the future. In the consumer business, is the closest thing to the future of the world. You have very rapid cycles of learning, because you have very short product lifecycles and they touch the consumer very quickly. And we have always saw that what happens in consumer is going to be applied across into medical systems later on or into automotive capabilities. We always viewed this as our early warning indicator because there are so many cycles of earning.

Think about some of the technologies that are disrupting today things like connectivity and mobility. You know these are all built-in social, these are all built out of the consumer, the real time understanding of what the consumer wants. So, when we look at that, we look at eyes and ears of the future.

And when I look at CEC, I talked about some of the strategic value as it moves to a convergeable, all that you need to have; you know that the automobile needs data centers, we're leveraging all the capabilities in CEC to make that happen. But what I really see in CEC, I see free cash flow, and a lot of what's been powering our system over the years is the free cash flow generation out of the CEC system powering the transition of many of our other businesses.

And then of course, as you know, I like the – having a better product business and what's interesting is we might be at 43% revenue, but the reality is we're close to two-thirds of our operating profit coming from this business. So when I look at this portfolio, I want all of them to grow. I think they all have value in our system and together they create a very powerful offering. If I think about that second value driver, I think about Sketch-to-Scale, we want to be early engaged with our customers, we want to be the design and innovation partner as they move into a Sketch-to-Scale world, as they move into intelligence age world and where they need multiple technologies that need to embed it into their products.

When we think about applying – when we think about this business, we've been investing heavily in Sketch-to-Scale for like three years right now. Chris is going to show you a chart later about the levels of investment. What's interesting is when we make those investments, we typically have revenue which is this chart's representing is actual revenue flow through. We find revenue anywhere from one to four years later, if it's a medical business, we might at work on it for four years or even longer, before it hits actual revenue.

And automobile product, we might be working at it for two or three years before it hits revenue. In the consumer business, it runs faster, so that gets to revenue maybe in a year, maybe in nine months. Each one's on a different cycle, but what's interesting is the revenue we generate in FY 2018 is actually from what we did in 2015 and 2016 and what we can see going forward is we're probably moving to a 40% or so level into the future and the back of the work we're doing today, but a lot of those costs and expenses hit our P&L as we transition into a bigger Sketch-to-Scale environment and we are expecting a significant higher level of payout in the future.

When I think about payout, I think about two things, I think about margin expansion as a result of being able to control and contribute and create more value for our customer. We should have margin flow through, but the second thing importantly is a lot of these products, you don't even actually get in the game unless you have a design. So if you don't have a design component and a design capability, if you can't add innovation ideas, you actually don't even get to have revenue. So a lot of this is not – is actually enabling peer revenue.

And if I go to our third, third value creation lever, I think about systematically leveraging the platform to create upsides. I think about leveraging all the capabilities inside that system. I put up a few examples here, some of which we've talked about before, some of which are new.

You know BrightInsight is a demo that we're going to be able to show you over here, it's based – it's a software company based in the digital health business. YTWO, many of you know is in the building and the construction industry, it's IT platform in the building and construction industry. We're going to talk a little about Elementum, because the CEO is here today as Kevin mentioned and we're going to have a panel a little bit later. Interestingly, these four things and we're actually going to mention Escientia a little bit later.

What's interesting is three out of four of these are actually software companies. And they themselves are participating in ecosystems, Elementum's in the supply chain ecosystem, I mean it's an entire ecosystem on to its own, digital health is in the health or BrightInsight in the digital health segment.

Building and construction, the IT platform for the building and the construction industry is in building construction ecosystem. So what's interesting is there, a lot of them end up being IT platforms, which is consistent with how we need to compete into the future.

But what's especially interesting is we actually expect significant revenue flow through as a result of these, we also expect to be able to participate in equity upside, as we manage these companies in a different way. And very often we're going to leverage outside knowhow and outside capital, which creates a very interesting business model for us.

[ph] A big delay on this thing. (25:19)

And one lastly, I want to think about is India. You know our ecosystem enables us to participate in geographies in a significant way as well. You know India is one of the biggest marketplaces in the world, it has one of the most fastest growing GDPs, it's expect to be the largest country in the world by 2025.

In fact, if you look at – if you actually look at some of the data, China in 2026 is actually expected to be the same size or India in 2026 is expected to be same size as China is today. So think about how big that market is in China, and how many multinationals have been living off growth in China for the last 10 years. This is on a similar trajectory, and in 2026 it'll be the same GDP. It's a very interesting position for us.

The other thing is the Internet penetration is still at a relatively low level, you have a lot of young people, you have – the country will digitize, there'll be more and more payment terminals, there'll be more and more mobile communications, there'll be more and more digital development in the country. Much of the digital development, if you look at the facts, are growing in high double-digits, some even up to 100% growth on a year-on-year basis. This is going to continue. What's different about this kind of business, it's going to lead with consumer demand, just like the eyes and the ears of the consumer products are the future, so will India develop like this. This is what China did.

India will develop first and connect people, and give people access to the digital marketplaces that technology develops. And over time, the middle classes will develop more and more, [ph] courage (27:08) will be built and people move into the healthcare system and it will build a very, very broad ecosystem of multiple industries that we will look forward to participating in.

And the last thing is, the Flex footprint, I mean our footprint is already big there. We've been in India for 10 years now, and every multinational is now heading to India. This is thought to be the biggest growth marketplace in the near-term. You think about some of the announcements that were just made with Walmart and Flipkart. There is now going to be a competition for India. And the multinationals of the world are going to be looking to leverage the Flex ecosystem in that country to build out a broad base of commerce.

So, if you go take all these things together, you go put them altogether. It creates a powerful platform with multiple drivers of real value creation. And this is what we are trying to do. And if you think about having multiple drivers of this value creation in several different ways, we're really trying to be able to build a balanced, sustainable, long-term growth model.

We expect this approach that we will continuously have new vectors of opportunity and capabilities and growth regionally, as well as in technology. So, we view this as to be an extraordinarily powerful platform positioning.

So, as we work and move into this age of intelligence, we believe we positioned ourselves to compete in this world. Our platform is highly differentiated and we're excited about some of the positioning both on a short-term and a long-term position that we have. It's balanced, it's expensive and most importantly, it really leverages all the capabilities of our system and we can offer these to our customers.

So, we're excited about it. You're going to see a lot more details later in the day. But we believe we positioned our company in a very, very strategic way with a tremendous amount of set of companies and many different lever points that can structurally drive our income statement and balance sheet. So let me switch one more time to a different subject. So, you're going to hear a lot of data today. And one of the things that I wanted to do is just start the day and just say with a quick summary of what you're going to hear. In HRS, you're going to hear outstanding bookings. You're going to hear a more moderated growth in FY 2019, but a long-term structural 10% growth rate over the long-term. They've been at a 10% growth rate over the last five years. There's going to be it's up and down over the course of the year as we've averaged about 10%. We actually expect that rate of growth to continue. We see some moderation in FY 2019, but nice strong margins.

In IEI, a lot of the same story of last year, continuous margin expansion, more and more revenue growth at a 10% plus level, and a really diversified balanced portfolio. In CEC last year, we sat up here and we said CEC in the middle of 2019 is going to switch from – into where it's going to have flat revenue and then ultimately into a growth business. This is on the back of two fundamental drivers. One is the data center, the expansion of the data center.

We continue to grow about 20% a year in the data center and we've made a lot of investments over the last three years, which we've already expensed into the P&L to position us to compete in the data center up today. And the other is 5G. So you'll see some more details on that as we move forward. CTG, you're going to see rapid growth. So we're going to see rapid growth. We're going to see increasing margins to note and operating profit. We're going to have a significant mix shift. It's going to move more and more into big multi-nationals leveraging capacity and developing geographies. So you're going to see a little bit of a mix shift.

Obviously, Nike, we talked to little bit about, so I'm not going to go through that in more detail, but there's no change to our margin targets. So the one thing that we did say last year and I just want to keep us referenced and balanced back to last year is we said, it was our hope, it was our expectation this year that we move the CTG margin to 3% to 5%. And we're actually going to leave it at 2% to 4%, and it's probably for obvious reasons as the Nike didn't pull through heading on its way to HRS type margins. We had to pull back a little bit of that. So it's going to be the same margin target as we saw before. The margins, you know, we'll talk more about that when Chris goes through his presentation.

And the other thing is I just want to give you a high level view of the whole company. So when I think about what's happening right now in the first half or second half, as you know, we grew very substantially organic growth in the second half of 2016 that created a lot of pressure on startup costs and growing, and that sort of thing. We actually moved from about $6 billion level to $6.5 billion level in Q3 and Q4.

We're on our way to moving that up again to $7 billion level over the next couple of quarters. And as we move to those steps, we're going to have more working capital to move to that next level. We're going to have more CapEx to build the product, to move to that next level and we're probably hiring about 25,000 people. So this is our current forecast of what we need today for the business that we've already booked.

So not surprisingly, you bring on 25,000 people. It's going to pressure margins a little bit. We'll be at that new level by the time we get to Q3. So we're already spending money to move us to that level and the objective of obviously moving to a new level is, it'll create a new plateau of operating earnings and free cash flow. So we're looking forward to that, and you'll see a lot of that happen in the second half.

But just one last comment I want to make, we also made a very significant change to our operating structure internally. So, you heard me talk a lot about all these converged technologies, and you can't be single siloed, you can't be single segment to go compete in the world today.

We actually took three of our business groups and merged them together. [audio gap] (33:44) is going to come up in a few moments and give you a presentation across these things. And what we did is like our customers are coming to us and they're trying to leverage across vertical bound – vertical segments, and it's hard for them to navigate into that system and quite frankly it's hard for us to navigate across.

So as we try to bring to bear all these converged technologies and leveraging the platform, instead of leveraging an individual segment capability, we say we're going to reorganize into one group. So we now have a regulated group under Paul Humphries and a non-regulated manufacturing business which is CEC, CTG and IEI under Doug Britt.

And what's the beauty of this thing also, is we took the opportunity to make it a simpler structure, to make it easier to operate, to make it lower cost, and as we leverage into higher revenue in the second half of this year, as we move to that $7 billion plateau, simultaneously we actually have a lower cost structure, in our SG&A. And you're going to see the combined effect of revenue acceleration along with SG&A and we're pretty proud of taking that move to reposition the company into the next, you know into how we need to actually add value and make decisions in a company.

So, Doug's going to be outstanding leader, he's got an outstanding process and system, he's been driving the IEI business with tremendous success, he's got the right system, the right process, the right discipline, the right drive to be able to take those tools and capabilities and move it broadly across the platform. So he'll be up and talk a little bit more later, so.

So, with that I'm going to end. I just want to give a higher level overview of the strategies of the company, where we're investing, how we're thinking about the business and how the business is unfolding. We're really excited about the strategic positioning of the company, but I – and we're thrilled with what we – we've been able to accomplish.

So with that, I'd like to introduce Mike Dennison. Many of you know him, he's given presentations before. Mike is going to come up, talk a little bit more about some of the challenges and also opportunities that we have with our Nike project and he's going to do a chat with Erik Sprunk as mentioned. So with that, I'll turn it over to Mike.

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

Thanks, Mike. Good morning, guys. We talked about when we should talk about Nike today and I think we decided it was fairly important to many of you and therefore we put it right up front. So what I want to do is spend some time talking about the importance of our journey. This is a massive TAM expansion opportunity. It is almost a limitless revenue growth opportunity. So it is critically important to us to be successful.

What I want to do is walk through kind of where we've been and where we're going, after I get through with that I'm going to show a video and then I'm going to have Erik Sprunk come up and join me on stage. So we can have a conversation.

So why don't we talk about kind of where we've been. This is a lot of data. It's been a complex journey from the very beginning since 2014 we were learning the craft of making shoes. We had to take that from a craft learning to actual production. So in 2015, we started thinking about moving that operation to Mexico. In the process, we launched our first version of automation and in doing that kind of figured out what are the important elements of automation to work in footwear and out of that came five patents. From there we started to work on some of the new crafts with our partner, what kinds of shoes would work in this type of automation, so 2015 was a very important year. In 2016 we developed a new Flyknit solution. Critical for the Flyknit business that actually then ended up in NIKEiD.

Construction began that year on a new factory, so it was a very important time for us to figure out how we moved from the original Mexico factory to the new factory. And we had to start developing the supply chain for volume, without a supply chain we couldn't get to the volume we needed to do our production. By 2017 we were running pretty good volume, developing newer IP on the new automation tools, thinking about new programs, we actually launched HyperAdapt and sort of building that engine and charging system for HyperAdapt.

We thought about how to design for automation in 2017. Without designing for automation it was going to be very difficult for us to get the automation tools and the shoes to work together. In Q3 of that year or in the Q3 of that fiscal year we completed our new factory, which was an important milestone for us. So getting that factory completed allowed us to start to think about production in purpose build building. We needed to move 7,000 people to the new building, so that took a bit of work. We had to do that process and get that completed which we did.

We launched our NIKEiD. NIKEiD for us is our way to customer issues and get them to market within 10 days, a very important step. And we finalized what we have now nickname Solemente, which is our automation process and system for making shoes at volume; that happened just in April.

So when you think about all those things we were very positive going through our FY 2018 Q4, the first quarter of this calendar year around what we can accomplish. We had an objective to get to breakeven, and had three major objectives that would follow to get to that breakeven. The first one, we needed shoes designed or redesigned to work in an automation process. Second thing, we needed our automation system to actually now convert from being completed to actually going into production. And the third thing is we needed a material supply chain that would allow us to fill that factory and make the automation run. We missed getting that objective by the end of that quarter. But there's a lot of good learnings across that journey that enable us to go even further faster later. So it's important for us to think about not just the miss, but the actual learnings that we achieved, and the things that we can take forward.

So when you think about that, you really think about the business relative to three simple things, you have to learn the business, you have to evolve the business, and then you have to revolutionize the business. And we've learned the business, we're evolving the business and once we can get the evolution, the optimization to work, then we can really revolutionize the shoe business, which is so important to all of us.

So that's really what it boils down to in terms of getting from where we are to where we need to be. That's our commitment to the journey. What does that look like over time? You can see where we started back in the days of fuel ban, you can see as we progressed into investments in automation. You can see what we're trying to do relative to a purpose built factory and getting to revenue. As that goes down, the timeline, you see the commitment and the dedication to get this to 2020 and 2021, to continued regional expansion and to continue growth in this platform.

For us it's critical that we stay committed to this timeline and to the overall objective. The value to us in getting – in being successful with this program is incredibly important. Mike talks a lot about portfolio expansion and Sketch-to-Scale and platform leverage. And in our mind, this is Nike – this is our Nike partnership. Our ability to expand our portfolio into the footwear business is a major objective for us. To do that, we really had to create a Sketch-to-Scale solution at scale in Mexico and beyond to drive volume. From that we're actually able to leverage our platform into new automation tools, new automation capabilities that we can expand into other parts of our business. That expansion and that leverage are meaningful parts of why we started with Nike to begin with and critical to our long-term importance.

With that, I'd like to switch gears a little bit and talk about our partner who has been deeply committed in going on this path with us. Thanks, guys. With that, I'd like to introduce Eric Sprunk, COO of Nike and a good friend of ours.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Where was the video? Where was the video?

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

I was waiting for the video back there.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

I know, I know. We'll get to the video.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Okay. The video is super cool.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah. Thank you, Eric.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Hi, everybody.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Thanks for coming...

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah. You bet.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

...and joining.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

It's a pleasure to be here.

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

So I think we should get right at it. Just hit the topic that all these people are really going to want to know. Is it hard to find size 15 shoes?

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

Yeah. Yeah, it is, but what I did do is I went down to the Nike store and looked all of the [ph] median (43:34) labels that...

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

...wear it right on the tongue, open up the shoe and said I need a size 15, made in Mexico ...

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

Well, there you go, yes.

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

I have one. That's my outfit. Here we go. It's perfect.

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

We're glad, you're wearing Flex shoes.

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

Yeah. I am too. I would not show up down here not wearing shoes that we were manufacturing together.

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

These actually are also made in Mexico.

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

Yes they are.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah. So, maybe we can start at the beginning. What was the impetus behind Nike's journey to manufacturing revolution. What was it that you thought of and developed in your organization that said let's go do this?

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah. It started several years ago for us. I've been with the company 25 years, and I've been responsible for manufacturing for the last 18 of both, and I see about a decade ago, we were looking at the business model that our industry's been built on which is predominantly a discussion of where are you going to make your product and as our industry was growing. Most of our competitors were thinking about okay, what's next? Where are we going to go next? Where is reasonably available low to middle skilled labor that's cost effective going to be, where are we going to grow our production and we said at the time, labor cost continue to go up around the world, material cost may ebb and flow a little bit, but over the longer term ...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

.... they're going to go up and we want to make – we want to change the paradigm from hey, where are we going to make the next product to how are we going to make the next product and if can sort out how we're going to make the product, we can manufacture it anywhere. And that, that was the genesis of what we called man rev or manufacturing revolution and we went down that path for two to three years and then we said, hey we need a catalyst

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

We have a very established footwear supplier group. They're world-class footwear manufacturers, you now know...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yep.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...many of them very, very well.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Very well.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

But I know this is maybe a little unfair to them. The pace at which they were thinking about how we make the product, we needed to accelerate, needed a catalyst. We thought if we brought somebody in from outside the footwear industry, it would be a catalyst for this manufacturing revolution, and would effectively raise the game for the entire industry in our source base. And then, and that's effectively what we done.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah, yeah. I mean, you don't bring on a lot of new partners. I mean over the journey of decades since you guys have created your supplier partners you haven't had too many new ones.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

No.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

So this is a big step for your guys too.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah, for me personally, so 18 years. No new non-footwear partners. We have taken on a couple of new partners, but they were already footwear manufacturing partners. This is the first time we've brought somebody from outside of footwear into the footwear ecosystem.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Family.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

If you will. And we're doing a little bit of it on the apparel side too. But footwear is a much more difficult ramp, let's say.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

When we first started talking, we talked about the notion of kind of decades long partnerships. And for us that was a bit of a new idea, because for us that's rarely the case, so we have these decade long [ph] relationships (46:46).

And I remember, Mike and I and others were sitting with you and said, close this one, factory out and let you [ph] rent some (46:51) stuff and get it done.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Oh yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

And we're going to move fast. We got to be moving fast.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah, I remember those discussions.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

And you said, no, this is a decades kind of things, and it will take you a while.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah. One of the things I remember, really, really well is

[indiscernible] (47:04)

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

We didn't believe you then. We didn't believe you.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

You told a story of a company that I've – will remain nameless. But the setting up of a factory, running it and then kind of sun-setting it, all within like a 12-month period, we were like, wow! That's an amazing...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yes.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...capability to have and not one we – I mean, that's an unbelievable scenario for us.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Our long-standing footwear partner relationships are 50 years old.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Rare is it for us to have a relationship that's not multiple years and part of that's because the responsible – we believe, we have a naïve confidence and belief. We can innovate our way through anything, our corporate mission statement is to provide inspiration and innovation to every athlete in the world and if you have a body, you're an athlete. A huge part of the innovation model for us is what the partner does in the manufacturing of our product and in the sourcing of materials from the material vendors into the manufacturing of product. And for us to have a relationship where they are comfortable investing in that innovation and in our business with them, that is not, we have four seasons a year.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

That's not a seasonal [indiscernible] (48:18). We would have no partners if we were doing that seasonally, if it [ph] wasn't (48:22) transaction based.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right. The other thing that's interesting about your partnership relationships is this notion that we work together. So, whether it's [indiscernible] (48:31)

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah, the partners.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah, the partners actually work together.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

It still freaked you guys out.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

It's a little bit different for us and I tried to explain it to our shareholders and analysts, how that whole – the notion of how that works because you would think, well there's a competitive, you know, if you don't help them, because they'll take your business kind of [ph] maybe mentality (48:49), maybe talk about that for a second, because this is very unique to what you do, and creates quite a different culture.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah, it's true both for footwear and apparel. We spent a lot of time in a room like this, with our partners all together, working on different work streams together for the betterment of the industry and for hopefully for the betterment of Nike product. And we started that about a decade ago when we went down a path of Lean. And you have to remember, these are contract manufacturing relationships with us, right. We're trying to use our persuasion and our influence and our order book to compel you and the partners to do what we believe is best. That's kind of how the model works. And we started down the Lean journey and we knew that trying to do that with each of the partners individually was going to take way too long, was going to be really inefficient. And if we can get them in the same room together to think about what Lean would look like for footwear and what Lean would look like for apparel, it would work way better. That was the first time they worked together as a group. They found a ton of benefit of value, growth, profit from the herd mentality versus...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...each doing it individually and we stuck with that for things like innovation, for development. Sometimes we have partners develop, commercially develop a product to get ready to go into production. They'll do all that work and then we'll source it in another partner. So they understand that. They – we of course compensate them for that...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...but it's a very unique relationship and I know we've talked about it when our relationship first started and I think you guys were like, yeah, that's not quite how we do it.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

That's not quite, yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

But I also would argue you had three or four of our best partners in Guadalajara in the last several weeks helping...

