

FLEX LTD.  
Form 10-Q  
October 30, 2017  
Table of Contents

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 29, 2017

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23354

FLEX LTD.  
(Exact name of registrant as specified in its charter)  
Singapore Not Applicable  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
2 Changi South Lane,  
Singapore 486123  
(Address of registrant's principal executive offices) (Zip Code)  
Registrant's telephone number, including area code  
(65) 6876-9899

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

Edgar Filing: FLEX LTD. - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

---

Table of Contents

| Class                         | Outstanding at October 26, 2017 |
|-------------------------------|---------------------------------|
| Ordinary Shares, No Par Value | 528,471,586                     |

---

---

Table of Contents

FLEX LTD.

INDEX

|  | Page      |
|--|-----------|
| <u>PART I. FINANCIAL INFORMATION</u>   |           |
| <u>Item 1. Financial Statements</u>  | <u>4</u>  |
| <u>Report of Independent Registered Public Accounting Firm</u>   | <u>4</u>  |
| <u>Condensed Consolidated Balance Sheets (unaudited) — September 29, 2017 and March 31, 2017</u>   | <u>5</u>  |
| <u>Condensed Consolidated Statements of Operations (unaudited) — Three-Month and Six-Month Periods Ended September 29, 2017 and September 30, 2016</u>           | <u>6</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income (unaudited) — Three-Month and Six-Month Periods Ended September 29, 2017 and September 30, 2016</u> | <u>7</u>  |
| <u>Condensed Consolidated Statements of Cash Flows (unaudited) — Three-Month and Six-Month Periods Ended September 29, 2017 and September 30, 2016</u>           | <u>8</u>  |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>  | <u>9</u>  |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>   | <u>26</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>36</u> |
| <u>Item 4. Controls and Procedures</u>   | <u>36</u> |
| <br><u>PART II. OTHER INFORMATION</u>  |           |
| <u>Item 1. Legal Proceedings</u>   | <u>37</u> |
| <u>Item 1A. Risk Factors</u>   | <u>37</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | <u>38</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>   | <u>39</u> |
| <u>Item 4. Mine Safety Disclosures</u>   | <u>39</u> |
| <u>Item 5. Other Information</u>   | <u>39</u> |
| <u>Item 6. Exhibits</u>  | <u>40</u> |
| <u>Signatures</u>  | <u>41</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Flex Ltd.  
Singapore

We have reviewed the accompanying condensed consolidated balance sheet of Flex Ltd. and subsidiaries (the “Company”) as of September 29, 2017, and the related condensed consolidated statements of operations and comprehensive income for the three-month and six-month periods ended September 29, 2017 and September 30, 2016, and the related condensed consolidated statements of cash flows for the six-month periods ended September 29, 2017 and September 30, 2016. These interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Flex Ltd. and subsidiaries as of March 31, 2017, and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated May 16, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2017 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP  
San Jose, California  
October 30, 2017

Table of Contents

FLEX LTD.

## CONDENSED CONSOLIDATED BALANCE SHEETS

|   | As of<br>September<br>29, 2017                         | As of March<br>31, 2017 |
|---|--|-------------------------|
|   | (In thousands,<br>except share amounts)<br>(Unaudited) |                         |
| <b>ASSETS</b>   |  |                         |
| Current assets:   |  |                         |
| Cash and cash equivalents   | \$ 1,369,502   | \$ 1,830,675            |
| Accounts receivable, net of allowance for doubtful accounts of \$63,000 and \$57,302 as of<br>September 29, 2017 and March 31, 2017, respectively                           | 2,632,934  | 2,192,704               |
| Inventories   | 3,773,654  | 3,396,462               |
| Other current assets  | 1,091,957  | 967,935                 |
| Total current assets  | 8,868,047  | 8,387,776               |
| Property and equipment, net   | 2,415,574  | 2,317,026               |
| Goodwill  | 1,086,978  | 984,867                 |
| Other intangible assets, net  | 420,459  | 362,181                 |
| Other assets  | 770,848  | 541,513                 |
| Total assets  | \$ 13,561,906  | \$ 12,593,363           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |  |                         |
| Current liabilities:  |  |                         |
| Bank borrowings and current portion of long-term debt   | \$ 46,977  | \$ 61,534               |
| Accounts payable  | 5,231,130  | 4,484,908               |
| Accrued payroll   | 400,074  | 344,245                 |
| Other current liabilities   | 1,552,254  | 1,613,940               |
| Total current liabilities   | 7,230,435  | 6,504,627               |
| Long-term debt, net of current portion  | 2,909,144  | 2,890,609               |
| Other liabilities   | 550,042  | 519,851                 |
| Shareholders' equity  |  |                         |
| Flex Ltd. shareholders' equity  |  |                         |
| Ordinary shares, no par value; 579,167,500 and 581,534,129 issued, and 528,928,145 and<br>531,294,774 outstanding as of September 29, 2017 and March 31, 2017, respectively | 6,627,225  | 6,733,539               |
| Treasury stock, at cost; 50,239,355 shares as of September 29, 2017 and March 31, 2017  | (388,215 )   | (388,215 )              |
| Accumulated deficit   | (3,242,852 )   | (3,572,648 )            |
| Accumulated other comprehensive loss  | (123,873 )   | (128,143 )              |
| Total Flex Ltd. shareholders' equity  | 2,872,285  | 2,644,533               |
| Noncontrolling interests  | —  | 33,743                  |
| Total shareholders' equity  | 2,872,285  | 2,678,276               |
| Total liabilities and shareholders' equity  | \$ 13,561,906  | \$ 12,593,363           |