[indiscernible] (50:43)

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

We've learned, we learned.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Materials planning. Supply planning...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Absolutely. They met us.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...and that's been helpful. And they're really happy to do it because they see you as somebody they can learn from as you ramp up in the industry. They can learn automation. All the stuff Mike talked about today on the Flex platform, they're really anxious to have some access to that.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

To hire and purchase and learn from the Flex platform is an attractive dynamic for them as well. And frankly they're your best mentors, as you learn the craft of footwear manufacturing.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah, we really see that in the material supply chain. Its – material supply chain for us and how that flows in a true fabric sense versus our normal supply chain, it was a bit of an interesting and challenging task as we ramped the business. And what we found was our other peers, your other partners were very helpful in saying, okay, we understand how you're doing it, [ph] here's again (51:28), you need to think about that differently. We'll go meet that supplier together and we'll help you fix that challenge as a team...

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

And then your folks were, of course there too, which was super good.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

So, Eric, this has been a challenging period?

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Indeed. For all of us.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

For all of us. So talk to us about your commitment to the partnership and to the objective of what we're trying to go do. And the level of commitments kind of in your workforce, but also in your investment. Because, I have to say, cost us both money to get there.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yep.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

So just give us...

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

...some thoughts on there that.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

We talk about this a lot. Mike and I spent a lot of time on that. And our teams do too. We are investing right alongside of Flex and we are doing that for the same reason you're doing it, because we believe that there is an unbelievable payoff. And for that, we've announced at our Analyst Meeting that we're going to run a consumer direct offense and we believe serving our consumers personally at scale is a huge way to kind of transform our business model going forward. It will take speed and responsiveness in the end-to-end value chain; it has to start at manufacturing. And so, a huge part of the business model for us is going to be near and onshore manufacturing and it's going to be more responsiveness in the supply chain.

We've spent 50 years building a supply chain that was more customer-based. One order of 200,000 pairs, made in a batch in Southeast Asia, put on a boat, shipped to a couple DCs, out to the store, where we hope you find the shoe you want in the size that fits your foot and in the color you like. And we got to turn all that around, and to do that that's why we said, we need new thinking, we need to access manufacturing expertise that's happening outside of our industry, and we need – and we need a partner that can get us closer to market, more agile, more responsive, it's how we – how we kicked off that the relationship, that's even more important today than it was when we started this, which is why we continue to invest [ph] right next year (53:45).

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

The potential return here we are all vested in.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah and I think that commitment, for sure, is sure on both sides. And I think there is a deep amount of learning that continues to happen between the teams. Clearly we've got some objectives in the next six months that you and I want to go make sure we achieve.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

How do you feel about those confidence level, what needs to be tackled in your mind.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Give us a sense of that?

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

It's a really good question, and I sitting back stage, you guys were talking about it quite a bit today.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah. Go ahead.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

I feel like I can authentically say to you and your CEO that we're doing everything we can put ourselves in a position for this partnership to be successful. And successful means scale, it means profitability, it means two-day delivery to the North American marketplace versus Vietnam, China, it means a lot of things. I think we've now done, you showed a slide, everything that needs to be possible. I believe you're doing everything that needs to be possible. So my confidence and it's not naïve confidence, my confidence is really, is really high.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

I think the next six months are really, really important. Our management team wants to know how those next six months are going, your management team clearly and your shareholders want to know...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah, yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...how this next six months is going to go. We're in this together. I think we've got the right plan. You've come a long ways up the ramp curve. I know you guys like to work at a much higher pace that – which we would love, but we also come from a 50 years of reality and for us, when I see the slide, I said, someone wants to see the slide, you showed. I think at Flex that feels like gee, that's taking a long time. At Nike, you're on the path to becoming a footwear manufacturer.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

You had mentioned to me this morning, or maybe last week that timeline that you actually had originally thought about relative to getting to a certain amount of productivity and a certain amount of scale that we're actually kind of on track to that timeline, it was our timeline that we were off track...

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Correct.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

In achieving that.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah. And...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Oops.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

I will hold you to one of the reasons we chose you is because you were – you have your confidence and your capabilities.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

But if you're going to do a size run in footwear under traditional manufacturing methods, you might have 40 different pieces of a material or a component to do size run from infant to toddler to preschool to grade school to adult, all the way up to size 15 or 16, right...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...and half sizes in between. And those pieces of material change shape, change stretch-ability with humidity, with machines, with human hands, it's very different I think than some of your other businesses...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yes.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...and our people know that well, and it's tough, it's a...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

It's a variable.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...tough to do. When we...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

When we give you an order for the Flyknit 2017, it's not bad shoe in that same size every time...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Its 30 different sizes and you got to have material prepared for three different sizes, and it's a different entry.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

[indiscernible] (57:00)

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

We knew that when we first started talking to you, we know that today, and I think that's been a [indiscernible] (57:06).

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

I think the good news is that we weren't so much along the journey and we've had the challenges and the hiccups. But, when you still look forward to, we kind of see what we've achieved and where we're going. The future still to me looks big.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Oh, yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

In terms of kind of where you see us going together, kind of frame that, I mean is that, is that, is that....

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Something to frame it more than just big.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Like big deal. Well, maybe another B word.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah. Also, because we're public with this. We put over a 1 billion units through our supply chain every year. The majority of those units are footwear. We'll do several hundred million units of footwear and it goes up every year. And we're not looking for Flex to do all of those or most of those, but there's a lot of business to be had. I tell you and your team...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...all the time. When we get through this, we will give you as many orders as you possibly can handle at quality, price, delivery and corporate responsibility. You hit those four things; we give you as many orders as you can.

You're the only near shore manufacturer we have for the largest marketplace we have in the world and that marketplace sells several hundred millions of...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...traders of footwear itself. And if you're going to serve consumers personally at scale and I can get it to you in two to three days, when I order that shoe which was made to order, right, I designed it, I recognize there's probably something in the Guadalajara factory that says this is Sprunk from Nike...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah. [indiscernible] (58:38)

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Pack this order a little differently. That's a...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

It's a custom shoe that [indiscernible] (58:44) getting.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah. But I got them – I got them in four days. Mine came in four days and my order was placed after 1 o'clock because I was trying to test the system.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

I recognized I might have gotten a little bit of a special delivery.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

10.5, I can get in two days.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

That's really – that's made-to-order, that's not a made-to-stock, that's not replanned, that's not -always in stock, back in business, after the weekend, back in the store. That's made-to-order, four days. That's a completely different model. That at scale is really, really compelling.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah. [ph] For a shoe (59:15)

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Our largest market, where the consumers' expectations are as high as they are anywhere else in the world.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

A quick segue after that. Do you see NIKEiD – it's always been kind of a nascent, cooler part of what Nike has done, but it's never really blown out into being a big part of your business. In early days, we've talked about the notion that NIKEiD's customization capability could be really compelling if you get the lead time down.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yes.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

And now of course as we just talked, you can get it down to a week or thereabouts. What do you think had happened there? What does NIKEiD go?

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

I think, A, that many people say they love customization and personalization. What people really want is to be wearing cool stuff. And sometimes they're not comfortable designing their own cool stuff. They want to be an individual as part of the group or part of a tribe. So it will all – I don't think we'll ever be mainstream, that we all pick the colors of our shoes because I don't think frankly we're all going to be that good at it. But it's an important part of our relationship with the consumer, getting to know them better ...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...driving membership, and then create some dimension and edge to the brand. The ability to engage with us at that level is important to many consumers. The big hurdle for most people is, they got to wait three weeks – three weeks if we're making it in the factory in Southeast Asia.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Oh, it's in four days, that's a growth accelerator for NIKEiD business and frankly, helps us rethink that maybe NIKEiD or Nike By You, for you as we think about it, isn't just units of one, maybe there's a different way we can think about small batch manufacturing...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...including units of one, but not – they're not units of 200,000. So I think there's – time and distance is the big impediment to why more people don't do it.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Speed, responsiveness,

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yep.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

One of the things that we think has been a huge unlock in the relationship in probably the last nine months is the proximity, the relationship, the way that we work with your design and category teams, the people that are really helping us figure out what's the best shoe for that automation solution.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yep.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Has that kind of started to coming together, it felt like, wow, the power is there, we can go do this. What's the sense on your side from your teams from your category guys, how do they feel about it, what – how do you feel about it?

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

I think, we hit a tipping point six months – nine months ago probably, because the way we built the relationship was predominantly, we've got to standup a new partner, we've got to get shoes being made in Guadalajara that we'll send to the marketplace. When I say publicly, we're actually – we don't even tell consumers right now, we're making shoes in Mexico. We'll say, hey if you're buying a Roshe, check and see where it was made.

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

It's probably going to be made in Mexico. People are like really, you're making shoes in Mexico. We wanted that. Our product people kind of, to be honest, our product people kind of wait and go, all right, let's see if they can hone the craft, is the toe shape right, is the upper on the mid sole right, does the heel kind of look good, is the bite line on the cement look good and once they say, okay, hey this group can make shoes, we've got them in the marketplace, they can more fully engage, they're fully engaged. As you know, the Vice President of Footwear, and a bunch of his team that really own the consumers' right to vote on our product, they're in.

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

Yeah. Yeah.

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

They're in your factory, they're working with your teams.

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

They're living with us.

Eric D. Sprunk

Chief Operating Officer, NIKE, Inc.

The category teams are now travelling down. 18 months ago that wasn't the case. I think we were just trying to make sure, hey, are we going to be able to make footwear, right...

Michael Dennison

President-Group Consumer Technologies, Flex Ltd.

Yes.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...at volume...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yes.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...at scale, at a price...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

At quality.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...at quality, right, at a price that our teams and our shareholders are going to like. I think we're passing through those milestones and we've passed enough of them now that our footwear folks are in...

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yes.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

...which is why you're getting a lot more visitors, you're getting a lot more engineering help, a lot more development help. You're talking to the category teams, they're in.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah. Last question for you, recently you've had a chance to see our new automation process which we nicknamed Solemente, and of course, I think, that might have been – you thought it [ph] tequila (01:03:36), it wasn't [ph] tequila (01:03:37).

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

That's right. This is the third name.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

... automation?

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

By the way, it's the third name.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

I know the other ones were really good.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

On Solemente, you know as you look at that as a complete departure from kind of how shoes were made for the last 40 years. What's your vision of how that goes forward? Do you feel like that has the system that we need to go build this as kind of the foundation to manufacturing shoes in an automated flow?

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yes, I do. But it won't be for every product, right. It's going to – there is – the product you have on your foot is a perfect example. It's not a cut and sew upper.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

It's a knitted upper. I saw in your site, you had design for automation. There's also design for manufacturing. I think we're getting better and better at understanding the capabilities that you bring to footwear and being able to design into it. I think we'll scale Solemente. It makes beautiful product. It makes it faster. It makes – it allows for a precision of manufacturing that we don't have when human hands are touching it.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Every size nine is exactly the same. The precision of being able to do that in our business, where as I said material moves, it changes shape. But when you're taking flat material and you're trying to form it on a last or shoe shape, you know stuff happens.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Right. Right.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

How hot it is. What's the humidity? Stuff that doesn't happen with metal, right. And I think Solemente is great for giving us the precision manufacturing consistency that our consumers desire from us as a brand and we'll scale that as fast as we can put capital in there, and we'll get more and more product on there. At the same time, I want to make sure that we don't – I don't think we're going to – we can't automate our way, we can't automate footwear manufacturing. We're going to need augment and some replacement...

[indiscernible] (01:05:24)

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

It's not for every shoe. It's not for every product.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

That's exactly right. And as we get better and better at the Solemente part, we'll get better and better at footwear manufacturing, and then – and that opens the aperture up for opportunity even larger.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

And I think as you and I have talked about, Solemente is a great process. It's a great way to think about a manufacturing line, if you will. But the processes that you actually get around Solemente can be infused into other lines even into a Flyknit lines...

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

...which are taking workforce out. You're finding way to...

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

That's right.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

...automate certain elements. And those things have tremendous value just like that shoe right there.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Right.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Exactly. So that just changes kind of the dynamics across the board.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah. People forget when we fail, geez, you know, I can't make every shoe. We're selling several hundred million pairs of shoes. We can make a lot of shoes.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Yeah.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

A lot more shoes than we're making today.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Exactly, exactly. Well, I want to thank you for being here.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Yeah.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

We love this relationship. This partnership is unlike any other partnership we have at Flex and a testament is that you're here with me in a difficult period to explain kind of the future and the benefits and the value of this business. So I appreciate you coming.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

You bet.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Thank you.

Eric D. Sprunk
Chief Operating Officer, NIKE, Inc.

Thank you.

Michael Dennison
President-Group Consumer Technologies, Flex Ltd.

Thanks buddy.

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

So Nike, it's about $100 million or so for Flex. It's important. You heard about the opportunity, but over $25 billion in revenue. So now we're moving into the real meat of the rest of our Investor Day. I'm very excited to have Doug Britt coming up in a second here. As you heard from Mike, Doug is now running our IEI business in addition to CEC and CTG. We're talking about 20 or so billion dollars out of our $25 billion. And I personally am very excited to see Doug take the success in the playbook that he has for his IEI business and apply those same principles to the other businesses that he is going to talk about as we drive improvement from them, not just this year, but going forward. So with that, I'd like to welcome Doug Britt to the stage.

Douglas Britt
President-Industrial & Emerging Industries, Flex Ltd.

Good morning, everyone. So [indiscernible] (01:07:43-01:08:11). There is a major disruption occurring around the world and it's really the build-out of the IoT ecosystem. What's happening is it's forcing every OEM to rethink their product strategy and how they monetize their business with different operating structures and different operating models. This disruption is perfect for us because we have the skills, the knowhow and the technology to bring these companies into the IoT world. And we've been growing our business. As you know, I've been running the Industrial business. We've leveraged this disruption to penetrate these customers and bring more value.

The other element in this business is we have a massive TAM across industries. So I'm very excited about having the broader responsibility to run the three business groups,. It's a massive TAM, there's a tremendous amount of opportunities for us to seize. And I'm going to walk you through how we're going to attack the TAM and how we're very well positioned for growth.

The customers that we're dealing with are driving different revenue models. They're looking at their manufacturing capabilities and they're modernizing their supply chains. Many of the customers that we worked with have been reluctant on putting CapEx into their manufacturing operations.

We have a very solid lean manufacturing capability. We have the supply chain. We've invested in design and engineering. So, we can bring those customers anywhere in the world that they need to go with a single culture, with one company, one contract and we can help scale them. This is a unique position that we have that there's really no other company that has the ability to scale an operation similar to why Nike chose us.

We've invested in a proactive culture to interface with our customers. In this new responsibility, we're going to be enhancing our sales and pre-sales engineering organizations. So we're in front of the customer a lot more. We have invested in technology. We want to be in front of all the major brands and be proactive, and bring solutions before the customer are asking for them, and before our competition are there. We want to differentiate our customers' value, so we can extract value out of building their products for them.

And as we've talked about, Mike's talked about, we've invested over the last seven years in differentiated technology, so we can bring value to our customer base. And I'll walk you through exactly how we're going to do that.

Mike had mentioned this and I like to reiterate it. The consumer ecosystem is very important for us. This is where we get scale. This is where lot of the innovation has occurred around mobility, around sensing. And then the invention of cloud computing has enabled the reduction of cost for companies to launch into the marketplace. It's also enabled the connectivity of sensing, mobility and cloud to bring new business models. The Uberization of the taxi cab industry and many, many more. Not sure if you saw the announcement of Google Assistant and how they're leveraging AI into the market. We're just in the first inning of what's happening with data and what's happening in IoT. And this build-out is significant. I've never seen anything like it and we're actually very well-positioned to monetize our strength into these customers.

It has moved into industrial, you talk about smart cities, connected energy, the autonomous vehicle, what was developed in consumer, the cloud computing is migrated into the industrial marketplaces. We've been hard at work interfacing with this new customer base. The industrial marketplace was a marketplace, seven years ago, we didn't have a really strong presence. We invested and we've delivered and these companies are now leveraging us and we're winning follow-on programs based on this. And they see us differently because we have visibility into such a cross mix of product and product categories.

Mike had mentioned that the industry is converging. And with this realignment and the reorganization, essentially what we're doing is we're simplifying, so we can organize our engineering and development organization to work on the most important customer engagements across our markets. We need to have the holistic capabilities identified and aligned to the biggest and largest market opportunities. And that's what I'm working on and we have a lot of work that we've already done to align the organization.

We will continue to manage our CTG and our CEC and our Industrial Group and show transparency and visibility into those groups to you and we will drive sales and pre-sales engineering by segment, but the back office of development and engineering is consolidated. So we can leverage and harness that theme on all the critical opportunities that we have.

We'll continue to focus in the cloud and communications market, in the consumer market, energy, and industrial and we've developed a lot of building blocks of technology that we package together to build solutions to our customers. Human machine interface, if you think about machine-to-machine communication and how we need to operate with machines, we've got a whole team that brings active and passive touch display technology, we can design control systems with IoT connectivity, helping them to get data to the cloud, back to a usable format, so they can have decision-making to help them on a monetization model. So we're working on that, and these are the building blocks of technology that we have in our development teams. And then, our go-to-market teams package these up to bring differentiated capability and solutions to help our customers with their product portfolios.

I'd like to share the financial results of the three groups for last year and a little bit of forward thinking on how we see the businesses. First of all, I'd like to thank the IEI team, our Industrial team, for another great year of performance. The top line grew about 17%. A very strong expansion of operating profit margin.

What's most exciting is we recorded a record booking year. Last year, I told you we had a record booking year of $2.1 billion, this year it was $2.4 billion of new bookings. Because of the timeline it takes to ramp and designing these products, it's what we did 24 months ago that impact our growth rates today. So this puts us in a very good position for continued revenue growth and margin expansion as we start to ramp these new projects.

We're penetrating into engineering. We're helping our products and our customers' design. The Sketch-to-Scale revenue has now grown from 25% to 29%. And we're confident that we're going to continue to operate within the stated operating profit range of 4% to 6%.

Our CTG business, a lot has already been said. This business had gone through and is going through a portfolio shift. I'm very excited about taking on this business. We've invested in audio and IoT devices. And you'll see a significant revenue growth coming out of this group. And as we grow revenue, margins will expand.

We had a record booking year for this group of $2.1 billion of new bookings. And our Sketch-to-Scale revenue in this group has always been solid. There's a lot of technology that's been developed out of our CTG business that we proliferated into our auto business, into our Industrial business and we'll continue to do that and see unique opportunities, as Mike had mentioned, the build-out in India, similar things going on in China. We will grow this business based on IoT devices. I'm very excited and I'll talk about it a little bit on connected and smart audio. This business, we will operate between the 2% and 4%. As you see the revenue shifts, we'll start operating in this operating profit range.

In our CEC business, this has been a business that has declined over the last five years. I'd like to say that in this business, I see a significant opportunity for us to change that. Change that trajectory from a declining business because the traditional marketplace that we had served and we're number one position in that market, are the large telcos and the networking providers. And as things have moved more into compute platforms and software, the total available market has shifted because some of the ASP of the products we were building have gone from $50,000 to $5,000, so we had a declining revenue stream.

That being said, we booked some significant business in this group and I'm going to explain exactly how we're going to take this group from a revenue decliner to a revenue increase. We booked $1.9 billion of new business. We have 17% Sketch-to-Scale. Make a note of this. This group invested three years ago in strong development capability around server and around storage. And I'm going to come back to that because that's a super important pivot that this team made three years ago.

As we get the trajectory of revenue to grow, we'll get back in this operating profit of 2.5% to 3.5%. I'm most bullish about what's going on in this group and the size and the magnitude of the market and getting this thing from a decliner to an increase in terms of revenue. And I'd like to share why. Two major disruptions. The proliferation and regionalization of the hyper scale cloud; publics, the private and the edge is just a massive build-out. I've mentioned the Google Assist (sic) [Google Assistant] (01:18:44). Think about all the applications that are going to be coming our way. We're just in the first inning. These applications are going to require massive data processing at low latency, here comes 5G. 5G is going to become a major, major play because of all these new applications. It's going to change the way we work, the way we live, the way we play. And we're right in the heart of this, and we're going to grow our business based on it.

Last year, the global cloud infrastructure market spent $100 billion on CapEx, $100 billion on CapEx and accelerating. We see the regionalization of the data center being a great opportunity for us. What's happened in this business is the ODM has always had a strong design capability for server and storage, but – and as we've invested the last three years, we have a very strong capability. The difference is, these companies are now scaling globally and regionalizing their data centers. They need a player like us that can, one, scale from a manufacturing operations, they've always known we've been able to do that, but now, we have super strong capabilities to do the design work. The combination of those are leading us to win significant business.

So what is our solution? We design racks, these are the mechanical assemblies, we design these and we are in some of the most iconic brands in the industry. In addition, we design servers. We've recently won a major server design with one of the largest cloud – public cloud providers. When we get our chief technologist meeting with their chief technologist and you win a server design is because you have world-class capability. You will not win a server design if you do not have world-class capability. We have that now.

We also have one significant business in storage. So, the combination of these two are critical for any cloud, edge or private cloud provider. We're doing this now. In addition to that, we have the networking in the switch capability. We have a very large power group and we design the power shelf for many of these applications. We partner with the hard drive suppliers. And we have very strong layout design for cabling and also for the thermal management systems and the cooling systems, which are very important for the data center.

And then, we can integrate anywhere in the world. We're winning designs in key customers based on this capability. In the second half of last year, we won $700 million of net new bookings based on this. And as I mentioned, there is a shift. These companies historically went to ODMs and they would get a design from an ODM, and then they may go to an integrator or a distributor to integrate these data centers for them.

Because of the magnitude of their build outs, they need a stronger capability with a company with our scale and our size and we're partnering with the leaders and we'll win. This will help change our revenue trajectory in this group.

5G is the other interesting area that's going to be significant. I already mentioned the AI applications that are occurring, autonomous vehicle. We are very well positioned with the largest 5G providers in the world. We're already in designs with those providers as new low latency applications come out and it starts to drive, we will be a benefactor of this as this builds out.

We've actually already booked $1 billion of net new business within this group. This is not just 5G, this is within our communication sector but we are very well positioned as 5G starts to scale. And all of you saw the two CEOs, T-Mobile and Sprint, talking about the investments of 5G infrastructure, China is already investing, Europe is coming on. We will be a benefactor as this builds out.

5G will also accelerate connected devices around the world. And we've been working over the last seven years inside the home and inside lifestyle and appliances to work with the top brands of those markets. Within the next few years, 50 devices in our homes will be smart and will be connected. And I like to share with you how we're helping customers to get their products designed and connected.

The first example here is the thermostat. This is a thermostat that's actually available in the market today. What we did for this is we designed the whole unit. We designed the mechanical assembly, the connectivity. We worked with the customer, integrating firmware to their operating system and we scale this in one of our factory locations in China. It's a pretty significant win for us and it's a major brand.

This is a precision cooking device, this is a sous-vide. You can actually buy these on Amazon. The one that we designed is the number one seller on Amazon. We did the human machine interface. We did the connectivity. I don't know if you ever cooked with a sous-vide, they're actually pretty precise and globally, it's actually a really big seller, so it's a significant win for us.

I never thought we would be in the bed business, but we're in the bed business. We design the electronic systems, a U.S. provider of beds, we design and work on next-generation electronics for them. This bed actually has sensing and it's using AI. And if you have a snoring problem or if your partner has a snoring problem, this bed will actually adjust until you stop snoring. If you don't, maybe, it – but it's a really nice win for us and a significant new market.

Three years ago, I talked about bike sharing and the fact that we were in the bike-sharing business. While we built a factory in China within our Zhuhai campus to build bikes. This is the metal bending, the brazing, the welding, the molding of tires, and the design of the bike system. Why did we do this? It wasn't just because we wanted to get in bikes, but we saw a disruption occurring in the bike industry, if you look at bike sharing or scooters, couple of things were happening.

One is they're being driven by battery technology, lithium-ion. So in this case, this is a mountain bike, it's got a motor and it's driven by lithium-ion, I mountain bike, I mountain bike with my 17-year-old son, he kills me going up the hills. I get one of these and it gives me a little bit more juice to get up the hill. It's also connected, so you can have your application looking at where your trails are going, bike sharing, electronic bike locks. So, this factory is a state-of-the-art world class factory and we have several different customers that we're building for. This shows you the diversification of our business.

We did a fairly significant deal with Bose couple years ago. Mike led that very , very strategic relationship. With that, came a strong development capability around audio, and around smart and connected audio. We put a front-end engine in terms of interfacing with major iconic brands that are interested in smart audio, which is accelerating, and this is a fairly new initiative. We've already closed a $100 million in net new business. I see this as a very strong growth engine for us in the foreseeable near future.

In the Industrial business. Industrial is digitizing. Machine to machine communication is proliferating. We went to a – Mike, [ph] Mack (01:27:14) and myself went to a customer in Europe four weeks ago. And this customer deployed a fully-automated factory, but they leveraged machine-to-machine communication protocols, they leveraged the edge; and because it's a fully-automated factory and it's a highly precision manufacturing process, the machines have to calibrate every 18 seconds because it's so high volume. They run millions and millions of units through this factory each and every week. So if there is a calibration off a machine, you waste a lot of material.

I mention this example because that's what's happening in Industrial. Every customer that we work with is interested in how do I get my products connected, how do I differentiate my offering. This is an example of what we do. This is a large piece of capital equipment that goes into a semiconductor fab. We actually manufacture a system just like this one. And what happens, and this is a good example of really any type of large form factor piece of capital equipment. It could be food processing equipment, it could be an electronic game or large form factor gaming, they required to have motors.

And then what we do is we are putting sensors and connectivity in the motors, so they can have vibration testing or they can have predictive or preventive analytics coming back out of the machine, we're designing the human machine interfaces for these systems, so we add more value, not just integrating the whole system, but adding content into the system. In the case of this machine, we do all the mechanicals, we design the mechanicals, and then we manufacture the mechanicals, the rack and the full system. And then on the pumps, again, more IoT-enabled pumps and then we design the control systems.

The uniqueness that we have is we can integrate this type of system anywhere in the major marketplaces. Whether it be in Brazil, or whether it be in China, North America, Indonesia, we can build this Eastern Europe, so it's a big advantage for a major brand to come to us and know that they don't have to put brick and mortar up, they can come to a company like us and support their growth.

And then our energy business, and I'll have Scott Graybeal coming up here in a minute to talk about it in more detail. This has been a really nice growth story for us and it's a differentiated approach to how we're solving problems for customers in energy. We're very strong in advanced metering. So if you think about the gas and the water and the electric meter, we build a lot of those meters for customers, we design mechanicals, we design IoT systems for them. So it's a big part of our energy business.

As energy storage continues to grow, we're very well positioned with differentiated technology and capability and Scott will talk about that. But think about the possibilities of energy storage and how that will grow and our participation in it should be significant. Smart lightening, we have a business where we design really industrial lightning, street lights, high bay troffers. If you go to the Las Vegas convention center and you look up, that's our design, it's a high bay troffer LED light and we do that for major brands across the globe.

We see electrical vehicle infrastructure as a marketplace that we're focused on. There's going to be another big build up, we're leveraging our connectivity, our mechanical, our controls, designs to help those brands build out that infrastructure. And of course, our smart tracking systems through NEXTracker, where we orient panels to follow the curvature of sun to optimize energy harvest. We've invested in software for artificial intelligence, we've rolled that out into our NEXTracker business and into our storage business and Scott will hit that up during his presentation.

And then in terms of the financial model, what we see moving forward is IEI, based on a strong booking, the $2.4 billion of booking, a very strong customer base and I think it was four or five years ago when I said in this business it's a massive TAM, lot of very large customers. If you win a $10 million project and you do well, you get a follow-on and then you get a follow-on, that's what's happening here. We have a 100 customers plus, we're getting follow-ons, so while it's always you've got to be aggressive, you've got to be out there, we've got a good trajectory, the snowball effect is working in this business. And we'll continue to grow and we'll continue to operate within the stated margin range.

Our CTG business, while this year we see accelerated growth, we see a model in CTG of plus 5%. We want to be selective on where we engage. We want to focus on the most iconic brands. As our audio business starts to come up, IoT is going to be a big play, we'll see this business continue to accelerate and we'll operate within the 2% to 4% range.

Our CEC business, we're very excited of what's happening in this business. We have differentiated capabilities to bring in this market as it scales and specifically in the cloud and in the 5G marketplace. We will operate as this business starts to churn and we start to grow the revenues, we will operate in the 2.5% to 3.5% operating profit range.

So in summary, IoT, as I mentioned, it's just beginning. I know it, we've got our mobility devices, but it's going to change the way that we work, play and live. And we're very well positioned for those. We've got a very large marketplace to serve.

I think the modernization, don't underestimate the modernization of factories that are requiring to reach the new revenue. Customers are just not going to be putting in the CapEx investment that they did before, because there is companies like us that have invested in the supply chain. They have the ability to low volume high mix that can do automotive, that can do industrial. So we will win just based on that. And then we're being proactive and we're bringing solutions to our customers before they ask for them and we want to bring innovative solutions so we can extract more value. So, as I mentioned, I'm very excited about taking on the role and we really see a very bullish opportunity in the future.

So with that said, what I'd like to do now is I'd like to introduce our Head of Energy. Scott Graybeal has been with us for many years, actually was really the foundation of how we built our Energy business. He is a very strong leader. He's got a world-class team. I think Scott was here when our Energy business was about a $200 million business, and I can tell you it has scaled and he is doing a great job. So I'd like to bring Scott to the stage.

Scott Graybeal

Senior Vice President-Energy, Flex Ltd.

Thank you. Is the mic okay? Good morning. I'm Scott Graybeal and I've been part of the Flex's Energy business for about six years now. And last four years, I've had the privilege of leading this very talented team in which is a dynamic and always rewarding market.

So, building up a little bit what Doug talked about, we have a broad energy portfolio, covering advanced metering infrastructure, solar, energy storage, lighting, EV charging infrastructure to name just a few. But it's important to view energy with the right context, not in isolation. And that context for Flex is the smart cities ecosystem. Cities are and have always been economic centers or homes, businesses and civic functions converge.

And while the form of these things have changed over the years, the fundamentals remain the same. And cities from San Francisco to Rome to Nairobi to Beijing have wrestled with the same question: how do you make cities safer, cleaner, better places to live and work? And it's our job at Flex to combine our deep domain expertise in energy with our platform in order to help answer that question.

So, let's take a moment to examine some of the factors that inform our strategy. Clean energy is real. $333 billion were invested in 2017 worldwide for this market. The cost of key components has dropped as well. Lithium-ion cell technology, which [ph] drafts off (01:36:13) of the automotive industry and electric vehicle production has dropped 80% in the last 10 years and we expect to see a similar drop in the next 10 years. And the number of public electric vehicle connection points has increased tenfold since 2010. And we expect through 2022 to see about a 50% CAGR in that market.

Energy is a growing, high impact market with lots of opportunities for Flex. Sorry about that, okay. So about six years ago, we took a step back and developed a strategy, not just to grow our Energy business, but to improve the business' resiliency through international and end market diversification. At that time, 2012, we were very U.S. focused, we were very solar-focused business. But today, that strategy is successful. Today, two-thirds of our revenue come from international end markets and less than half of our revenues come out of solar. This has created a natural hedge for our business against regulatory risk, which improves the predictability and reliability of our Energy business.

But our ability to support all these end markets and all these different technologies is attributable to Flex's breadth as a company. Our unique exposure to literally dozens of different end markets and technologies provides fuel for energy innovation engines. So when our customers come to us with a problem, it may be a new problem that they're facing in energy, but it's not necessarily a new problem for us. We've seen it before, we've seen it in a number of different industries and we're able to take those experiences and apply them the solutions that enable our customers to deploy solutions faster. I'm going to give you a few proof points on this.

So smart lighting, lighting is more than illumination, it's become a hallmark of technology convergence. By combining many, many different disciplines, we've been able to create a portfolio of solutions. For example, high bay lighting, which we designed and built for the MGM Convention Center in Las Vegas or reference designs or new innovations in street lighting concepts to support the South American market or smart retail. That may sound a little strange to think about lighting in the context of smart [Technical Difficulty] (01:38:48) but lighting is one of the most ubiquitous electrical energy you have in a building or warehouse, just look up, you can see just how many lights there are, it's already drawing current, so why not put a [ph] smart (01:38:55) radio in there while [ph] you add it (01:38:56). And the combination of all of these smart radios enables a communication infrastructure inside of the building that enables smart and intelligent inventory management, but also a streamlined point of sales system for consumers. We are helping customers innovate and achieve their energy savings goals in this lighting business.

As I touched on previously and we'll hear more about today, electric vehicles are proliferating globally. Chargers are not only just needed in the home, but they're needed in points of use where consumers can get to them out in the public. But what we're finding today, it's not enough to just deploy utilitarian concept, we have a very boxy electric head sitting upon a pedestal.

What we're finding today is that customers more and more are looking at these systems as being extensions of their brand identity and they're driving towards a framework where they're taking into consideration the sensibilities of the communities on which these are going to be deployed. Customers want an almost artisanal approach to these systems. So it's not something I really would have predicted, but they really want these things to look good depending upon [ph] the community (01:44:01) where they're going, they need to. So let me give you an example of this. We had a customer, a large electrical OEM, and they secured a large contract with a European utility and they were excited, high-fives everywhere, great we've got the deal but that early exuberance gave way to trepidation and anxiety when they realized that the concept that they put in front of the customer, while elegantly designed and beautiful to look at, was super expensive and really hard to make, they were going to miss their commitment.

So, we engaged with them. We took that concept and looked at different material systems, looked at the illumination concept that they wanted and said, there is a better way to do this, and we looked at the manufacturability of this systems, made it easier to build and easier to manufacture and reduced the cost by 65%. And that's significant when you're talking about deploying systems like this at scale. And we're looking forward to seeing that project ramp. But this would not be possible if it were not for the breadth of Flex in many different industries.

Energy storage, energy storage is growing, the U.S. market alone will triple in 2018 compared to 2017. And globally we see developing countries adopting renewable energy plus energy storage, preferentially over fossil fuel and nuclear power plants due to the complexity, pollution considerations and the like. These systems are reliable, they're straightforward and they work.

When Flex got into the energy storage business a couple of years ago, when we were looking at the value chain and one thing that we had observed is that the companies that were deploying these integrated solutions, they were software companies, they were cell companies, [ph] naïve (01:41:47) battery cell companies, switchgear companies, power conversion companies and they were doing so not because they wanted to sell integrated platforms, because they wanted to create pull through for their products.

And so we took a step back, looked at it and said, well, we're really good at integration and by the way that kind of looks like a data center, so why don't we think about applying those lessons to the energy storage market and we did so, we've done so successfully. In fact today Flex is part of the largest high efficiency solar plus storage project in the United States.

And a little word about that project, the utility that selected us was [ph] no slots (01:42:22), they really understood this market, they have been studying energy storage for years, they knew the different technologies, they knew the players, but we were new to it, we were new to them I should say. So, we presented our solution and they selected us. They selected us because we had the safest, most reliable, most serviceable connected solution on the market today backed by a world-class field service organization through NEXTracker.

And we're on NEXTracker. So, NEXTracker is a Flex company, it's a number one market share leader in the world, three years in a row in single-axis tracking. For those who don't know what a tracker is, it's a lesser mechanical system, that over the course of the day positions the solar panels in such a way to catch more sunlight, and this improves the power plant's efficiency or energy harvest between 15% and 20% depending upon the geography in which these systems are deployed.

Well we got into the tracker business, not so much that we love large electromechanical systems, we kind of do, but we got into this for really a couple of reasons: one, to reposition Flex in the value chain. So, instead of being a Tier III or Tier IV supplier into a solar power project, we were Tier I supplier, dealing directly with utilities and asset managers and long-term owners of these power projects, those that can really appreciate the value that we're bringing to the equation.

And the second dimension is based on the fact that the relationship with the customer does not end once you install and commission these systems, it's an ongoing relationship that can last decades. We are monetizing our installed base today through selling spare parts, providing service contracts, and most importantly software that improves the energy harvest of these installations, increasing the value of these power plants to our customers, at the same time creating accretive revenue streams for Flex.

So, how big is our installed base? It's pretty big. 13 gigawatts and to translate that, that's enough to power about 2.6 million U.S. homes and enough area to cover 95,000 American football fields. So I have specify American because sometimes I'm in Europe, I have to talk about a slightly different size of the football field, but that's huge, is a lot, But I'd like to show you a video that talks more about this in just a second.

[Video Presentation] (01:44:48-01:46:19)

And energy is important part of the smart city's ecosystem. It's the lens through which that we evaluate our strategic decisions for the business with the goal of helping to make cities safer, cleaner, better places to live.

And now I'd like to introduce Dr. Kevin Kettler, Chief Technology Officer of Flex. Kevin has been with us for about a year now, and was formally the CTO at Dell. Kevin is responsible for driving our next generation solutions and I'm sure he is excited to tell you more about it. Thank you very much.

Kevin Kettler

Corporate Chief Technology Officer, Flex Ltd.

Thank you, Scott. Good morning. First, thank you for the introduction, Scott. I wanted to take a few minutes and walk you through our innovation platform here at Flex. To give you a little perspective, I have been here about a year. When I came on board, I was asked to focus in on our CEC business and I took the opportunity to learn a lot about Flex. As I was studying Flex even before joining the company, I took a long look at what is Flex, where is Flex going. And the notion of a EMS company transitioning to a Sketch-to-Scale company, moving to a innovation power house company, which is my goal for Flex as we move forward was exciting to me.

So I came on board, spent some time with the CEC group, put a lot of thought around how to use some of the learnings that I had in my previous carrier around being a development company and really honed the skills that we already had in place for the company. So couple of things is one – when I look at it, how do we structure this? First thing you need to look at is vision, how do we get the vision sharpened up for the company, how do we go ahead and make sure that we're spending the money on the right areas that is going to produce the right return on investment for our customers.

Second is [ph] stepping back and saying (01:48:23) do we have the right structure for success. And then looking at process behind that and saying how do we have – do we have a innovation process that we can flow through? We need to be very disciplined about that so you're not chasing the wrong shiny objects as you move through your looking at where to invest.

And then finally on the backend of this is looking at the culture. How do we change the culture within the company to be a culture of innovation, and then finally how do we transform the view of the industry of Flex as an innovator. So, I'm going to talk about a number of these things. We're on a journey as we go through this, but let me first start off with some trends that are happening in the industry that weigh heavily on how we think.

So, if you look, we've got a lot of macro dynamics happening in the industry. Some of this is driving a lot of cross-industry innovation, which again Flex is uniquely positioned. And I'm going to talk about that in a little bit. So if we look, we've got a number of things happening. We've got industries that if you went back 12, 15 years ago were very – they all used technology, but it is very siloed in terms of their use of technology. You had healthcare, automotive, telco, energy. You had a lot of technologies that fit within that. Many of them used compute, many of them used communication technologies.

But as you look at what's happening today which Doug alluded to, Mike alluded to, here Paul and others alluded to, is really a crossover that's happening, where communication technology, compute technology, storage technology, the use of data, the sharing of data, the new applications that are coming together with that really creates a very interconnected world, where industries require a lot of intelligence and learnings from adjacent industries in order to create successful platforms. And that's what we're going to talk about.

So let's talk a little bit about how we think about this. How are we going to pave our way to becoming an innovative company, or continue to pave our way to become an innovative company as we move forward.

So one of the things I wanted to talk about is really to think about innovation. And when you think about innovation, a key component is the life cycle of new technologies. So some of you might be familiar with the notion of a company comes out – let's say, use this example of a company, if you're coming out with a new server processor. That server processor has a life cycle; it's entered into the marketplace. You look at the X-axis here, we've got time, demand, growth for that processor as products are delivered to the marketplace. As you move through the central portion, that's kind of a stable period and then demand drops off. That's usually when the next generation technology arise.

So a key thing to understand is what happens during the dynamics. And this was in my previous role at Dell, I looked at how I viewed products. I'd always say, I want to be on the very left side of this because I can, one, establish myself as an innovator in the marketplace; two, I can normally experience the full revenue pool associated with the life cycle of that technology, so I'm able to sell more products than anybody during that life cycle; and third is normally that early part is where there's rich margin opportunity because you can go gather, you can normally charge a little bit of a premium for being first to market.

So why I bring this up is you've got these three different areas. First mover advantage, competitive marketplace in the middle, end-of-life margin play. Why is that important? It's because if you look at where Flex is playing, even with our Sketch-to-Scale work. I would say there were examples where we're more on the left side with our customer, where we're enabling them to be time to market. But in many cases, whenever you look at the time that we book a business with a customer until we actually start shipping the product with a customer, we find that we were a technology reactor, in other words we were in many of these opportunities, while great opportunities for us, we would sit in this middle section, where that's normally a cost pressured position to be in.

So, part of the work that I'm going through is how to move us to become a greater technology enabler and by that, I mean we need to be out in front of our customers, invest in technologies, that's our investment areas so that when we go engage customers, we're ready to talk to them and deliver a product as quickly as possible for them, so they can take advantage of the revenue pool, the greater margin pool and if they're successful, we're successful.

So, in the next slide – the next slide talks a little bit about this from a different perspective. This was – last year, we showed this slide. We designed services back in 2015; 2016, we did more – added joint development efforts, we talk about Sketch-to-Scale, we'll be co-innovators with product development in 2017. I'm adding just a new bubble to this in 2018 and going forward is, we as a company need to transform ourselves even further to become technology enablers and technology advisors to the customers that we're delivering products to or delivering technologies to ultimately deliver their products.