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents

FLEX LTD.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three-Month Periods<br>Ended                            |                       | Six-Month Periods Ended |                       |
|--|---|-----------------------|-------------------------|-----------------------|
|  | September<br>29, 2017                                   | September<br>30, 2016 | September<br>29, 2017   | September<br>30, 2016 |
|  | (In thousands, except per share amounts)<br>(Unaudited) |                       |                         |                       |
| Net sales  | \$6,270,420   | \$6,008,525           | \$12,278,692            | \$11,885,338          |
| Cost of sales  | 5,877,095   | 5,694,834             | 11,478,435              | 11,165,652            |
| Gross profit   | 393,325   | 313,691               | 800,257                 | 719,686               |
| Selling, general and administrative expenses                 | 274,149   | 243,943               | 524,960                 | 483,489               |
| Intangible amortization                                      | 16,376  | 21,986                | 36,277                  | 43,584                |
| Interest and other, net                                      | 27,554  | 24,632                | 54,430                  | 49,031                |
| Other charges (income), net                                  | (143,167 )  | 8,388                 | (179,332 )              | 11,917                |
| Income before income taxes                                   | 218,413   | 14,742                | 363,922                 | 131,665               |
| Provision for income taxes                                   | 13,327  | 17,250                | 34,126                  | 28,444                |
| Net income (loss)  | \$205,086   | \$(2,508 )            | \$329,796               | \$103,221             |
| Earnings (losses) per share:                                 |   |                       |                         |                       |
| Basic  | \$0.39  | \$0.00                | \$0.62                  | \$0.19                |
| Diluted  | \$0.38  | \$0.00                | \$0.61                  | \$0.19                |
| Weighted-average shares used in computing per share amounts: |   |                       |                         |                       |
| Basic  | 531,313   | 544,055               | 530,790                 | 544,353               |
| Diluted  | 536,019   | 544,055               | 536,311                 | 549,934               |

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents

FLEX LTD.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Three-Month Periods Ended |                       | Six-Month Periods Ended |                       |
|--|---------------------------|-----------------------|-------------------------|-----------------------|
|  | September<br>29, 2017     | September<br>30, 2016 | September<br>29, 2017   | September<br>30, 2016 |
|  | (In thousands)            |                       |                         |                       |
|  | (Unaudited)               |                       |                         |                       |
| Net income (loss)  | \$205,086                 | \$ (2,508 )           | \$329,796               | \$ 103,221            |
| Other comprehensive income (loss):                                   |                           |                       |                         |                       |
| Foreign currency translation adjustments, net of zero tax            | 9,478                     | 4,213                 | 20,314                  | 14,074                |
| Unrealized loss on derivative instruments and other, net of zero tax | (13,875 )                 | (2,059 )              | (16,044 )               | (711 )                |
| Comprehensive income (loss)  | \$200,689                 | \$ (354 )             | \$334,066               | \$ 116,584            |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