So, let's talk a little bit about the process. I talked about process a little bit earlier as one of the key elements. So, there is a few elements here I'm going to talk through. The first is understanding the landscape. One of the things that we need to do and have done as a company as we step back is how can we get a better grasp of the landscape that's happening in the marketplace. So, one of the key elements is building our relationships with our strategic suppliers, in particular, core technology suppliers that feed into our customer base. Now, historically, we had more of a supplier customer relationship with them. As you look now, what we've moved is shifted left. A lot of the discussions are now technically-oriented discussions in addition to commercial discussions. And that's very important for us because that puts us in a position to develop ahead of our customers.

The next thing was around strategy. Once you have this landscape and you understand all the players that are out there with technology, how do we go ahead and take that knowledge and turn that into a strategy for Flex that ultimately we then drive through to the customers, the market segments that we've chosen to attack.

And the last piece then is once we've done that, we made the decision of what we're going to do is how do we make the right investments and how do we monitor those investments and ensure ROI. At the end of the day, we want to enable customers with relevant technology that's important for their business.

So, let's talk about an example, this hopefully we'll give you some insight. This is for our cloud and communications business, we developed a reference design. This happens to be a server. It's called hyper-converged infrastructure is the type of server. It's a complex design. There is two processor complexes, 24 all-flash array drives, a backplane based on a lot of different technologies to distribute the communications throughout this thing, high redundancy, high availability, complex board layouts, simulation, high-speed network, all these things are things you might say, well, Flex is done those in the past. What's unique here is we did this ahead of customers. We designed and developed this box ahead of our customers' demand and then as Doug alluded to earlier, we then went into our cloud provide customers that we were looking at and said, look what we've done. We're already halfway there or most of the way there with this design. How can we customize it to meet your needs?

So, it's a very different approach and have put us in a position to one, gain significant credibility that we're able to deal with the complexity of their design and the second piece is, it cut that time to market that we talked about in the earlier slide. So, we're both able to capitalize on larger revenue and margin opportunities.

So, this is just one example. We've got quite a number of different examples. These are some of the bigger bubbles of investments that we talk about public cloud. Doug also alluded to 5G as a key investment area, where we're investing ahead of customers; autonomous vehicles is also another area; edge computing; AR/VR audio. There's a number of other examples, but for our core businesses, these are some of the key areas for us.

Yeah. The next thing I wanted to talk about is when I came to Flex, I spent some time studying Flex a little bit more obviously once I got here. But there is significant power in the number of verticals that we're dealing with, the number of industries that we're dealing with. And once I stepped in and started looking at these things, you start to see that there are transitions happening in the marketplace that Flex is very uniquely positioned to take advantage of.

So this first one I'm going to talk about is, we're very entrenched in the cloud business, as Doug mentioned. We're very entrenched in the telco business, we had historical position there. There's this new shift in the industry that's happening, it's called – you'll hear SDN, NFV, software-defined networking, network function virtualization. What this is, this is the notion of moving telcos moving away from custom silicon to using more off-the-shelf silicon, what I call off-the-shelf style silicon with software running a telco network versus it all being custom hardware driven networks, significant cost differential to go ahead and move to this, that's why it's attractive, and a lot of companies are looking at moving their infrastructure in this direction, that's why it's a key element in the industry today.

But we're positioned very well, because we understand this cloud business, we understand the hardware underneath it, and at the same time, we understand this telco business. So when we get together with customers to discuss this technology, it's been a very enriching discussion that probably Flex is uniquely positioned to go ahead and do.

Another example along those same lines is edge computing. Edge computing, to give you the definition around this, if you look at what's happening with 5G, high bandwidth, low latency connectivity, the notion of a lot of local processing, a lot of local storage around a cell tower has emerged as a new compute model. What this basically means is that the bottom of a cell tower you might install a small data center and that small data center is where edge computing occurs, because you want to avoid the latency of going the whole way back to the cloud. There is a lot of interest around this, a very new business model around this, a very new deployment model around this as well.

Again, our cloud knowledge as well as our 5G knowledge have placed us front and center in the discussions, and the enablement of a number of edge computing partners, our customers, that we're working with on developing technology in the space.

And finally, I'll mention the similar story, cloud, 5G, you've heard me talk about and Paul will talk later today as well as Chris Obey around automotive and this has been an exciting area, because we've got this cloud experience [Technical Difficulty] (02:00:53) capability, the certification of our design capabilities, the notion of going and having the insight in how to do highly complex, high reliability systems that meet automotive grade certifications and have factories to do that. We're uniquely positioned. There is nobody else in the world that has these three elements together.

And when we go out and speak with our customers and are working through designs with our customers, some of the major OEMs around the world, it becomes obvious very quickly that Flex is in a very unique position and as a matter of fact, we're leaned on quite a bit to help with a lot of the design and development insights around this whole space, as we're developing our platforms. One of the things I'll point out is, if you look, I believe [ph] Nicole (02:01:45) has got a demo in the back, there is a small platform that we've got back there, that is a prototype of an autonomous vehicle system that we've been working on.

So, with that, I just want to summarize with the innovation platform is exciting at Flex. We're building on it. I really want to leave you with a message is, it's thriving and as we look forward, there is a lot of opportunity based on our platform and the way we think about how these businesses weigh together and how the technologies weigh together. Flex is very uniquely positioned to really take advantage of that.

With that, thank you.

Kevin Kessel

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

I'll let everyone take their seats. So, getting back on track here. We have two panel discussions, both are going to be led by Tom Linton, who all of you in this room know. Tom is our Chief Supply Chain Officer. He is also our Chief Procurement Officer. He is the visionary behind the Flex Pulse that you see in the back and he is going to be talking about the – he'll start with talking about the future of supply chain. I'm going to turn it over to Tom.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Thank you, Kevin. Hello, everybody. So, we're going to have another fireside chat here in a second, but I wanted to take a couple of minutes to just unpack for you where we've been in supply chain at Flex. If you remember, I know most of you and three years ago we talked about creating a faster, more intelligent supply chain. And we talked about the importance of real-time information in a mobile and cloud-driven world. And then two years ago, many of you for the first time actually saw Flex Pulse. We are back here in California in Milpitas, and we took you on a tour and some of you actually put your hands on it.

And Flex Pulse now has over 70 different applications from those early days of just a few and we have had over 700 groups come through to actually understand what we're doing. So, we've clearly put ourselves in a leadership position around what we're doing with Pulse and I would invite you during the break over here, [ph] Xenia (02:03:59), one of my data scientists or [ph] Javier (02:04:01) can take you through some of the things that we're doing. If you haven't had a chance, so before you leave, it's worthwhile to see what we've done thus far.

Also in Flex Pulse, you'll also see what we're doing with Elementum and also how we've incorporated them into our management system at Flex. Supply chain of Flex is really a platform inside a platform, it's the best way to think about it. It gives us that scalability as we're going into businesses both from a talent and process standpoint and as we evolve, we can add things by just spreading our supply chain capabilities along that horizontal path.

Well, today, I'm thrilled to have Nader Mikhail with us, the Founder and CEO of Elementum. So Nader, if you could join me, please. Applause is okay.

Nader, thanks.

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Thanks for having me.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Our topic is the future of supply chain and I'd like to say that basically everything we've done so far is just the beginning. I think that although Flex has put itself in a great position with some of the tools and technologies that you've helped us create, the topic here is really about the future. What do you see in that in the future?

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Yeah. I was interestingly listening to Eric earlier today talk about what Nike is doing and moving from ordering 200,000 pairs of shoes to ordering one or a small batch. Every board across every product company now is having that conversation. How do you move faster? How do you react and be more flexible in a world where you can't plan 18 months, 12 months, 6 months even and that's cascading through every part of the supply chain now. So, speed and responsiveness is the operative word now when you talk about supply chain and just throwing bodies at is no longer viable answer to it.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah. I sometimes – I use the term describing supply chain, I tell people who don't understand it, I say it's about time. No, it's really about time and it's a compression of that time, it's the speed or what we call in Flex, the velocity of that business model, not just the manufacturing but actually the documentation, the way that information flows along that spectrum is key.

At Elementum, obviously, you're helping us create this new world. What do you see as you look at supply chain, [indiscernible] (02:06:31) talk to problems that all the different problems people have out there and how do you see what you're working on in creating actually is fixing that problem?

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Yeah. So Elementum is a – it's a digital platform, it's a supply chain orchestration platform and it's best to think about it as analogy. So if you look at what the sales function in most companies did in the past, they used to be the black book.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

And every sales rep had their black book. And then CRM comes with Siebel and eventually Salesforce, right. Work they did it with HCM, ServiceNow with IT. I mean, think about IT 15, 20 years ago. You walk into a data center and there is hundreds or thousands of people operating the main frames and all that. Today, the data center has 1% [ph] Smart Hands (02:07:20).

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Supply chain is the next one and it's the most difficult one. Because when you think about supply chain, unlike HR or finance or IT or any of the functions that you can run within your company, supply chain exists within your company across many functions, but also across ecosystems. We've heard that word said a lot today. So, a brand typically has contract manufacturers and suppliers and logistics partners and retailers and all that. And most of them are [ph] buoyant (02:07:50).

So, the need to orchestrate that is higher than ever. And historically, the whole world of supply chain ran on strategies. And the biggest companies in the world today, still that is the operating system of supply chain, strategies. And what we've done is we sit on top of a lot of these transaction systems inside the four walls and across the four walls of companies. We take that data and make it useful, and help orchestrate. So, if a company is trying to get a product in two days and they're running in the old world, the planning function sits on it. And then they hand it off to the logistics function, and the manufacturing guys place an order, and they sit on that for six weeks, and it's impossible to try to [indiscernible] (02:08:36) two days. And the age we live in now is like, everybody gets information, it's much more real-time and far better orchestration across functions and across companies.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

So, is this something you see that as industry specific or – I mean, is this something that is multi-industry? I mean, obviously we're in the electronics, we're in high-tech. I mean, I think, we get things because just of what – who we are and what we do, but how do you see that replicating across all the industries you were talking about earlier?

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Yeah. Every industry has a different pace, but every industry is impacted. We work with the top healthcare companies in the world. We work with the top electronics companies and we work with the top food and beverage companies in the world, anyway company like Starbucks, they're one of our customers. They're trying to introduce fresh food and go big with that. It used to take them a couple of days to have a frozen food supply chain, now you operate in hours, right. They're under the same pressure as an electronic supplier that's trying to shift to new demand. So it's very much across industries.

If you have a product and market demands are changing, it's no longer by how well you can plan, it's about how well you can move in reaction to what's happening in the market.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah. I sometimes when I explain supply chain to people who really don't have a working knowledge of it, one of the mistakes people make is they think it's about planes and trains and boats, 3PLs, warehouses and it is, that is supply chain. But the opportunity to reduce cost in supply chain is the white space between all those things, the distances involved, the way that we have a lot of labor involved with actually dealing with transactions, software companies use the words procure to pay, they talk about purchase orders and invoices, advanced ship notices and all those things.

Is there a world that you can envision where we start to compress that time and cost into some new reality?

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Yeah, I'll use an analogy here, if you think about building a house, how many days you're actually building versus waiting...

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

That's true.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Right. It takes you 6, 7, 8, if it's a big house, 12 months, a year-and-a-half, whatever to build the house. But actual days of construction, you can probably have some 30 or 60 days depending on the size of the house. Supply chain is exactly the same. There is a lot of waiting and a lot of queues. So, I think there is a tremendous opportunity. And what we are seeing in the industry now, the companies that are the furthest ahead here are starting to get very, very smart about the waiting time for the digital information, not the physical flow of goods, and looking at how much can I pull out of waiting time and there is a lot. And that's a free cash that's tied up in most companies, that's demand that's not being fulfilled, the [indiscernible] (02:11:21) going down, we live in this age of Amazon Now.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

The consumer expectation is, I log on to the website, as I look at any product, if I order by 2:00, I can have it in three hours. Most brands, most companies, most supply chains are more like if I look at it and I really want it, then I got to think about it for like a month...

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

...and another eight months before it, like it actually materializes, that's all going to collapse and that's all data.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

We should take a moment to have you explain Elementum, I mean, it's new to some of the folks here, but where are you and how big is your company and what're you working on right now?

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Yeah. So, we're almost 400 people around the world now and we see ourselves as a supply chain orchestration platform, as I said before, and we are following in the footsteps of companies like Workday or ServiceNow. As a matter of fact, the founder of Workday was an early investor in Elementum, and he has been a mentor for me and we recently added Frank Slootman who grew ServiceNow to a $30 billion company.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

IT tickets, yeah.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

IT tickets. So, these are great – think of Workday, when you think about software platforms, it's Salesforce, Workday and ServiceNow, they got the massive skill. So, two of these guys are helping us build an orchestration platform and doing for supply chain the same thing. A huge market ahead of us and I'll give you just a real example here.

If you think about – if you're trying to sell CRM software or HCM software, even IT, the percentage of the budget that the CIO has or the Head of HR has, right, of a full OpEx of the company is relatively small compared to the Chief Supply Chain Officer, look, how much money are you spending every year, right, versus the Head of HR, for example. So, when we go in, we're solving multi-billion dollar problems and you take out days out of a supply chain, right, which Flex was the first to do for a typical customer for us to removing a day and that's a day of data, it's not making a truck go faster. A day of data, therefore, a day of phantom inventory and working capital and all the stuff that comes with it, $100 million, straight free cash.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Sure. And I know for fact, some people refer to supply chain as demand supply because you've got demand before you had supply, and this elongated process of generating customer demand through supplying it and building products, it takes a long time, and every time we compress that time and throw days out of there, we put cash in our pocket. So, what kinds of things are you thinking about in that demand supply – demand response, demand supply world?

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

The first thing we think about is how many steps are there between consumer demand and actual fulfillment. How many teams in your company are touching it and how many queues is that data going through. Again, the high water mark here and it's only for the very last mile, the supply chain which is Amazon. Consumer orders, the system in the back in real time is saying where is that product, which warehouse can I fulfill it from, which of my three carriers has the highest probability of being able to deliver on time or early. All that's happening and most companies, it's bodies and functions, so we're trying to collapse as many of these and remove the data hurdles.

I think over time, we really see what happened in the data center as a great example of what's going to happen in supply chains. We're going to start entering an era of autonomous supply chains where decisions, a lot of the basic decisions can be automated.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Let's kick around this concept of autonomous supply chains because it is a word now that's starting to appear and not just in the hardware side of the business, but the software side of the business because when things become autonomous, the human machine interface actually goes away and the software is talking, so for example in Flex Pulse, I referred it as the inter-app communication. So, when you have an application, for example, talking about my lead time, it might automatically adjust your minimum order quantity or it's talking basically – the system is talking to itself rather than people in the middle talking to that.

Is autonomous supply chain something that you think is 10 years away? Where do we see that starting to enter the software world?

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

It's very similar to autonomous cars, there are levels of automation. And so there is some really, really basic stuff that's happening today, and we already provided to some of our customers, such as there is a whole bunch of things happening in the world, my truck is late, my factory didn't produce on time, I don't have enough inventory, oh, I'm going to miss a customer order. Let's go inform the customer that that's going to be late. I was just reading the news Ford had to shut down the F-150 factory.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

I saw that.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Right. You can. If one part of 4,000 is missing, that's it, it's game over.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

So, the faster you can inform the customer, the faster they can take action. So, today, there is actually that stuff is already automatable.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah. And as you know, I have dozens of examples in the last couple of years of how we used that capability that you already have to actually help us navigate around what I call crisis [indiscernible] (02:16:52). As you saw all those industries earlier, you can imagine the supply chain complexity in that and every day there is some sort of crisis, right? So, the ability to see that coming through your software, and actually use that capability to help navigate around a crisis is extremely valuable. But autonomous is more than just providing that information, right?

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Call that Level 1.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

That's like table stakes into the business, right?

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Yeah.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

So, how do we begin to integrate? I know we're taking about some things we've – one of the great things about you've been at Mountain View and us being at San Jose, we can have teams talking a lot about creating this vision of the future. But can you kind of go more into that? I think, on your website, you refer to it as product availability.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

So, you mentioned being close to Flex, being a spin out of Flex and having access to 200,000 people in every industry has been just amazing. We can tap into Flex platform for any know-how – we want to understand the healthcare, we want to understand this particular process in supply chain, et cetera, every process in supply chain can be automated, right. Because it's a group, it's a set of decisions, you can apply machine learning, too, you can watch how people make a decision to accelerate, to pull in inventory, push out inventory, to expedite, to not expedite depending on the situation, and there are [indiscernible] (02:18:11) automation that lead all the way to I got a demand signal, let me figure out where to allocate inventory – production to which factory.

I would say, by the time we get to fully autonomous, it may be 10 years, and we may never get to fully autonomous, but we are starting to see better decisions in logistics already. Today, we have hundreds of billions of dollars of goods running on the platform. So, think of it as almost the ways of supply chain. We could see on a particular lane which carrier is the most predictable, which carrier is the cheapest or fastest, right. Well, you take that data and you have a particular situation where you know I have $10 million of profit on the line for an order, you are going to go with the fastest carrier that can make up for it.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah.

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

And you're starting to see because of the Amazon effect, Walmart is now instituting penalties on brands. So it's now going to cost money for any brand if you ship early or late to Walmart. Well, there's all the data in the world to make sure you don't do that, that stuff can be automated. When do you pull in stuff, when do you push stuff out, but that's going to be a really, really big lever because in most of our customers today, the typical supply chain organization is more than 50,000 people. A lot of people that cost a lot of money, that actually slow down the ability to fulfill demand. So you're going to be able to take out cost but also go faster as you take these processes and systematically automate them.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

Right. So, we'll have that next year?

Nader Mikhail
Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

We're working on it.

Thomas K. Linton
Chief Procurement & Supply Chain Officer, Flex Ltd.

The value of software in supply chain is, I think it's pretty intuitive, most people would say that, that makes sense. But as you work with Flex to one of the things that we're trying to do is obviously avoid excess and obsolete inventory, avoid having too much or too little. We want to have the right amount at the right time to the right demand and you've got some tools for that too, I understand. I mean, I know we're developing with you some of them and we're working with you on the transportation and some of these other apps. But can you kind of go deeper into, even a Level B for an autonomous on supply chain because what I'm thinking of is, is a situation where you have a crisis and all of a sudden something breaks, some supplier goes down and I got to go find somebody else. How does that work in that world? How do you help me to go to the next level, solve the next problem, rather than just and for example not tell me I have a problem, but also help me navigate through that?

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Yeah, the first step is, tell me I have a problem. When we think about our orchestration platform, we think about the first step is discovery, the second one is assessment and the last is the resolution piece. So in the discovery phase, tell me I have a problem, it turns out when you go back and do a retrospective on what problems occurred in your supply chain, someone in your company knew much, much, much earlier than the collective group that had to find out. So, in the discovery phase, how fast can you tell everybody that needs to know the nature of the problem, okay, and that's cross-functional and likely across your ecosystem of partners. So, that's step one.

You automate that, and now you've just – you've gotten time back, right. Everybody has gotten collectively smarter. So, if you have a particular supplier that has – they're not shipping on time, or their factories are behind schedule or whatever, the sooner you know that the more optionality you have to actually look at alternative suppliers, but we work with med device companies and pharma companies where you can't change a supplier overnight, it's a year, it's two years, right. At that point, when you're in the assessment phase of a problem, in some cases you need to inform the FDA if it's a lifesaving drug, right. You actually are getting ahead of it versus a crisis that's coming down and actually affecting your stock price.

And in that assessment phase, if you have optionality such as alternative suppliers, et cetera, the ability to draw them in and I'll use a simple example of a carrier. You know supply chain data sucks, this is one of the big problems of supply chain in general. Being able to ask the carrier, is the shipment really where it is, imagine how many decisions you're making based on I think that shipment is late or earlier or made it or didn't make it. To automate that very basic step of, please ping the carrier and ask where them it is, now you are way smarter and you're not guessing, instead of 30, 40, 50 phone calls. That's the assess phase and getting smart about what is the impact of the problem and involving your multiple function and ecosystem is very key.

Resolution piece is actually one of the easier pieces, because like once you've already gotten smarter and you've assessed the problem, now go commit a new plan, right. There are lot of people that can come up with new plan, you can transact on that very easily. But finding out as fast as possible, making sure everybody who needs to know knows, assessing the impact, that's where there is a ton of the automation that can plan and drive speed.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

To put this in some financial terms, so in a supply chain that runs faster because obviously a financial wall occurs within period of time, so if you start to compress a quarter or compress a week or compress a day, what happens is customer satisfaction goes up because revenue will climb, because now you're satisfying customers faster, your income statement improves because you're consuming your material faster, and your balance sheet improves because the days of supply, days of inventory are actually reduced. So, the financial levers that come from supply chain improvement are significant.

Digital, so your digital platform, most other software companies really started with, they're an enterprise-based, batch-based IT system. If I want data and I want a report on my desk in the morning, I have to call up, get that data, the reports on my desk the next day. You're a real-time environment.

Can you just, as we kind of wrap, can you kind of talk about digital and can you talk a little bit more about how the world in general, I mean you mentioned we talked about Workday early and other platforms that are out there. What do you see, vision-wise in this area?

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Supply chain is one of the toughest areas to take digital because everyone is involved.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah.

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

So, we had both a technology perspective and a people perspective. From a technology perspective, there is an abundance of data. The problem with the data is it's not very good. Oftentimes when we engage with a Fortune 100 company, 30% of their data is good. So you've got a 70% data gap, right. And what we do there is, we take a lot of machine learning and look at like a shipment notification coming from a customer, compared to tens of millions of other shipment notifications, augment that. So it's a fixable problem at scale, right.

The technology is there, it's getting closer and we have really good call it role models, in Workday and in ServiceNow that we can follow in building out the technology and the digital platform. The people, far more difficult, far, far more difficult.

And Flex five years ago when the Flex platform embraced the concept of digital in its core in the way it goes to market and the way it organizes, most companies really, really struggle with this, really struggle with, what I do is real-time like okay, that shipment is late, what should I do about it? They don't even have the levers. What steps to take? Who do I involve? They actually see it as noise because they can't react to it. And so the people side of the equation here, I think it's going to take some more time as companies evolve. I think the companies that figure it out earlier will get a lot more market share, will win. And the companies that don't, they aren't going to make it. I mean, Nike is again a great example we heard today. Nike is leaning into, we got to go, we got to go quick, we got to get it to two days and it's a multi-year journey. I mean, Flex has been on this journey for five years. I remember, we've had several really big prospects come through Flex and say man, I want that, how do I get that, how do I become digital and I want to see our companies are ranked much higher on the Gartner Supply Chain and all that stuff and Flex is on that list. But at the end of the day, the digital mindset is the most important factor, I think, to unlocking the value of an orchestration platform in any of the functions, especially in the supply chain.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Okay. Well, I always say speed is the theory of everything in supply chain because the faster you go with process, with speed, with materials, whatever it maybe is all good. So, Nader, thanks so much for having the conversation with us. We included some other people in that conversation, but I appreciate you doing this. Thanks.

Nader Mikhail

Founder, Chief Executive Officer & Director, Elementum SCM, Inc.

Thanks, Tom. Okay.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Okay. In a second, I'm going to invite Paul Rolls to the stage. Paul is Executive Vice President of Sales and Marketing at ON Semiconductor and he is one of our business partners. So in the spirit of keeping the kind of business partner conversations going and give you a flavor of not just customers but also suppliers. Paul is an important partner of ours. We have – as some of you heard last year I talked about monetizing Sketch-to-Scale, talked about how we're going to penetrate the design centers and we're going to work with our suppliers in new and exciting ways, because we wanted our suppliers to participate in the positive parts of that but also we wanted to monetize it. We wanted, if we're going to choose a supplier and chose their component on one of our products, we're going to make sure that we're getting some benefits back from them, some either business terms or financial benefits back.

So it's going really well. We have over a 150 of these agreements signed. And now you can also – in Flex Pulse, we have a couple of demonstrations of how we do, [ph] let's call it (02:28:11) design it right and how we track projects through our design pipeline, that you might find interesting to understand how we've actually applied technology to this process but it's really through relationships with business partners that we're making significant advances. So Paul, if you could join me.

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Thank you, Tom. Thank you.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

So, Paul, we've been, I mean, partners for a long time. You've seen Flex evolve from an electronic manufacturing services company through ODM to this Sketch-to-Scale, where we're actually doing the whole range of things. What is it that you see? And then, first, before you answer that, tell us a little bit about ON Semiconductor, so everybody understands what you do?

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Okay. Well, hopefully much of the people in the room have heard of ON Semiconductor, if not then the marketing side of my organization has done a poor job. But we were spun out of Motorola in 2000. [ph] However (02:29:15) Keith Jackson was the CEO in 2002. He's still our CEO today, so one of the longest tenured CEOs in our industry. So with that stability, we've been very focused on executing along the roadmap, particularly in automotive, industrial and then [indiscernible] (02:29:37) the evolution of the cloud and IoT. Last financial year, we closed approximately $5.5 billion in revenue and we have in the mid-20,000, 26,000, 27,000 employees.

We've really been growing the company on two vectors, one has been organic growth. We take very seriously the fact that we should grow the business irrespective of any disruption that may occur with acquisitions, so we've been very proud of the fact that organically we've continued to grow the company. And then those of you that follow us know that we've done a large number of acquisitions. Just two or three years ago, we acquired Aptina in image sensing, particularly the focus in automotive and industrial. We're now ranked number one in image sensing in automotive. Then towards the end of 2016, we closed the acquisition of Fairchild. That was really more to help us in the industrial space and give us scale very warmly adopted by the customer base.

And then just yesterday we announced, we acquired a company called SensL from Europe, which is to help us in the LiDAR space again in the automotive arena. So it's been an exciting time for our company, but as an executive team, we think we're really at the start of the journey rather than the end of it. Appreciate the opportunity.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah, great. And so the second part of the question, what do you see? I mean, you've seen Flextronics and now Flex over the years, what's different about us now as we've embarked on this shift in our strategy to go up stream and to design – and build and design products for customers as well as when we're contract manufacturing?

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Okay, yeah, traditionally if you go back a couple of years ago, I think we probably looked at Flextronics at the time, now Flex, as a transactional partner or a valuable transaction relationship. Quite frankly you were providing, from our perspective, manufacturing services, you were building for various key accounts, we were on the bomb, the build-up material and therefore it really was a transactional relationship.

You and I had a discussion probably couple of years ago now when you introduced me to the Sketch-to-Scale concept and we shook hands and said let's give it a go. I guess, I wouldn't be sitting here now if it hadn't worked, all right. But what we see is you've changed the engagement, I mean from my point of view, we had a traditional matured sales guy calling on the account for us, now we have a different dynamic, we have engineering resources calling on the account. So we used to really just visit head office, now my teams are very familiar with your design centers, particularly in the areas that we're interested in, in automotive, industrial, medical and IoT. So significant change in the relationship in terms of skill sets that we're putting on the account and the value that we see that you're bringing to, quite frankly, our demand creation desires.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah, so Paul just used the word bomb, so I want to make sure I explain that, for those of you who aren't familiar with it, it's a building material, it's what we refer to as a bomb internally. And so what happens is in the design centers when a designer is designing a new product, he is sitting there and he is choosing against a specification the suppliers that he wants to select for this purpose. And what we've designed in Flex is a way by which the preferred suppliers that I referred to are actually put into the top categories first or second choice.

So what happens is that we're designing in to every product that we have in our design centers around the world, the preferred suppliers that we want to do business with. These are guys with the best business terms, the best relationship, the best supply, continuity of supply, obviously, is a big thing in constrained markets. And this is the kinds of things that we do differently as we go forward.

If you were to kind of paint a picture of the size of the price, the opportunity, I mean, with Flex you, obviously, saw some of the slides earlier as well, do you characterize it as just an existing TAM that you are chewing into or is this a new market as well?

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Originally when we went in, it was to grow in the existing TAM, but we now see as a – I think I shared in the last meeting, an opportunity to explosive growth. I mean when you look at the business units that I think Mike and Doug showed earlier, some of those we're very clearly focused in as a company, but we see that some of our technology for instance in robotics or AI is applicable in adjacent markets and some of the customers and the opportunities and the platforms that you are bringing to us are allowing us to expand. And for me, what's really interesting is, when I look back since this engagement, and we formalized the agreement what we refer to as a design funnel, which is the opportunities with end customers that Flex has won and we're on the print. It's actually up six-fold which is above our company average, is up six-fold since we've engaged, which suggests, as, I think, Doug mentioned as well, which – so we're excited about the revenue that that suggest is coming downstream, the design funnel is for projects that are going to be kicking in anytime between the next 12 months to 3 to 5 years in automotive, and medical and maybe slightly quicker in terms of the IoT initiatives. So the funnel expansion for us is [ph] facts for our (02:35:40) our friends and so, the data suggest that it's working.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah. Well [ph] facts for our (02:35:44) friends too. I mean the significant cost savings that we get from this relationship, the early involvement with your engineering team and designing in things that really give us competitive advantages is also really important. But as we know the world is always changing, right, as it's constantly shifting and evolving, can you talk a little bit about what you see from a market perspective and how our position together is stronger than apart, transactional versus strategic?

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Yeah. I mean, I'm not going to repeat all the information that's been provided earlier today, but it's very clear that the electronics environment and for us, obviously, that means semiconductors, but electronics opportunity and the TAM, when you think of small cities, small homes, IoT, the cloud, automation in the car, you can just keep going, robotics is huge, okay?

We only have the bandwidth to work, we have a certain amount – certain customer base. And so we need to be building our own ecosystem and partners that we can trust and have long-term relationships with to a extent.

So we believe this semiconductor industry is entering an inflection point, when you look at what's happening with pollution in China. When you look at what we're trying to do in terms of bring efficiency down in industrial [indiscernible] (02:37:15) washing machine, home appliances, et cetera and connectivity, this is just a start. And so, we want to make sure that we are touching all of those [ph] telecos (02:37:27) and all those customers.

When you think of IoT is what we see in the IoT space is, there is a lot of start-up companies that have great ideas. But really a lot of what they have are ideas in software, and they are looking for hardware application expertise.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Right.

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

And so they are gravitating to companies like Flex. Because they may be considered, what we would consider small to medium business or – and so, that gives us access. So you become an extension of our demand creation team, and then it creates the win-win for both of us.

And then in some cases, again as Doug showed, is some of the OEMs that we have strategic relationships with, they are looking for support as well. And so in some cases and we have some examples, some blue chip automotive accounts where we've gone into the customer as ON Semi and Flex combined, and both of us have brought value and we are winning some significant business in automotive together. And so, for me that's pretty exciting and it's pretty motivating, and I know our teams are pretty excited by what they are seeing there.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Yeah. Well, I know what precipitated inviting you to this was a meeting we had, I think, it was the end of January, where I was kind of blown away when Paul and I were running and – we were running this meeting, but we quickly found out that we were not necessary.

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Yeah.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

The two teams from the two companies were so engaged and interlocked. I think we could have left and come back, and they wouldn't have known we were gone. It was that positive kind of situation. So this kind of thing I think is what makes our jobs exciting, what makes our Sketch-to-Scale exciting. I think it's what makes Flex exciting. And I just want to really appreciate you for flying up here to be with us today.

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Thank you. I appreciate the opportunity.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

Okay. Thanks, Paul.

Paul E. Rolls

Executive Vice President-Sales & Marketing, ON Semiconductor Corp.

Thank you.

Thomas K. Linton

Chief Procurement & Supply Chain Officer, Flex Ltd.

And, I guess, [ph] I'm the (02:39:35) only thing between you and lunch. So, Kevin.

Kevin Kessel

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

So we're on to the afternoon session. It's going to be led by our HRS Group. As you know, that's our automotive and health solutions. We're very lucky to have not only Paul Humphries presenting, but also the President of Automotive, Chris Obey, as well as John Carlson, who heads up Health Solutions for us. After they're done, we'll move into the final financial presentation of the day, which is our CFO, Chris Collier; and I'll be back up here before he comes out, and then obviously Q&A, and at the end of the day, we have an open session.

So, I'm very, very happy to be able to introduce Paul Humphries. Paul has run our HRS Group essentially since it's existed as the group called HRS. And you all know the results HRS has had. Fantastic growth, fantastic profit expansion, fantastic margins. You're going to hear about a lot of records they've been delivering across the board and there is a lot of good things to come. So, with that, I'll introduce Paul Humphries.

Paul J. Humphries

President-High Reliability Solutions, Flex Ltd.

Good afternoon. So, there's nothing more exciting being the first presenter after lunch. Pleased to be here because not only [Technical Difficulty] (02:40:55) chance to talk to you myself, which I had been doing for the last several years, but I'm really excited to have Chris Obey and John Carlson with me as well. Chris, as you know, runs the Automotive business. Chris has essentially been running the Automotive business since [Technical Difficulty] (02:41:14) large part of his career in the automotive industry. John runs the Health Solutions group, John joined us in 2016 from J&J. Strong medical device and health solutions background. So we have the two guys that really understand this business and can not only talk to you about the terrific results because we're actually coming off the back of an outstanding year, record performance again for HRS driven by Chris and John and their teams. But they can also share with you [Technical Difficulty] (02:41:46) and why we're so confident and so excited about what the future still holds for HRS.

So, every time I present to you guys, I actually start with the megatrends slide and the reason I do that it really sort of underpins the strategy and shapes the strategy for HRS and this is something that we actually looked at back in 2012 when I came into the role in 2012 that's when we formed HRS and we had a business, a fairly healthy business, we were doing over $2 billion in revenue already in that period, but we started looking at the fundamentals of that business, [Technical Difficulty] (02:42:26) it was focused on basically build to print products, we were competing against the traditional EMS partners. It was focused more about cost and driving cost down and being the lowest cost supplier and then we also tried out in automotive and completing against the Tier-1s where frankly we didn't really have the capacity and the capability to compete and we were working in areas that we thought were commoditized areas but didn't have the potential for growth that we thought was available within both the automotive and the health solutions or the medical business.

So we looked at the megatrends because as you think of growing world population, more people wanting access to healthcare, increasing congestion in cities, you start thinking about aging society, more people needing healthcare solutions, you start thinking of increasing urbanization and need to reduce congestion and pollution, and then you start thinking about the explosion of connected devices, all of these were providing great opportunity for private, enterprise and government to actually introduce new solutions that helped to address these challenges.

And so whether it's in automotive, you think about connected or you think about clean or you think about electrification or you think about autonomous and in medical, whether it's providing that universal access to healthcare at an affordable cost, whether it's actually being able to provide solutions for the epidemic, increasing chronic diseases, such as diabetes, COPD or cardiovascular or whether it's also the shift towards connected and digitization for healthcare, these are all things that we saw as being great opportunities, but we didn't necessarily have the capability in place. We saw the idea, we saw the opportunity, but as an EMS company, we weren't really positioned to capitalize on the potential and what we knew were going to be high growth vectors for our business.

So, we actually put the strategy together which focused on the megatrends, focused on the high growth vectors. We now talk about focusing on the emerging ecosystems, because essentially a lot of these ecosystems have come from the effects of the change occurring from the megatrends, and we realized that, if we wanted to position ourselves to differentiate our offering from traditional EMS competitors, and we wanted to find a way to position ourselves as a solution provider whether that's in the medical arena to be an alternative than do it themselves, or whether it's in automotive to be an alternative to the Tier 1s, we had a buildup capability that allows us to do that.

So, the first thing we talked about is deep industry expertise and we started with automotive, we went out and we hired Chris, and he hired a team with over 150 years of combined experience in automotive. So we brought in the deep industry expertise. Being frank, the automotive team that was running the business prior to that were essentially EMS guys. They didn't have that really core understanding of the automotive business.

But then we also went out and we've invested in design and engineering expertise. And now, we have over 500 engineers within our automotive group, around 500 to 600 engineers in our medical group that are actually capable of designing and developing engineered solutions to address the challenges that our customers face. We've also invested in manufacturing capability whether that's through CapEx investments or through acquisitions. In the medical business, we did the acquisitions in precision plastics that positioned us to win a significant dealer, we'll actually talk a little bit about later.

But the other thing we recognized is, we won't be able to do this all on our own. We needed a partner. We needed a partner internally with the rest of Flex and leverage the Flex platform. We also needed to find external partners. We'll actually share with you through the rest of the presentation that John and Chris do about some of those partnerships and who is actually having a big impact on our business.

And then finally, we recognized that we neither actually changed the nature of the relationship with the customers, bring all the new expertise that we've build over the last five to six years together with the components that exist in the Flex platform and actually moved from being that EMS provider to being a co-innovator and a designer of product and intelligent system solutions. And you're going to hear again from Chris and John about how we've actually been able to do that and how that's not only impacted us in the short-term, but how that provides us tremendous potential as we move forward.

So, as we look at what we've been able to accomplish and we look at how we started, if you like, with the megatrends shaping our business and how we built the capabilities to be able to capitalize on that, it's very clear to us that our strategy is working. So, if you look at revenue from FY 2012 when we basically built the HRS capability, we've gone from $2.3 billion, $2.4 billion in revenue to $4.8 billion, so we doubled the size of the business in that period and that's on average compound annual growth rate of 12.5%.

And as we look out into the future and it's not just about our historical performance, but I'll talk a little bit later about the size, the quality and the capability of the bookings that we've had, we're confident that as we move forward, we can continue that 10% growth trajectory. Now, as Mike mentioned, FY 2019 will have more moderate growth. But again, we start to look out where really [Technical Difficulty] (02:48:30) our ability to maintain this double-digit growth trajectory.

As you can see, we show this every time [Technical Difficulty] (02:48:37) confidence and probably the bookings is very, very high like it has been for the last several years. Also, if you look at our operating profit, in 2012, we were doing $150 million in operating profit. Most of that's frankly at the time coming from our medical business. It's now $381 million last year, a lot of that coming from not just the medical, but also the automotive business. So, two really, really strong businesses and again a high degree of confidence that we can continue to see our margins well within the targeted margin range going forward.

One of the reasons that we're excited about the results that we have accomplished, but just as excited about the future is just the nature of our bookings. So over the last three years, we've averaged over $1 billion in bookings, that's up 50% over the prior three years and that's because we really have been able to convince the customers of the value of our proposition. They really understand that we can do a lot more than just provide products, we can actually provide solutions and intelligent systems that make a difference to their business.

Last year, we achieved record bookings of $1.3 billion, and we achieved or secured what we believe to be the largest booking in the history of medical outsourcing. This is an opportunity and we can't talk about the customer, but John will share more about this with you, but this is a multi-billion dollar deal over several years in terms of lifetime revenue. It's a really, really exciting opportunity.

We also started to look at our pipeline and revenue is a function of pipeline and win rate and we're seeing a pipeline increase with a record pipeline over $5 billion this year-to-date and our win rate is improving. As customers again begin to better understand the nature of our offering, but also see that over the last several years, we've been able to execute, we've driven and built this execution engine that provides consistent and reliable performance, we've been winning more of that. So, as we start to look at the next several years, we look at the bookings rate. This gives us a high degree of confidence again that we can sustain the growth levels that we're seeing since 2012.

And another benefit is, a lot of this is coming from design-related wins. To back go to FY 2012, 15% was Sketch-to-Scale, 23% – 34% last year, but as we look forward based on the bookings we've secured and based on the pipeline, we see that increasing to 50%. And that again provides more stickiness, but as you bring technology and IP to bear, you also tend to get better margins. So, again as we start to think about where the future is, we're confident again that we can sustain this level of performance.

And I wanted to share this slide with you. You can't grow double digit every year without any investment in CapEx and so I'm really, really excited with the fact that Chris and Mike provided us the capital to be able to grow. I look at FY 2019 and I'm really excited about it. You probably look about it and say what's that spike? So, here we are seeing higher investment, but this is for a multi-billion dollar deal that's a 10-year arrangement that will generate margins [Technical Difficulty] (02:52:37) range and has some unique investment requirements.

So again, John will talk a lot more about this, but we look at this as a signal [Technical Difficulty] (02:52:48) business is head in the right direction and would actually able to go out and get the quality of bookings that's going to make the difference of this business as we move forward.

There's been a lot of talk, Mike talked about it. Kevin Kettler talked about the ecosystems and what's happening, two big ones for us are in autonomous vehicles and digital health. John and Chris are going to talk about both of these in more detail. Well, all I'll say is we've actually already secured very healthy bookings in this space. We're talking to a lot of top tier OEMs as well as companies with expertise in software around autonomous vehicles and they're genuinely interested in the combined offering that we can bring by the expertise that we have from our CEC group as well as the expertise that we have within Automotive.

This is what I wanted to talk about. This actually was built for the investment community. It's where you get a little sleep but you feel better in the morning. So, you guys – I know you guys don't sleep much. So, this actually is a clinical grade, sleep enhancement product that's been developed by Philips. So, basically, it measures – tracks your brain waves and it provides auditory signals to improve the quality of sleep, so probably every one of you guys should get one of these.

But Philips thought of us as a contract manufacturer or an EMS supplier and we've had the relationship with Philips for a lot of years. And we've done contract manufacturing EMS business and we just have to bid on EMS type products. But then we started sharing with them what we can do around innovation, we took them to our Milpitas campus and they were actually blown away with the scale and the breadth and the level of components that we have to provide solutions that they knew they couldn't do internally or they were unable to do externally. And so, they probably [Technical Difficulty] (02:54:50-02:54:55), I'm going to show you now from Bill Gaussa who is the Head of Innovation for the Sleep and Respiratory Care business of Philips. He came to our medical growth meeting in Dallas. We had all of our medical sales guys talking about, hey, how do we continue to position with growth. And he shared this with them, I thought this was something that we should share with you.