FLEX LTD.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Six-Month Periods Ended |              |
|--|-------------------------|--------------|
|  | September               | September    |
|  | 29, 2017                | 30, 2016     |
|  | (In thousands)          |              |
|  | (Unaudited)             |              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                     |                         |              |
| Net income   | \$ 329,796              | \$ 103,221   |
| Depreciation, amortization and other impairment charges                          | 264,718                 | 337,387      |
| Gain from deconsolidation of a subsidiary entity                                 | (151,574 )              | —            |
| Changes in working capital and other   | (162,135 )              | 102,944      |
| Net cash provided by operating activities  | 280,805                 | 543,552      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                     |                         |              |
| Purchases of property and equipment  | (264,030 )              | (305,936 )   |
| Proceeds from the disposition of property and equipment                          | 36,123                  | 26,561       |
| Acquisition of businesses, net of cash acquired                                  | (273,167 )              | (189,895 )   |
| Proceeds from divestiture of businesses, net of cash held in divested businesses | (2,949 )                | 36,073       |
| Other investing activities, net  | (114,063 )              | 20,357       |
| Net cash used in investing activities  | (618,086 )              | (412,840 )   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                     |                         |              |
| Proceeds from bank borrowings and long-term debt                                 | —                       | 75,035       |
| Repayments of bank borrowings and long-term debt                                 | (26,483 )               | (110,592 )   |
| Payments for repurchases of ordinary shares                                      | (145,005 )              | (184,698 )   |
| Net proceeds from issuance of ordinary shares                                    | 1,211                   | 11,344       |
| Other financing activities, net  | 60,591                  | (6,836 )     |
| Net cash used in financing activities  | (109,686 )              | (215,747 )   |
| Effect of exchange rates on cash and cash equivalents                            | (14,206 )               | 14,521       |
| Net decrease in cash and cash equivalents  | (461,173 )              | (70,514 )    |
| Cash and cash equivalents, beginning of period                                   | 1,830,675               | 1,607,570    |
| Cash and cash equivalents, end of period   | \$ 1,369,502            | \$ 1,537,056 |
| <b>Non-cash investing activities:</b>  |                         |              |
| Unpaid purchases of property and equipment                                       | \$ 125,187              | \$ 67,633    |
| Non-cash investment in Elementum   | \$ 132,679              | \$ —         |
| Non-cash proceeds from sale of Wink  | \$ 59,000               | \$ —         |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION OF THE COMPANY AND BASIS OF PRESENTATION

Organization of the Company

Flex Ltd., ("Flex" or the "Company") was incorporated in the Republic of Singapore in May 1990. The Company's operations have expanded over the years through a combination of organic growth and acquisitions. The Company is a globally-recognized, provider of Sketch-to-Scale™ services - innovative design, engineering, manufacturing, and supply chain services and solutions - from conceptual sketch to full-scale production. The Company designs, builds, ships and services complete packaged consumer and industrial products, from athletic shoes to electronics, for companies of all sizes in various industries and end-markets, through its activities in the following segments:

- Communications & Enterprise Compute ("CEC"), which includes telecom business of radio access base stations, remote radio heads, and small cells for wireless infrastructure; networking business which includes optical, routing, broadcasting, and switching products for the data and video networks; server and storage platforms for both enterprise and cloud-based deployments; next generation storage and security appliance products; and rack level solutions, converged infrastructure and software-defined product solutions;
- Consumer Technologies Group ("CTG"), which includes consumer-related businesses in connected living, wearables, gaming, augmented and virtual reality, fashion, and mobile devices; and including various supply chain solutions for notebook personal computers ("PC"), tablets, and printers; in addition, CTG is expanding its business relationships to include supply chain optimization for non-electronics products such as footwear and clothing;
- Industrial and Emerging Industries ("IEI"), which is comprised of energy and metering, semiconductor and capital equipment, office solutions, industrial, home and lifestyle, industrial automation and kiosks, and lighting; and
- High Reliability Solutions ("HRS"), which is comprised of medical business, including consumer health, digital health, disposables, precision plastics, drug delivery, diagnostics, life sciences and imaging equipment; automotive business, including vehicle electrification, connectivity, autonomous vehicles, and clean technologies; and defense and aerospace businesses, focused on commercial aviation, defense and military.

The Company's service offerings include a comprehensive range of value-added design and engineering services that are tailored to the various markets and needs of its customers. Other focused service offerings relate to manufacturing (including enclosures, metals, plastic injection molding, precision plastics, machining, and mechanicals), system integration and assembly and test services, materials procurement, inventory management, logistics and after-sales services (including product repair, warranty services, re-manufacturing and maintenance) and supply chain management software solutions and component product offerings (including rigid and flexible printed circuit boards and power adapters and chargers).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP") for interim financial information and in accordance with the requirements of Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements, and should be read in conjunction with the Company's audited consolidated financial statements as of and for the fiscal year ended March 31, 2017 contained in the Company's Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month and six-month periods ended September 29, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2018.

The first quarters for fiscal year 2018 and fiscal year 2017 ended on June 30, 2017, which is comprised of 91 days in the period, and July 1, 2016, which is comprised of 92 days in the period, respectively. The second quarters for fiscal year 2018 and fiscal year 2017 ended on September 29, 2017 and September 30, 2016, which are comprised of 91 days in both periods.

## Table of Contents

The accompanying unaudited condensed consolidated financial statements include the accounts of Flex and its majority-owned subsidiaries, after elimination of intercompany accounts and transactions. The Company consolidates its majority-owned subsidiaries and investments in entities in which the Company has a controlling interest. For the consolidated majority-owned subsidiaries in which the Company owns less than 100%, the Company recognizes a noncontrolling interest for the ownership of the noncontrolling owners. Noncontrolling interests are immaterial for all of the periods presented, and are included in interest and other, net in the condensed consolidated statements of operations.

The Company has certain non-majority-owned equity investments in non-publicly traded companies that are accounted for using the equity method of accounting. The equity method of accounting is used when the Company has the ability to significantly influence the operating decisions of the issuer, or if the Company has a voting percentage of a corporation equal to or generally greater than 20% but less than 50%, and for non-majority-owned investments in partnerships when generally greater than 5%. The equity in earnings (losses) of equity method investees are immaterial for all periods presented, and are included in interest and other, net in the condensed consolidated statements of operations.

### Recently Adopted Accounting Pronouncement

In July 2015, the FASB issued new guidance to simplify the measurement of inventory, by requiring that inventory be measured at the lower of cost and net realizable value. Prior to the issuance of the new guidance, inventory was measured at the lower of cost or market. The Company adopted the guidance effective April 1, 2017 and it did not have a material impact on its condensed consolidated financial statements.

In October 2016, the FASB issued new guidance intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This guidance is effective for the Company beginning in the first quarter of fiscal year 2019, with early adoption permitted in the first interim period of fiscal year 2018. The Company adopted the guidance effective April 1, 2017 and it did not have a material impact on its condensed consolidated financial statements.

### Recently Issued Accounting Pronouncements

In August 2017, the FASB issued new guidance with the objective of improving the financial reporting of hedging relationships and simplifying the application of the hedge accounting guidance in current GAAP. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020 with early adoption permitted. The Company expects the new guidance will have an immaterial impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2020.

In May 2014, the FASB issued new guidance which requires an entity to recognize revenue relating to contracts with customers that depicts the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. In order to meet this requirement, the entity must apply the following steps: (i) identify the contracts with the customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, disclosures required for revenue recognition will include qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from costs to obtain or fulfill a contract. The guidance is effective for the Company beginning in the first quarter of fiscal year 2019.

The Company is in the process of implementation activities in accordance with the planned effective date. These activities are focused on the review of significant customer contracts, identification and development of additional systems capabilities to enable the Company to make reasonable estimates of revenue as products are manufactured, and the design and implementation of relevant internal controls. The Company has determined that the new standard will change the timing of revenue recognition for a significant portion of its business. Under the new standard, revenue for a significant majority of the manufacturing services customer contracts will be recognized earlier than under the current accounting rules (where Flex recognizes revenue based on shipping and delivery). This change will also have material impacts to the Company's balance sheet, primarily related to a reduction in finished goods and work-in-process inventories and a corresponding increase in unbilled receivables.

The new guidance allows for two transition methods in application - (i) retrospective to each prior reporting period presented, or (ii) prospective with the cumulative effect of adoption recognized on April 1, 2018, the first day of the Company's fiscal year 2019 (also known as the modified retrospective approach). The Company will adopt the standard using the modified retrospective approach, which will result in an adjustment to accumulated deficit for the cumulative effect of applying this guidance to contracts in process as of the adoption date. Under this approach, prior financial statements presented will not be restated. This guidance requires additional disclosures of the amount by which each financial statement line item affected in the

Table of Contents

current reporting period during fiscal year 2019 as compared to the guidance that was in effect before the change, and an explanation of the reasons for the significant changes.