[Video Presentation] (02:55:17-02:56:48)

Paul J. Humphries
President-High Reliability Solutions, Flex Ltd.

So, we now have an advantage with one of our customers that actually recognizes the value that we bring and is actually helping to introduce us to other parts of the business, so we can actually provide the same level of solutions. But we could not have done that without the benefit of the Flex platform, and our ability to collaborate across the whole of Flex and bring technologies and competencies into a solution set that we developed for this customer.

So, before I pass onto Chris Obey, who's going to go into the automotive business in more detail, I just want to say that 2018 was an outstanding year at many levels. We had record earnings, record profitability, record bookings, record pipeline, and we're very confident that we're going to be able to continue the double-digit growth in revenue and keep well within our targeted margin range as we move forward.

So, thank you very much. So, Chris?

Chris Obey
President, Automotive, Flex Ltd.

Thanks, Paul.

Paul J. Humphries
President-High Reliability Solutions, Flex Ltd.

Thanks.

Chris Obey

President, Automotive, Flex Ltd.

Good afternoon. So as Paul has mentioned, I've been with Flex for six years, what he didn't tell you is right after we had our first meeting on what the expectations were, he walked on and said, oh, by the way, you have to grow the business greater than 10% per year in an industry that's like 1% or 2%. So, in trying to figure out how we were going to do that, we started looking at the emerging market trends, as Paul pointed out and we were making PCBAs basically, so boards that go into a larger component. And we probably weren't going to be able to go 10% per year or greater with just that kind of product. So, we started thinking about, where do we see things emerging right now in the industry, and how can we get in real quick.

So, we started looking at infotainment systems. So, in infotainment systems, you see the bring screen, at that time it was only in high-end vehicles. We are fortunate end up to land a couple of big jobs, and have been riding that wave as you now have screens and infotainment system in virtually every vehicle. So, that was one thing.

The second thing we looked at was electric power steering systems. They were just starting to go into cars replacing the hydraulic pumps and belts with electronics. We're fortunate enough to land a job with that and have been riding that growth curve, but now it's basically on every vehicle. The third thing we looked at was LED lighting in headlights and tail lights, and we were fortunate to land some jobs there and now that's on every vehicle. So, the challenge we have is, how do keep evolving our portfolio and looking for the next wave of exponential growth.

And so, I want to just talk a little bit about that. But first who we are, Sketch-to-Scale, non-traditional supplier, that's how we describe ourselves, disputing the status quo with our cross industry expertise, with laser focus on our ecosystems and emerging technologies and emerging market trends, that's how we describe ourselves.

The reason we do that is we want to differentiate ourselves from other suppliers and so, the way our customers view us is, in Silicon Valley, you probably have every major OEM and every major Tier 1 is now out in Silicon Valley looking for technologies. We did it the other way around. We're a Silicon Valley company taking technologies to the automotive industry and our customers recognize that we have the view of all these different industries and are able to take the technology advancements that you heard about today and bring them into automotive and we'll talk a little bit about a few of those.

So, basically our focus is in four areas. Autonomous vehicles, which is relatively new, but there is a refocus on the journey to autonomy; how can we generate revenue and operating profit as we go to autonomous vehicles in the 20, 30 plus range. Connectivity, we're trying to get seamless connectivity between the man and machine, our clean tech, where the goal is zero emissions and vehicle electrification, we're taking mechanical components and electrifying them. So those are the focus areas that we have at Flex auto.

What I want to focus on, a little bit later in the presentation are two of these categories, autonomous and connectivity. They're all growing, all four of them are growing, but these are the ones that we see different technologies coming to fruition. So we'll talk a little bit about those two in a couple of minutes. So we've been able to increase our market share we've gotten ourselves on lot more vehicles. As you can see, we ran about 98 vehicles in 2012, we're now on well over 500, so we run more cars and when we talk about nameplates, what it mean by that is like Ford Fusion, Jeep Cherokee, Dodge Ram, that type of thing. So, this has given us a lot more broader exposure to the numbers of cars that we're on.

And then content per vehicle has also steadily increased over time and we expect that trend to continue. So, a combination of being on more vehicles, content per vehicle going up, increased market share.

Sketch-to-Scale portfolio, as Paul pointed out earlier, over half of our business now is design-related and we like that, because for our customers, it gives us stickiness and it gives us confidence and one of the big things that our customers are looking at us now is, that they've confidence in us to take us as a problem solving supplier, rather than just to a build a print guy. So big change there and we've evolved from making just PC boards to more complex assemblies, like body domain controllers, which are like the brains of the car as we go to new architectures; our gateway modules, which connect the vehicle to the cloud, which is going to be on virtually every car within two to five years; DC-DC converters, which are necessary for hybrid vehicles and electric vehicles; and then finally, compute pods, which is something new for us, but as put servers in the car to generate more calculations, we require server tight business and I think as Kevin showed before, we've taken the expertise we have in our CEC group and with that team and our team combined and come up with some solutions for the servers in the car which is pretty – we've taken it to three customers and we have three engagements. So it's pretty exciting for us.

So, let's take a look at the focus areas. When you look at the autonomous group, it's different technologies than we're used to. This is – we're talking about working with software companies a lot of which is developed in the Valley, and so they're really small companies and they're looking for a global partner do hardware. So we've got engagements in producing 4D radars, ultrasonics and LiDAR assemblies.

So these you think that they're just on autonomous vehicles, they're required for Level 3 autonomy. If you take the road – the levels of autonomy, you got Level 0 which is like no assistance, you have Level 1 which is temporary assistance, you have Level 2 which is also temporary assistance, and we call that feet off, then you have Level 3, we call that hands off, you see that on the road today on the new Cadillac; then we call Level 4 is eyes off; Level 5 is mind off. So I'm in Level 5 right now. But you can see when you take a look at these TAMs. So we have sensors and then we have sensor interface and fusion board. So the outputs of the sensors go into the sensor fusion boards, which is again a new product for us that we're continuing to develop, then you take those sensor fusion boards and you put them into the autonomous driving computer and it does the calculations and gives the car, a direction on what to do, whether to apply the brakes, whether to apply the steering. So this is a complete ecosystem that's being developed and it's going to be scaled into production slowly over the next 10 to 15 years, but there's going to be available revenue and available operating profit as these companies build thousands of units to collect data. So it's a big opportunity for us and it's very exciting to be involved in this type of product.

The next group we want to talk about is the connectivity platform, lot of things going on here too. We've got Telematics and V2X, so V2X is vehicle-to-vehicle communication, vehicle-to-infrastructure communication, vehicle-to-pedestrian communication. This is going to start going on cars at scale in two to five years. So it's starting now, it's going to continue on and we'll talk a little bit more about V2X later.

So there's two components to V2X, one is the onboard unit and the other one is the road side unit, so how the car connects to the infrastructure, how the car connects to other cars. So, really Telematics and V2X connects all the devices in and around the car and then connects it to the cloud.

The other thing is displays and infotainment, this is something that we're pretty active in. This is just displaying vehicle information and entertainment to drivers and passengers and then finally personal connectivity, which is really connecting USB hubs, wearable devices, wireless charging in the cars. So, it used to be you have that one USB port in your glove box and the wires hanging down, now if you have a three-row vehicle, you have them in every row. So, more and more USB device connectivity going on in the car.

So these are all pretty exciting things. If you look at the TAMs, they're out the roof and this is all stuff that's going to happen soon.

So we're going to focus a little bit on some of the – take a deeper dive into these technologies, so specifically V2X. Some people don't understand what that is or how it works, so we have a special guest with us today that is here to talk about it. I'm going to put one slide up and explain some of the engagements we have. So it's a company called Savari, they're a software company, we're the hardware partner and we're developing next-generation products to support smart cities, currently smart cities and then also vehicle-to-vehicle when that comes online in two years. So there are like programs going on now. There's engagements in Shanghai, there's engagements in Tampa, engagements in Ann Arbor, projected engagements in Denver, New York, and Columbus. So, a lot of things going on with this technology to start debugging it as it comes online in a couple of years.

So with that, I would like to introduce Ravi Puvvala, Chief Executive Officer of Savari. Ravi?

Ravi Puvvala

Founder & Chief Executive Officer, Savari, Inc.

Thank you so much. Thank you, Chris. Today's connected cars have many sensors like the cameras, radars, and LiDARs, but they all come with their own limitation that they require line of sight. The biggest example is the recent accident that happened in Tempe, Arizona by Uber. It was an accident between a pedestrian and a self-driving vehicle. That accident could have been prevented if we have the ability to communicate between pedestrians and cars.

So we at Savari have developed millions of lines of code that can enable communications between vehicles, smartphones, and infrastructure. Our biggest challenge is to be able to take the technology into emerging markets like the smart cities, and this is where we decided to partner with Flex. We're able to build these hardware platforms, we can take these technologies into smart cities, using the Sketch-to-Scale program now we could scale to every gateway platform that is going to be embedded into cars.

So the core crux of what we do is all about enabling 5G modems that are expected to be integrated into cars, infrastructure and having this kind of a fabric of communications between them is very critical for Level 4 and Level 5 autonomous cars. In order to prove our point, I'm going to have you guys watch a video that demonstrates why you would need a V2X technology that would give you this 1,000 meters of range, ability to do this two-way data exchange and also interpret what's data coming into the vehicle. Please watch this video. Thank you.

[Video Presentation] (03:09:30-03:11:57)

Chris Obey

President, Automotive, Flex Ltd.

It's all about safety. What I'd would like to do now is focus on some operating results. So as we put out our strategy of focusing on emerging market trends, emerging technologies, the team has successfully implemented it and you can see some of the results over the last few years. 20% compound annual growth rate in revenue taken us from less than $1 billion to $3 billion, a 76% compound annual growth rate in operating profit taken us from being a minor support to Flex overall profit to a decent support of Flex overall profit, and our new awards have really gone up with 15% compound annual growth rate year-over-year.

So following our strategy, we continue to modify it and evolve our portfolio as we go on to get into next generation product. We saw some examples today. So we're going to continue to focus on megatrends, on innovation disruption, expanding our Sketch-to-Scale and expanding our ecosystem. We've hit the highest record bookings in our company's history. We're well on our way to 10%-plus growth rates over the next foreseeable future and we're excited as [indiscernible] (03:13:15) keep going on this, and I want to point out something back in our demo area. We do have one of those compute boxes that we got as a prototype that we take to – we've been taking to our customers. We also have a virtual reality setup where you can look at our demos in detail, take a ride in an autonomous vehicle and see [ph] what it's like in (03:13:34) the car of the future. So, please, after this, go back and take a look.

Thank you very much, and now I'd like to introduce our President of Health Solutions Systems, John Carlson.

John Carlson

President, Flex Health Solutions, Flex Ltd.

Thanks, Chris. Is it on? The mic? There we go. So I'm privileged to lead the Health Solutions Group within Flex, and Chris talked about 500 nameplates and cars that they are in. I use a slightly different metric when I think about healthcare. We touch millions of people's lives every day in a very personal way whether that's diagnosing disease that they have, treating conditions they're having, being present in the operating room.

Through the partnerships we have with the companies that we support, we are touching millions of people around the world every day. That's how I think about the success of what we are doing and where we are going. I think everyone knows healthcare today consumes between 8% and 10% of the global GDP. So one $0.10 out of every dollar created in the world goes to healthcare to support people's lives and what they're doing within there. I think Flex is in a very unique position to actually help the healthcare environment navigate what's going to be a very turbulent time, as we all live longer and try to figure out how to pay for all these conditions that are going to exist.

So if you think about the history of where we've been as a business, it started out with us producing devices, life science equipment and medical equipment for companies to really taking the EMS skills we had and taking it into the equipment side of the business within there. Because of the Flex platform, we're able to learn that and understand the regulatory requirements of producing those devices, led us naturally into the medical device space within there which were smaller devices, typically used in surgery or personal devices you'd carry around [ph] with those (03:15:08). We went from producing low volume products to very high volume products, again with an increased regulatory burden on us to learn how to satisfy the needs of that industry.

And more recently, we've been able to take that same platform and leverage it in the pharmaceutical space. So as I provided to the marketplace, we're now participating in the full range of healthcare solutions that exist out there. We're excited about where we are today, but we're more excited about where we're going in the future. Now the basic platform that Flex has built is allowing us to move into new and different spaces. But as Paul talked about, a lot of this comes back to understanding the megatrends on what we're doing across the world. We all talk about a global aging population, which just means we're all living longer. As we live longer, we consume more healthcare. As we consume more healthcare, creates additional challenges in the environment for how you satisfy those needs.

Another big factor is increasing access to care globally. As countries develop and as their economies grow, investment in healthcare always exceeds GDP growth by a significant percentage. The first people start – place people start to put discretionary funds is into health to help themselves live longer to invest in their families, this growth in chronic disease management. If you go back 15 years ago, people died of acute conditions. You had a heart attack, you died; you had a traffic accident, you died. Today, people are living longer. As you live longer, you develop chronic disease, obesity, diabetes, COPD, neurologic conditions. These put tremendous strains on the healthcare system, but create great opportunities for companies that work within there.

In order to deal with that, governments and insurance companies are changing how they pay for things. They're changing the metrics around that. So it used to be that companies got paid by device or by intervention as a fee-for-service model. Today it's a fee-for-value model. So our customers are having to rethink how they create solutions in that space and it's no longer sufficient for them to have a product that they have a full solution. And more importantly, that solution has to exist in an ecosystem that creates value across that healthcare chain. As Mike talked about, that's an important area where Flex can play because we cut across many parts of those ecosystems and create value within there.

All this has resulted in downward price pressure on all of the medical products that exist out there. I think if anybody has had the experience of going to the pharmacy and picking up a drug or getting a bill from the doctor, what you've seen the last few years is your co-pay has gone up. That's putting pressure on you, which is putting pressure on the companies to lower their prices. All those things are happening within there, and our customers are trying to figure out how they compete in that world. And I think we're exceptionally well positioned to help our customers navigate that changing landscape as they're working through it.

In that value proposition we focused on, there's really two key elements. The first is innovation, which is can we help our customers get products to market faster than they can do it on their own; and more importantly, can we do it in ways that they can't do without us. So, as you think about it, a healthcare company used to have a device. That device now has to be smart. It has to be smart and connected. That has to have data that comes off with it. It's put into the cloud. So they can be analyzed to demonstrate the value of that product within there. Those are skills and capabilities that most medical device and pharmaceutical companies don't have experience doing. It's something that we do every day.

The other thing we talk about is a lot of the transforming. It's really helping them reimagine what their business model looks like. And can they think about how they treat manufacturing differently than they've done it historically. So increasingly, we're talking to our customers about whole new ways of manufacturing products. And as we've got out and talked to our customers about that, we really started talking about our value proposition differently a few years ago. And if you look at where medical bookings have been for a long time, they're averaging about $300 million a year, which is a good booking rate for the size of business we had. But it was clear there was more we could be doing in the marketplace. Since we went back, we took that value proposition out a couple of years ago and started changing how we talk to our customers. And really we are following the same strategy that Paul laid out that the auto group started about six years ago, which is bringing deep expertise in the area.

So in the last two years, we've added over 150 years of medical experience to my direct team within there. We brought in a lot of deep industry knowledge. We've brought that in and we've reshaped our value proposition and how we talk to our customers. The result that has been a dramatic change in our bookings. You can see we went from about $300 million a year to more than $500 million a year in bookings associated with that. So our value proposition is resonating with our customers, who are winning more deals and the deals we're winning are bigger.

And the great thing about healthcare space is the products that we tend to win have very long life cycles on the order of 3 years, 5 years, 10 years, 20 years. Medical products can deliver very long time, so as to win these businesses and bring them on board, they'd become annuities for us for a long time going forward. This booking is then translated into how it looks from a revenue standpoint. The other thing that's different about medical is the long lifecycle we have with the products. There's also a long gestation period. So if you go back and look at that same period of time where you're rebooking about $300 million a year in business, it takes anywhere between two years and seven years for those bookings to turn into recognizable revenue for us. And I'll walk through a specific example of that in a second.

So if you look at our growth rate with those relatively low bookings, we are growing about 2% a year. So about a relatively slow growth rate in the healthcare solution space. In the last couple of years, as we've changed our value proposition with that, we've seen a significant increase in the bookings upwards, a 60% increase in overall bookings. That's translating into a growth going forward that we are very comfortable with. And what we are seeing is the gap between when we book the business and when it starts to actually ramp inside there.

This is important for a couple of reasons. One is you look at our healthcare space and the wins we are having with it, it's a long gestation period, but then a very long revenue period that comes along with it. In many cases, the business that we book come with 5- to 10-year agreements that we will continue to supply those products. The other thing is very clear. It's very difficult to move products once they're in a manufacturing environment from one stage, from one place to another, so it tends to stick with us a long time. We're very comfortable with the growth we got coming forward and the things we need to do to deliver that.

Now, I'll give you an example for one customer that Paul talked about, and this is probably the single largest medical device outsourcing or single opportunity that we've ever seen in the industry. So a customer came to us a couple of years ago. We actually talked about this in 2016 as a major booking that we had won. So this one is a – this is a product that's in the CGM space, so it's continuous glucose monitoring. So people with diabetes, this is the product that was developed that really changes how people interact with the disease and how the product works across the board.

The product was initially approved and launched in Europe by our customer. And it was done through a traditional medical device supply chain, which means lots of different suppliers paying different roles inside of it, the product moves all over the place, it's very difficult to produce, and it's very difficult to scale. So the customer came to us and said we need a different solution for this if we're going to grow this business the way we want it to, and we get approval in the U.S. which is the largest single marketplace, we need your position to help us drive that growth going forward.

The challenge our customer faced is it took a long time to get through the regulatory processes because their product works differently. It took a while for the FDA to understand it and for our customer to develop the clinical evidence to support it. So we originally booked that business back in FY 2016. It took until late last year for them to get the regulatory approval. So about two years of just sitting waiting for the approval to come with that. Starting this year and FY 2019, there's a significant capital investment that's being made to enable this product to be produced, and it's an investment by us as well as our customer of a very significant order, and we'll touch on some pieces inside of there. That product will start to generate the revenue for us in FY 2020 and reach its full run rate in FY 2021. So this is a business that's taken us a while from FY 2016 to 2021, five years of gestation from when we initially booked the business to 2021.

The great thing that's happened though is between when we first booked the business until now, the opportunities continued to expand, so the customer has come back to us and said, I need this much product; nope, I need this much product; nope, I need this much product. So the volume that they are expecting for it has grown every year, as they've got more experience with this because it really changes how the people with this condition think about it. So this was the challenge our customer came to us and said could you help us get there in a new and different way.

So we worked as an organization and came up with the unique solution which we call All Under One Roof, and this is in our Buffalo Grove facility in Chicago. So we're going to do this for them within there. And it started out with a very simple idea, which is there's going to be component parts that come in the back, simple electronic components in a specialized sensor that our customer makes themselves. It's their proprietary technology. From that, we are then investing to take basic resin. So we've got more than 40 injection molding machines that will be running 24 hours a day, 7 days a week to produce the plastic part necessary to support the volume of that. Those plastic parts flow directly then into a PCBA assembly where we start to build the circuitry that goes along with this. We then have a fully automated clean room assembly where we'll produce this product at very high volumes in a completely automated fashion within there.

That then moves into inline sterilization, so we're going to take the product, we're going to build it, assemble it, package it, run it through a sterilization system and then take it into another automated packaging. We would put it in the final consumer packaging. So you've got a small device that has to be sterilized and packaged with some other things to go out the door to their customers. From there, it's a direct distribution to the end patients and to the pharmacies.

So under a single roof, we're building the ability to build these devices at a very high scale continuously for them. This is a significant capital investment we're making; this is a significant capital investment our customer is making. And as Paul said, this is a 10-year deal that we got in place that's going to generate ongoing growth for us going forward. And more importantly, to me, it's going to make a huge difference in the lives of millions of patients. So to do this, we have a completely vertically integrated solution for our customer. In the medical device space and in healthcare in general, this is very unusual. Most places don't do this because they'd only have the scale or the ability to do this under a single roof. We'll have daily shipments that are going out of this product because the volume of this is so high. And there'll be real-time data that's gathered with these IT systems to ensure the compliance and quality of this product every step along the way, again very high volume product that's going out the door. This is going to change the lives of millions of patients. It's going to be a huge opportunity for us at Flex going forward.

Equally important as we built this model, we now show it to other customers and they see the value of it what Flex can do for them differently. So they're thinking about us in a new way in terms of how we can solve their problems. Now they can get comfortable that there is a different way of manufacturing they've ever thought about before. This is a unique production solution to us. It's a huge opportunity and a huge win for patients around the world.

The other thing I want to pivot about what we can do from a platform standpoint. So if you think about it, we talked about Flex entering to the [indiscernible] (03:25:30) for us. It started with drug delivery. So we had pharmaceutical companies who all of a sudden had to have biologic drugs delivered to a patient, they wanted a way to do that, they know nothing about devices. They came to Flex and said, could you help us design a wearable product to administer drugs into the patients. We started to build relations with them and demonstrated over the last five years the ability to design, develop and produce drug delivery systems, wearable products to administer drugs.

Over that period of time, we've got to understand the pharmaceutical market and some of the challenges that exist inside of that industry and what we could do for them differently. And if you knew the pharmaceutical industry, they've gone through a massive change in how they innovate, and the route is they've outsourced most innovation to small start-up companies. And that the pharmaceutical companies today buy those entities, buy those molecules, those drugs and run it through their clinical development. Small start-up companies actually lack the ability to produce the drugs or actually do a lot of the chemical steps associated with. So we saw an opportunity where we could bring our knowledge of that in the Flex platform into a marketplace which wouldn't seem like the right place for Flex to participate which is in drug production.

We've found a small company called Escientia that was active doing the frontend part of that, so they were doing the original chemistry process development for the drug companies, but lacked the ability to actually produce the product at scale. We said we understand scale, so together we've jointly developed a factory in Vizag, India, which is a world-class highly automated manufacturing facility for the production of APIs or active pharmaceutical ingredients, the part of a drug that actually creates the result in the body. So we've invested in that and we're jointly developing this.

So what is Escientia? So Escientia is an integrated end-to-end provider for API. It starts with the discovery side of it, so the earliest part of the drug development, they're partnering with these companies to understand how do you create that molecular entity, so how do you take it from an idea, what part of the body you want to influence to an actual physical chemical compound you can deliver within there. They go there through the development process of how do you take that chemistry process and actually make it scalable, can you do it reproducibly, can you get high yield. From that, we take it to the manufacturing, so to go from bench scale to actually clinical scale volume to these drugs.

And equally important, the plant that we've built in Vizag has the ability to what's called HPAPI which is highly potent active pharmaceutical ingredients where very, very small quantities of these chemical entities can have huge impacts on the bodies that we've produced in very safe confined ways. We've invested in that which for someone who may think of as a contract manufacturer producing APIs as a completely different business for us to get into. But as we've looked at it, it's our ability to support that pharmaceutical industry and create additional value with our customers and solve an important need in the marketplace.

The other area we've talked quite a bit about is creating ecosystems. The other area that we've invested in is what we call BrightInsight. And there's a demonstration of it over there. Given our vantage point across the industry, we see a lot of things because we support the equipment makers, the medical device makers and the pharmaceutical companies. They're all struggling with this notion of digital health and how do you create value inside of it. And the reality is that today if you go to the doctor, if you go anywhere, your data exists in the thousand places relative to your healthcare. There is no place where it's integrated where you could see what's going on, which means your physician runs the same test on you that somebody down the road did because they have no way to communicate with each other. And all the companies are trying to solve this problem. The challenge that we saw from the outside was that every device company, every pharma company, and everyone across the board is trying to solve the problem in their own little world. So they're trying to solve it for their drug, their device or their clinical application. The problem is you end up with a thousand little slices of data again, and nobody is looking across the board.

The other thing we saw is that every one of these companies was investing in re-creating the same infrastructure and architecture associated with it so that we saw that as an opportunity. We know how to gather data, we know how to analyze it, we know how to put things together. We've demonstrated through things like Pulse the ability to purl this together. We've demonstrated through things like Elementum, which are fundamentally solving the same kind of problem, which is how do you aggregate data and make it in a visible way that allows you to take appropriate action. So again leveraging the Flex platform experience we've had, we move into a new space. But this is the one that you can just kind of walk into halfway.

So we started from the very beginning and said that this has to be a medically compliant system with a quality system built in from the ground up. So it's secure at every step, because the data privacy laws in every country as it comes to healthcare are very different and very difficult to comply with. There's things in the United States called HIPAA, which is the healthcare information privacy act, which is why you go to the doctor around, they make you sign a paper every time you go in, which is basically you're signing away your rights to your privacy. But the ability to comply with that is incredibly important to have that security, to be able to produce that data in a way that's important. So we developed a platform and you can learn a lot more about it by going to the demo. That allows us to serve that industry across the board to go to our OEM partners to say instead of you investing the time and money to try to develop one of these systems, use the platform that we've created within that, which gives you access to this, not only that, but it gives you access to the ability to integrate a lot of different sources of data into a single platform.

The ability to take not only the data from the drug that you're taking, but the device it's monitoring until actually you're physically [indiscernible] (03:30:40) from your fitness track, your iWatch, things like that, integrating into your data to give you a complete picture of what's going on, have that data then be able to seamlessly link with the electronic medical record at your hospital in a two-way fashion to input and extract data from it. This platform that we've built to something, we think, creates great value for the healthcare system going forward and start to solve some of the fundamental problems.

But giving our vantage point across the industry, given the Flex platform and experiences we have, we have a natural way of stepping in the areas and solving problems that our customers can't do on their own. So, as we look at where we're going, we sit at a great vantage point and the strength that we have at Flex is that we're very broad. We have a breadth of visibility, and if someone who spent his entire carrier developing products for the medical industry, the breadth of visibility that we have in healthcare is fantastic. But it's the cross-industry visibility that actually creates the greatest value for our partners in the space.

As Mike was saying in the morning, our customers tend to be very deep vertically. They understand everything about the clinical state, the device they're producing, but they know nothing about industries that cut across that and they're struggling with how do they compete in a rapidly evolving world. So the breadth of visibility that we can bring at Flex to our healthcare partners enables us to help them create solutions they can't do on their own. The agility of the Flex platform is we can pivot from one area of healthcare to another as we learn and gain competencies to it, we can move into new spaces for him. So, for me, that's a great place to be because we know we can solve the problems of more patients on a global basis every day.

The nice thing about being part of HRS, what we're viewing is we're set up to deliver in the near term, you've seen what we think we're going to do in the next couple of years, but for me it's ability to deliver in the long term we're set up for incredibly well. As we said in the beginning, the products that we launch tend to have very long life cycles. When I was inside of my previous job, I used to joke that some of the products I was responsible for were designed before I was born and I'm not that young. But the ability to do that to have the lifecycle within there, we believe we're set up exceptionally well.

So as I wrap up here, I just want to thank you for your time and attention and look forward to talking you later. Thank you.

Michael M. McNamara

Chief Executive Officer & Director, Flex Ltd.

Thank you, John. So we're in the home stretch now. You've heard about the power of the platform, lot of good presentations, lot of evidence and now we're getting into part talking about improvement. My CFO, Chris Collier, is going to be out in a second, and then from there, we're going to finish up with Q&A before we go to open session.

So, with no further ado, I'd like to invite Chris Collier to the stage. Chris?

Christopher E. Collier

Chief Financial Officer, Flex Ltd.

Good afternoon and thank you for your time and interest in Flex. As we enter 2019, we are at an important stage in the Flex evolution. Today, the team has shared with you insight into the business objectives, roadmaps and investments. Many of these investments are costing us profitability in the near term, but a very important and play instrumental role in the future profitability of the company as well as a strategic purpose.

In the near term, we have some operating profit pressures. We're not pleased with the performance in the near term nor are we pleased with a view of the financial model being challenged long term because we sit with a lot of confidence in terms of our platform in which we're operating and the investments that we're making.

Today is meant to provide you with evidence and insight into how we're going to deliver earnings leverage in the future and to strategically position ourselves in a very competitive way. So with confidence, we want to present with you the platform. We've been honing this platform for the last 20 years. We're making dedicated investments specific to broadening the scope, scale and capabilities. We are confident in our strategy. Our strategy is built off the levers – the foundational levers of portfolio evolution, increasing our Sketch-to-Scale engagement and launching multiple platform initiatives, all of which are meant to create long-term value in earnings leverage for Flex. Underpinning our platform and our objectives are financial guiding principles. Those principles around revenue growth, operating profit expansion, earnings per share accretion, cash flow generation and a strong financial condition.

Our portfolio is diversified, balanced and is scaling. When we look at our portfolio, you see great diversification across segments, across geographies and across customers. As we think about the portfolio, we're very pleased with the trajectory around our IEI and HRS businesses. As you can see, since 2013, we've grown the IEI and HRS book of business by almost $5 million (sic) [$5 billion] (03:36:36). And as we move forward into 2020, you see an additional $3 billion being incremented. Underpinning that level of growth is a foundation that provides very long product life cycles, very stable earnings and that underpins the view as to why we will continue to focus around our investments into growing that part of our portfolio. Equally as important is that we're rolling a portfolio that every single one of our business groups will be growing and the collective pool will be approaching $30 billion by 2020.

So along this journey, we've been transforming our business capabilities, making targeted investments around engineering and technical competency. Over the last three years, we built out our system and meaningfully invested to establish ourself and transform the business to enable our Sketch-to-Scale journey. It enables us to have a greater customer engagement. Over this period of time, we've created great competency. We have created reference designs, reference platforms that enable us to have a completely different engagement and dialog with our customer.

What you'll note here is that, as we move forward, we're reorienting, repositioning and focusing these investment dollars in a different way to drive an engagement model across our segments and, in doing so, have a compelling way to continue to accelerate our growth and engagement, but with a more focused spend level.

We're structurally repositioning our SG&A. We've taken distinct actions to drive a more agile, ease of function, and efficient organization as we move forward. We did so proactively in light of having a top line that's growing. We did this with the intent of driving a much more efficient organization. And what that provides us, it provides us with significant earnings leverage as we move throughout this year. As we're scaling our top line, we have an ability to still support the business with a different level of cost structure. And we envision our ability to stay within that 3% to 3.2% of SG&A as a percentage of revenue in the foreseeable future. This creates meaningful leverage to our model.

We are reinvesting today for our organic growth. What you can see from this chart is a history of the last three years of the level of investment and how we forecast and project the next two years. Nearly, half of our fiscal 2019 investment is going to the installed capacity and capability to support our growing IEI and HRS businesses. We also have targeted investment levels of greater than 20% to fund the India expansion plans that ties into the massive growth opportunity that we're seeing that Mike talked about earlier.

A unique aspect of the investment profile that we're driving today is that in the current year, you have elevated levels associated with programs that it will not be ramping for a couple of years. Paul and John just provided you an insight into some of those programs. We're stepping up meaningfully in terms of supporting those programs, but they will not be contributing to revenue in this year, but they form a large strong foundation for significant revenue and profit dollar expansion for that business as we move forward.

Let me think about cash flow generation. We think about having 24 of the last 25 quarters where we generated operating cash flow. It's the key element of our investment thesis. Presently, we're investing to refuel organic growth. That investment takes the shape of CapEx, but also is in terms of a greater level of working capital that is required to fuel that growth. As we think about our business, we believe that we'll operate our net working capital as a percentage of our revenue within our band of 6% to 8%. We see our ability to drive efficiency as we move forward. Tom Linton was here earlier. We are thinking about, we use our tools and processes and techniques to identify dislocations in our supply chain and identify ways to optimize our operating constrained inventory environment today. We need to identify ways to drive our inventory turns greater, [ph] and capture (03:42:34) one day of improvement in our turns equates to nearly $60 million of cash flow. So it's a meaningful contributor to how we can optimize our cash flow going forward.

We're coming off of a very low free cash flow generation this past year. And we see, as we move forward, continuous improvement as we step forward. We anticipate seeing over $300 million of free cash flow in our fiscal 2019, and we see that incrementing each of those following years. We revised our cash flow projections here to display $2.8 billion of operating cash flow over the period 2018 to 2020, $1.1 billion plus in terms of free cash flow and over 55% free cash flow conversion. We are going to be continuously improving our free cash flow conversion over the next several years and we anticipate getting back up to the free cash flow conversion target that we've set before of roughly 90%.

When we think about capital allocation, we think about where we've been taking our operating cash flow dollars and available cash and putting that to use. What I've defined here on the left hand side is the reflection of CapEx, M&A and investments net of funding, and share repurchase over the last three-year period. What I'll tell you is as we move forward, we'll be reinvesting in our business to fuel our organic growth. We're also going to be maintaining our commitment to return 50% plus of our annual free cash flow through our share repurchase program. And we see a very limited need for M&A investments as we have a very well built-out system and competitive advantage, and we'll be continuing to maintain an investment-grade profile.

Our goal and opportunity with Nike remains. It was great to have Eric here early today and we thank him for his engagement. It reinforced a strategy, the opportunity and the ability for us to partner in a meaningful way. Reinventing shoe manufacturing and that supply chain has been very challenging. We highlighted the level of losses that we had sustained this past year. As we think forward, we're going to see significant improvement this year in terms of those losses and we will be achieving profitability in the second half of this year.

The exciting thing for us is that this relationship is measured in decades. They have 40-year-long relationships. This is a deep meaningful revenue and profit pool for us. We're making significant advancements in terms of our operational execution and we are excited about continuing this journey here because what it provides us when we get to scale and we get to the execution, you should be thinking about step function changes. We have $0.5 billion of revenue generating HRS plus margins which equates to over $40 million of operating earnings each year, which in a three-year cycle will recapture the losses that we've sustained to-date. So again, our goal and the opportunity remain and we're very excited about that.

Now I'm flashing here the long-term business group financial highlights. Both Doug and Paul have already highlighted how they see the long-term revenue growth as well as profitability. There's three points I'd like to highlight here. One changes with CTG and where our long-term vision now is 5% plus of growth. The other element is that we believe it's going to center around a 2% to 4% operating margin long term. The other highlight that we're introducing is at CEC we'll be returning to growth.

Now, we had a very important part in our journey and we thought it would be necessary to provide you a different level of insight into where we are as a company and especially in terms of a full year projection. Historically, we've have never provided annual guidance. What I want to take you through right now is how we envision 2019 unfolding.

For HRS, we are talking about a modest growth this year. We're operating at scale, we're an innovation partner, we have an ability to engage completely differently; however, some of the programs that we're associated with have had push-outs or delays. And what it's important for you to understand is that that's non-perishable revenue. What I mean is that action just moves to the right. These are not parts of revenue that we've missed an opportunity to secure. So in the current year, we see a 2% to 7% type of a growth for that business. As you think about IEI, as Doug highlighted, we have a significant level of bookings. We're operating a very diversified model. We're engaging in a very expensive available market. And with that building off of the strong growth that we had this year, we see another 10% to 20% growth in that business this year.

With CTG, building off of the significant opportunity of accelerating consumer and IoT demand inside of India, we see a significant growth this year of 20% to 30%. And with CEC, we anticipate having a flat year at the midpoint as we benefit from a transitional mix inside our business where our cloud in data center business continues to grow rapidly having grown six straight quarters and over 20% year-over-year. That provides a foundation for us to see the back end of this year moving to a growth.

So you take those revenue projections and you put them into what creates a range of $27 billion to $28 billion, that's roughly a 6% to 14% year-over-year growth. We see that revenue accelerating throughout the year and what that does is that creates a different seasonal mix for the company. With the multiple programs that are ramping, you'll see a less seasonality in our March quarter than previously exhibited. Now when you think about operating profit, we see it $900 million to $975 million. At the midpoint, that will create a record operating profit dollar for the company.

Now, let me break it down in terms of the margin profile that we anticipate across each of the businesses. Our HRS business, very stable, [ph] happily (03:50:30) inside its target margin range. When you think about our IEI, this will mark the fifth straight year of year-over-year margin expansion and it'll be accreting significant operating profit dollars for us. When you think about CTG business, we are undergoing a significant mix change as we're going through significant levels of ramp in the acceleration of revenue. You're going to see the front end of this year challenged, but as you entered the back end of this year, we anticipate that going up into its target margin range. And as you think about our CEC business, with the stability of revenue and the improving underlying mix of business, you see a margin range that we've re-entered the low end of that targeted margin range.

We will benefit from the leverage of our SG&A this year as we progress through the year with a higher levels of revenue. With an ability to have good control over that SG&A, you're going to see a leverage in a bottom line improvement. Interest and other, we're setting at $170 million to $180 million. Inside of that, it's reflective of the interest rate environment that we're operating and we see over $0.04 of an impact from absorbing our percentage share of equity losses in our investments with YTWO, Elementum. Our $1.20 to $1.30 EPS is reflective of us anticipating repurchasing shares at 50% of our free cash flow.

Now, it's important where we sit today to recalibrate our vision about 2020. There's many different ways we thought about providing this level of insight. We think it's very important that you understand the various levers that we have. What we're displaying right here shows you coming off of our fiscal 2018, each of the different step functions that we see building up to $1.55 in 2020. This reflection ties back into the underlying long-term growth targets for each of the segments as well as their operating margin structures.

As we think about this journey, there's clearly ranges that are around this. What we wanted to clearly demonstrate here though is a point estimate as to where we think a base case should be in terms of the book of business that we're operating today. So, for us, we sit today in a very strong competitive position. We see multiple elements that allow us to create meaningful earnings leverage as we move forward in a competitive differentiated offering. Our balanced portfolio provides us great diversification and massive scale across industries. We see operating profit expansion each of the following years. We see a consistency to cash flow generation, making off of a low point in 2018 and building each of the sequential years.

And lastly, we remain firm in our commitment to return value to our shareholders by allocating over 50% of our free cash flow to the share repurchase. We would demonstrate our ability to execute; we will demonstrate the power of our platform; and we will earn back the credibility that we deserve in terms of the operating model that we're managing, the decisions we're making, the ability to invest, manage and operate our system to create shareholder value as we move forward.

With that, I'll turn it back over to Kevin.

Kevin Kessel

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

Thank you, Chris. So I wanted to also welcome Mike McNamara back onto the stage for any closing comments you may want to have before we start the Q&A session.

Michael M. McNamara

Chief Executive Officer & Director, Flex Ltd.

First of all thanks again for coming. We really appreciate it. It's a long day, it's a lot of data, it's a lot of information. We tried to provide it in a [ph] synced (03:55:39) fashion as we possibly can, but it's a big company, it has a lot of levers of opportunity, that you've – no doubt – noticed as we go through here, but it's a big world and it's a connected world, and so it takes time to go through and it takes time to walk through.

A lot of these different levels are all in different cycles. Some are very, very new into the process. Some have been around for many, many years and have very established patterns of performance. We continue to try to use – to focus our effort and investment into the areas where we can add differentiating value. And hopefully you saw a lot of that today. It's kind of in our wheelhouse or it's opportunity for us to add differentiating value because we have so many different capabilities in so many different areas across so many different regions. And the ability to actually pull these things together and leverage our platform into many different upside opportunities is actually really high. We actually really do have a good system. It's a broad system, it actually executes pretty well.

As you know, we have some challenges that we've talked about quite a bit. With Nike, you saw the commitment from Eric Sprunk. It's a hard problem to solve. We are working really hard to go solve it. So let us go work that. It will be our objective to bring on a vector of growth and profitability that's very significant that we can layer on top of everything else that you saw today.

So we are actually very proud of our team for what they have done and again thanks for everybody's support. You won't be here today if you weren't interested and supportive, and we really appreciate you being here.

So, I think with that, we can just open up for questions, right?

Kevin Kessel

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

Absolutely. So I have a mic in the front. Katherine, who is on my team, in the back also has a mic. So I'll call on folks. We'll start here with Jim.

QUESTION AND ANSWER SECTION

Jim Suva

Analyst, Citigroup

Q

Thank you, Mike and Chris. It's Jim Suva here from Citigroup. You gave a lot of details on the financial expectations and a cash flow going forward. If I remember correctly, I think Chris, you mentioned about at least 50% of the cash flow to be given back to shareholders. How should we think about – I believe last quarter was zero on the stock buyback because of the accounting investigation and I assume on the [ph] license EPA (03:58:15), you can't actually buy back till it's resolved. Will you then make it up or you just start at that point going forward with the 50% cash give back to shareholders. Thank you.

Christopher E. Collier

Chief Financial Officer, Flex Ltd.

A

Thanks for the question, Jim. So, for us, we have a commitment to return 50% plus annual free cash flow. We believe it's an attractive valuation. When we have the ability, we will be into the market. We usually don't telegraph the amount which we're going to be investing into, but it will be something that will be active immediately.

Matthew John Sheerin

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah. Thanks. Matt Sheerin with Stifel. Couple of questions. One, on Nike, Eric talked about Nike co-investing with Flex, right, both on capital and costs. Could you give us an idea of what that investment is and what it would be going forward? Is it capital investments, things like molds and equipment or also subsidizing some of your costs, as you are running into these issues?

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

A

No, most of that – there's some capital of course that's included in that. They're not really subsidizing our costs or I guess maybe they are to a certain standpoint. But what they're doing in investing in higher cost that we have as a result of our ramp up. So I guess you can call the subsidy, it doesn't feel like a subsidy, but in a sense – essentially it is. They have teams working, reinventing their own platforms. They have teams working on reinventing their designs. They co-locate with us in our facility in Guadalajara. We co-locate with them up in their facilities in Nike. They have project teams. They have quite a bit of effort. I don't know if they invest the same amount as what we do, but they invest a substantial amount.

So they are very committed. I don't think that we're bearing all this burden on our own. They are very interested in supporting the transition into a regional manufacturing capability which Eric articulated when he was here, but I would only say, they are participating in all way. And the other thing they're doing is bringing us know-how. By bringing their project teams, they are really helping us trying to move into a new opportunity.

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

Q

And on that strong growth rate for the CTG that you talked about this year, 20% to 30%, what percentage of that is coming from the opportunities in India versus Nike versus other programs?

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

A

Yeah. So it's going to be a blend of things, but it's heavily weighted towards India. And let me explain what's happening in India just – if I think about what's driving such an immediate demand, I mean India has had a 7% GDP growth for many years. It's moving forward into middle class, it's been doing that for many years. It's accelerating and then once you do 7% or 8% growth for like 10 years, you get into a meaningful number. The real thing that drove it, what's driving it, what's super accelerating is the pro-business attitude around the government there and they changed a lot of the duties coming in. So as the duties shifted, all of a sudden, a lot of demand needed to be built in India and that's creating a big upside in terms of demand. Now, we've been there for like 10 years and have a pretty robust infrastructure already.

So it's an opportunity for us and that's what I made my comments earlier about virtually every multinational is going to be coming in, trying to take advantage of the ecosystem that – not virtually everyone, but a lot of multinationals are going to rush in. So we're getting heavily weighted on the India side, so we see a pop as a result of some of these duty shifts, but structurally we also think that this will open up India. So as we bring in this capacity, we bring in this capability and we improve our own ecosystem and have a really robust multi-factory, multi-technology kind of infrastructure in India. That alone will then attract more business in, which is of course what any government is trying to do. So it's – I just call it quite heavily weighted towards India, but obviously Nike will be going up in other product categories as well.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

And Matt, one of the things I try to highlight was that over 20% of our CapEx spend this year, it's about putting into that installed capacity in building out the industrial park that we have there as well as putting in the necessary machinery and equipment to allow ourselves to have a foundational base to continue to grow that region.

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

Okay, we'll put Steve, thanks, but I just wanted to also remind folks if you have questions for any of the other presenters – I'll get to that side, I promise after this – let us know and we'll get the mic to them as well.

Steven Milunovich
Analyst, UBS Securities LLC
Q

Thanks. Steve Milunovich, UBS. So I think that we were at the meeting a year ago. I mean the irony is your demand seems quite strong, the financial plan sort of anteaters relative to the guidance a year ago. Question number one is do you believe the demand is better [indiscernible] (04:03:22) when we were sitting here in New York a year ago. So, is your confidence in the underlying business better or worse than it was at that meeting?

And second, obviously Nike is Nike but on the CapEx side, I've been in meetings where investors correctly ask well, okay, there is Nike you're investing in, but can we be surprised elsewhere, and the answer was generally no, but I mean I assume the drug delivery thing was coming, maybe not India as much, but the CapEx is obviously much more than we would have contemplated a year ago, I guess why didn't you see some of that?

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

Let me take a little bit of the second part of that question. So do we have another thing that can be an impact like Nike, and the answer is probably no. We're not trying to reinvent any other industries where we have obsoletely no knowledge of. The whole Nike partnership, if you remember back to last Analyst Day, one of the reasons I – one of the things I said was there was no way we would have ever gone into this business if we didn't have a content-heavy partner going in with us who is committed. So Nike had content knowledge. We had all the platform and all the technologies that Eric and his team found very interesting. And by putting the two together, we thought we can actually reinvent the industry.

So, that's actually what we're trying to do. We're not trying to reinvent a lot of industries here. We're actually not even trying to reinvent the pharmaceutical industry. We're just seeing an opportunity to build an ecosystem around drug delivery devices, pharmaceutical manufacturing, and by the way we're doing that with a partner. We wouldn't do that by ourselves either. We're doing that with Escientia, who is technology deep in those – in pharmaceuticals. So, when it comes to – so this is the only thing that we're reinventing. Someone else asked me about apparel. We're going to go after apparel and I said absolutely not.

And the reason is because we don't want to take another risk profile of a new industry that we don't actually quite understand. We're starting to understand more of it because we actually have to deal with apparel and we are automating apparel, but it is a risk profile that we're not willing to take. So I think we don't have another – any other vertical in our system that has the same level of aggressiveness or the same level of desire to kind of go reinvent an industry. So I don't – I just don't think that's out there and I think most of what you've seen today, everything Doug has talked about, is right in the middle of our wheelhouse, so things in – most of the things in the HRS are more in our wheelhouse.

So we are not trying to reinvent a whole lot of things. The only other thing we're participating in is YTWO Formative. And as you know, that's actually we're trying to reinvent the building and the construction industry, but interesting enough in that it's actually an IT platform that actually connects all the way from the design, all the way through the supply chain execution process and it's Flex who is doing the supply chain execution. So we're buying faucets instead of a mechanical part for one of our technology devices. So we actually know how to do that, we actually know the technologies, we actually – and there is no real capital investment associated with that. It ends up being more trading.

So there is no risk profile associated with that. But again, the same principle, we won't go after the building and construction industry unless we have a content deep expert, who is going in there with us, so they can provide the content deep expertise and we can leverage our platform.

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

And I'd say in response to the demand question, where we sit today versus last year in terms of a demand environment, I think we are seeing a slightly better type of a demand environment and it's reflected in the level of bookings that each of our businesses have been able to secure and see. So I think, overall, there is a bit of strength across the platform. You actually see a significant level of improved demand specifically coming out of [ph] this India (04:07:22) opportunity that's presenting itself, which also is one of the big reasons why you see a step up in CapEx this year.

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

Sherri?

Sherri A. Scribner
Analyst, Deutsche Bank Securities, Inc.
Q

Sherri Scribner from Deutsche Bank. Thinking about the $0.25 change to the fiscal [ph] 2018 (04:07:40) EPS versus last year, it seems like most of that comes from Nike because it seems like there is a bit better growth in some of the segments, there's similar margin expansion. So I guess the first question [indiscernible] (04:07:52) that change solely related to the changes in [indiscernible] (04:07:58) Nike and the reason that I ask the question is to [indiscernible] (04:08:01) the risk to that business, so is the down [indiscernible] (04:08:05) that we're seeing now $0.25 if things don't go right and what is the upside risk.

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

So the framework that we displayed was a framework based on the performance from fiscal 2018. The framework we demonstrated last year was being built up off of the ending earnings for [indiscernible] (04:08:27). So, what you actually have [indiscernible] (04:08:31) if you look at the holistic model that we're operating, Nike certainly has had an impact in terms of where we had anticipated getting to, but it's equally as – we had equal pressure in terms of some of the other parts of our business as we sit back and look today with the modest growth inside of HRS this year that puts pressure on that $1.80. But what we're trying to demonstrate though is we have a solid book of business underneath that HRS and it's really just moved out into the next years. And so you have an HRS erosion in terms of how we were anticipating delivering into the $1.80 and you have a mix shift change inside of CTG that has also put some pressure on the model. So when you step back and you look at each of those levers that we've demonstrated, it's in a couple spots, it's not [indiscernible] (04:09:26) directly attributable to Nike. Nike is a component [indiscernible] (04:09:31) being by 2020 in terms of its revenue contribution and margin profile which is well like we talked about earlier today. That has now elongated itself.

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

A

Steve?

Steven Fox
Analyst, Cross Research LLC

Q

Thanks. Steve Fox with Cross Research. So you just addressed a lot of the criticisms of how guidance sort of went the last couple of years. But you're still looking at sort of 17-year highs [indiscernible] (04:09:57-04:10:04) produce consistent growth [ph] not (04:10:05) whether you can product growth. And so I wonder if you're changing anything in terms of how you're managing the business to maybe smooth out the growth over a three-year period versus what the [indiscernible] (04:10:15) say over the last three years. And then just real quickly, second, when you think about capital spending decisions, how are you making those because a lot of what you describe seems pretty opportunistic as opposed to be disciplined against a certain capital? Thanks.

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

A

Yeah. So let me address a little bit of that because it's a demand issue as well as a capital allocation issue. If super smooth the demand, you can have super smooth capital deployment of course. Sometimes the world doesn't work in a linear way. One of the biggest examples is India, a great example. We have partnerships with a number of different multinationals. And all of the sudden, the rules change in India and the companies say, hey, I need to build in India because it costs me 10% more now. Now, if we go and say, well, it doesn't quite fit our model, we can take in six months. Then they'll say that's great, but I'll find another partner. So sometimes you just can't put a perfect trajectory on it. Our demand is going to be a function of the marketplace wins we have and what we need to accomplish for our customer. Steve asked about some of the demand profiles and you're going to look at the HRS. If you think about where we have relative to last year, I mean we have our medical bookings are off the chart, our HRS bookings are off the charts. We have actually real line of sight to CEC business, which last year we were just hopeful that the ecosystem shifts would yield a return to growth and we just saw there would be a structural change, which is in fact true.

We're seeing a large opportunity in India as a result of a lot of the moves that the government made. But the ability to take our capital outflow and smooth it and the ability to meter sometimes the customer is hard. Sometimes customer says here is a $500 million piece of business, do you want it. And we can't say, well, we'll just take $300 million and give $200 million to my competitors. So sometimes we have to go with the flow, which is where we are right today. We have a lot of different opportunities. They hit different parts of the timeline and it does affect push-ins and pull-outs.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

To expand on that, one of the things that I tried to display was the level of investment that we've undertaken to transform the business and to put in terms of a real deeper richer engineering and technical competency, and you saw that step function each of those last several years. While we've been growing that level of expense and installed capacity, you haven't seen it reflective in any of the current period earnings growth, but that is installed and enabling us to grab and secure those larger bookings and Sketch-to-Scale wins that each of our businesses have been talking about. They manifest themselves in revenue 12, 18, and 24 months from now.

As we've been building out that framework over the last three years and we step back, we now have an installed CT organization. We have centers of excellence. We have a global system. We've focused around reorienting and repurposing that level of spend to allow ourself to be very targeted and cross-functional. As a result, you should see amplified levels of earnings accretion as a result of that.

Secondarily, we step back after investing into transforming the business, look differently at it, try to drive in more agile, ease of function organization by taking out distinct elements inside of our corporate structure as well as business groups to optimize ourselves as we still saw a growing top line that leverage in our ability to sustain that level of 3% to 3.2% of SG&A as a leverage is also going to be a contributor, so you've had a larger amount of invested capital as we've been transforming the business dramatically over the last several years to bring in the competency, the expertise and capability necessary to fulfill our long-term vision.

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

A

Next questions over here.

Sean K. F. Hannan
Analyst, Needham & Co. LLC

Q

Thanks. Sean Hannan from Needham & Company. Just switching gears here for a second, so you folks provide a little bit more insight in terms of Elementum, YTWO. There's certainly been a lot of growing conversation and thought process around how that contributes to the larger picture and particularly financially for you folks. We're at a point now where it certainly is not a material driver for revenues, but we're beyond concept for how this contributes to the overall picture. Is there a way if you can help us to better understand how we should be thinking about this as a part of your financial profile, how this contributes to how we think about how to value you folks in the grand scheme and how do we think about investments within this moving forward beyond what you've addressed a little bit here today? Thanks.

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

A

[indiscernible] (04:15:34) address, it's our objective to continuously and systematically leverage the capabilities in the platform to create value for our shareholders. If you think about like an Elementum, we not only use it, we use it to drive our inventory turns to be better or to take days out of the slide chain and improve our free cash flow or do you get the visibility that we need or the velocity that we need and the supply chain we can be a user, but we're also an equity owner. And as an equity owner, the amount of cash we actually spend is nil, because as an equity owner, we actually went out to the marketplace and raised external capital, and this is the money that we're using to actually do it.

So in that particular case, we get real value out of it, we're an absolute thought leader in the marketplace around supply chain, that entire whole supply chain ecosystem, and at the same time, we have continuous equity accretion assuming that Nader and his friends at Elementum can continue to drive the value of the company up. It's a private company. We're not going to disclose what that equity valuation is, but in some of all those, it's actually significant.

Something like YTWO is another really good example. YTWO is an IT platform and we're an equity owner in an IT platform. And as the products move through this IT platform, as you then – you take designs and order products and – or design in products and then buy those products, those buys go into the [indiscernible] (04:17:07) and this is actually just Flex. This is Flextronics, this is 100% of Flex. So the execution of the supply chain is 100% of a Flex business. So this is just incremental business-associated [ph] mix (04:17:20), so in that particular case, we'll have revenue and OP from what we call our Flex Building Group. At the same time, we'll have continuous – hopefully continuous equity accretion on the back of YTWO.

So this is our business model. We set it up to be – to invest in the kind of ecosystems, typically more IT. We invest in the ecosystems where there is actual real competitive advantage, things like digitizing the entire supply chain for the building and the construction industry, no tool out there exists and that's why we're in it because we actually understand some of these supply chain things, but we've set it to be risk, lower risk in terms of capital. We've set it up to participate in equity participation and we've also set it up to be the related platform effects associated with Flex. So we kind of view it as kind of being two ways to play. In the equity way, we de-risk by taking outside money.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

Before we take the next call, I don't think we answered the second part of Steve's question with regards to our decisions around capital allocation or making investments. All of our decisions are grounded by return on invested capital framework. It's a risk-adjusted capital framework. So when Mike and I and our business partners think about the opportunities that are in the pipeline, we assess those based on the strategic value, the financial return profile, the level of capital efficiency and the ultimate risk-adjusted return on invested capital.

What you're seeing today in ROIC for Flex is at a depressed level at 17% as we closed out the year. It's on the lower level of earnings that we have, with a greater level of investment that we have been putting forth. As we step through and create the incremental earnings generation that we are anticipating both in 2019, 2020 and beyond, you'd see that ROIC reaccelerate back up to historical levels.

Internally, we set a hurdle rate of 20%, so we assess the elements that come in based on how that ROIC fits for us. We have finite capital, we have finite resources, so we have to be discerning around what those opportunities are and make sure that we are making the right decision to allocate capital to those.

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

A

Okay. We have time for two more questions. Here on the webcast, we got Ruplu in the back and then we can go to Adam.

Ruplu Bhattacharya
Analyst, Bank of America Merrill Lynch

Q

Hi. Thanks for taking my questions. Ruplu Bhattacharya from Bank of America. Mike, are there parts of the portfolio that you would consider pruning? I know you took action on Multek but you probably have like $1 billion of power supply business and not sure that you're getting a lot of leverage on that from a vertical integration standpoint. So, is that possible you – something you can divest?

And, Chris, for you a question on capital structure. You talked about buybacks but given where the stock price is, why not lever up, why not take one more debt to buy back stock?

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

A

So, let me address the Power, Multek issues. So are there areas that we would divest? And the answer is, of course, because we just – we're working or in process of divesting Multek. Now what's different about Multek is that if you're going to be in the business of Multek, you have to be in the business and you have to look at the companies, you have to acquire more capabilities, you have to continually invest in next generation technologies. And if you're going to be in, you got to be all in. And if you're not going to be all in, you're not going to be successful.

And when we look at Multek, we think about a lot of capacity that's available in the marketplace but even more importantly a Multek fab is nothing like a Flexfab or a Flex factory. So it uses a completely different set of technologies. When you increment capacity in a Multek fab, it's – it takes $100 million and it takes two years to bring on. And then you have a relatively fixed capacity load. So, we view it as capital intensive, high risk in terms of capital investment and so – and we just don't need to do it and we don't have the desire or energy to actually do acquisitions and really be best-in-breed in that business. So this is a perfect case to prune it from our portfolio.

Now, Power is a little bit different. Power is actually all the same technologies of Flex. If you go into a Power factory, you basically see S&T lines running in the exact kind of factory, a very balanced capital allocation, nothing in it has – no equipment in it has more than 90-day lead times. It's very, very Flex like. So we can get a lot of synergies, we go into the same factory, we use the same equipment. When the demand goes down, we take that equipment out of there, we move it into the Flex factories and vice versa.

So it's a little bit different. And we're actually getting more synergies than you might think. Some of this power shelf technology that you're seeing in the data center that Doug [ph] put up (04:22:07) is actually right in the mainstream capabilities of our Flex Power Group. So you have such an overlap of manufacturing technologies and knowhow and you can leverage excess capacity both ways that is actually quite a bit more synergies. So right now, we actually think we'd rather leverage up and use their synergies in our platform as opposed to divest.

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

And with regards to your capital structure question, where we sit today? We actually have a very well balanced and flexible capital structure and no near-term maturities, no maturities in any one year that's greater than the annual free cash flow we generate. There is also an off balance sheet component that we use in terms of our asset-backed securitization. So when you put those two combined, you have a different capital structural to be considered. While there is room in terms of the capital structure to lever up, it's been our intent to use the existing available cash as well as cash flow when we go out and we secure our share repurchase.

We like to put leverage up when we have a longer sustainable cash generation element to it. So you've seen us lever up into M&A transactions rather than you're levering up to buy back the shares.

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

A

Adam?

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks. Adam Tindle, Raymond James. If I could just have one for Mike and one for Chris. Mike, you, earlier today, you talked about how the product has to be a system. Talk about what you're doing to change the operating structure of the company to match this? Obviously, the moves with Doug is a part of this, but maybe take it one layer deeper and talk about how incenting things like cross-selling and stuff like that?

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

A

Yeah. We've actually taken multiple steps. We've been on this journey for some time. About four years ago, we actually integrated almost all of the design organization into one organization, so that's an activity that we went three to four years ago. And what we did is we left our mark in go-to-market in segments, but took our technology and made it a horizontal function, so we can integrate all the technologies together.

So if you think about a converged marketplace, it's very much built around sharing technologies. You want to take that wireless module out of the Consumer Group and put it into a Whirlpool wash machine. So that's something we did about three or four years ago. We've actually – do prepare for this and start on the way of our journey.

We also took another step just recently organizationally by integrating all this under a lot of those – three of those functions under Doug. So what we ended up with, as I mentioned, kind of a regulatory function, all under Paul Humphries; and a non-regulatory all under Doug. So the idea here was to not only just take the technology pieces but also to take our go-to-market pieces, because more and more customers were – it's not just the technology they're after, it's more their actually go-to-market. They have to now think about, like I talked about with the cars, it's like what are you, are you a car company, are you a technology company, are you a transportation company, are you a mobility company? [ph] You can (04:25:15) ask four different car companies give four different answers. So, it's a tough industry right now.

So they actually think, so now the go-to-market now becomes more important. And simultaneously as I mentioned, we ended up with a situation where we can simplify, streamline, drive the SG&A cost down. So we got a real bang for our buck doing this integration.

And as far as incentive structures, to me, step one is to organize the – or to set up the organizational structure. The organizational structure decides how you go to market and then once you decide the organizational structure, then you in line the incentives to the organization system. And we're in process of lining all those things. We've just – we're still tweaking our system right now, because there was a pretty significant change. But we will match incentives with organizational systems and that's the best way to do it.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. And Chris, one of the things that's changing here is CEC turning a corner and flattening to revenue growth. I just wanted to push back on that. I think, you're starting in Q1, down 5% to 10% year-over-year based on guidance and the comparisons as we move on and the year get a little bit tougher, just talk about what underlies the confidence in that turning a corner and that turning your revenue growth and at what level of revenue you'd get closer to the mid-point of the target margin in CEC?

Christopher E. Collier
Chief Financial Officer, Flex Ltd.

A

Yeah, certainly. So, as you think about the transformation that's been underway inside of our CEC business, we've been securing more and more new logos all around cloud and infrastructure. We've been leveraging the technical capabilities that we've been putting in place over the last several years, leveraging the reference platforms. As you see that take shape and you also see a lessening in terms of the mix of business around the legacy parts of the organization, you see a balanced shift happening. We've now grown the cloud infrastructure business the last six straight quarters. Even in a March quarter that has seasonal weakness, we grew that year-over-year, we're growing that over 20%.

So what you're seeing is a mix shift in the transformation of the underlying customer base that we have. We're also deploying more edge computing and working with telco cloud application. So you're seeing us have an expanded relationship across multiple customers, you see that bringing forward throughout the backend of this year. So as you get to the backend of this year, and you start having a flat year-over-year, with the balance level of investment that we've been putting in to get that installed capacity, you're going to see a leverage model and an improved mix that helps to create that back into that low end of that margin range.

Kevin Kessel

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

Great. So I wanted to thank everybody again for their time. It's been a great effort here, I know, from the Flex team and we appreciate on behalf of myself, Mike, Chris and the rest of the Flex management team, we appreciate all of your time, your attention. I encourage you to spend some time. We'll still have Q&A for those in the room. The demos are, obviously, open. And we should have as well some cocktails and some food.

So with that, this will conclude our 2018 Investor and Analyst Day.

Michael M. McNamara

Chief Executive Officer & Director, Flex Ltd.

Great. Thank you.