## 2. BALANCE SHEET ITEMS

## Inventories

The components of inventories, net of applicable lower of cost and net realizable value write-downs, were as follows:

|                  | As of<br>September<br>29, 2017 | As of<br>March 31,<br>2017 |
|------------------|--------------------------------|----------------------------|
|                  | (In thousands)                 |                            |
| Raw materials    | \$2,672,700                    | \$2,537,623                |
| Work-in-progress | 474,477                        | 279,493                    |
| Finished goods   | 626,477                        | 579,346                    |
|                  | \$3,773,654                    | \$3,396,462                |

## Goodwill and Other Intangible Assets

The following table summarizes the activity in the Company's goodwill account for each of its four segments during the six-month period ended September 29, 2017:

|  | HRS            | CTG       | IEI       | CEC       | Amount      |
|--|----------------|-----------|-----------|-----------|-------------|
|  | (In thousands) |           |           |           |             |
| Balance, beginning of the year               | \$420,935      | \$111,223 | \$337,707 | \$115,002 | \$984,867   |
| Additions (1)                                | 75,280         | —         | —         | —         | 75,280      |
| Divestitures (2)                             | —              | (3,475 )  | —         | —         | (3,475 )    |
| Purchase accounting adjustments              | —              | —         | —         | (14 )     | (14 )       |
| Foreign currency translation adjustments (3) | 30,320         | —         | —         | —         | 30,320      |
| Balance, end of the period                   | \$526,535      | \$107,748 | \$337,707 | \$114,988 | \$1,086,978 |

(1) The goodwill generated from the Company's acquisition of AGM Automotive ("AGM") completed during the six-month period ended September 29, 2017 is primarily related to value placed on the acquired employee workforces, service offerings and capabilities of the acquired business. The goodwill is not deductible for income tax purposes. See note 12 for additional information.

(2) During the six-month period ended September 29, 2017, the Company disposed of Wink Labs Inc. ("Wink"), a business within the CTG segment, and recorded an aggregate reduction of goodwill of \$3.5 million accordingly, which is included as an offset to the gain on sale recorded in other charges (income), net on the condensed consolidated statement of operations.

(3) During the six-month period ended September 29, 2017, the Company recorded \$30.3 million of foreign currency translation adjustments primarily related to the goodwill associated with the acquisition of Mirror Controls International ("MCi"), as the U.S. Dollar fluctuated against the Euro.





Table of Contents

The components of acquired intangible assets are as follows:

|                                | As of September 29, 2017 |                          |                     | As of March 31, 2017  |                          |                     |
|--------------------------------|--------------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|                                | Gross Carrying Amount    | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|                                | (In thousands)           |                          |                     |                       |                          |                     |
| Intangible assets:             |                          |                          |                     |                       |                          |                     |
| Customer-related intangibles   | \$ 352,651               | \$ (125,276 )            | \$ 227,375          | \$ 260,704            | \$ (105,912 )            | \$ 154,792          |
| Licenses and other intangibles | 280,712                  | (87,628 )                | 193,084             | 283,897               | (76,508 )                | 207,389             |
| Total                          | \$ 633,363               | \$ (212,904 )            | \$ 420,459          | \$ 544,601            | \$ (182,420 )            | \$ 362,181          |

The gross carrying amounts of intangible assets are removed when fully amortized. During the six-month period ended September 29, 2017, the total value of intangible assets increased primarily as a result of the Company's estimated value of \$82.0 million for customer related intangibles acquired with the AGM acquisition in the HRS segment, which will amortize over a weighted-average estimated useful life of 10 years. The increase was partially offset by \$7.5 million for the divestiture of Wink in the CTG segment. The assigned value is subject to change as the Company completes the valuation. The estimated future annual amortization expense for intangible assets is as follows:

| Fiscal Year Ending March 31, Amount | (In thousands) |
|-------------------------------------|----------------|
| 2018 (1)                            | \$ 37,620      |
| 2019                                | 70,049         |
| 2020                                | 63,846         |
| 2021                                | 59,436         |
| 2022                                | 50,401         |
| Thereafter                          | 139,107        |
| Total amortization expense          | \$ 420,459     |

(1) Represents estimated amortization for the remaining six-month period ending March 31, 2018.

#### Other Current Assets

Other current assets include approximately \$487.2 million and \$506.5 million as of September 29, 2017 and March 31, 2017, respectively, for the deferred purchase price receivable from the Company's Global and North American Asset-Backed Securitization programs. See note 10 for additional information.

#### Other Assets

During the first quarter of fiscal year 2018, the Company sold Wink to an unrelated third-party venture backed company in exchange for contingent consideration fair valued at \$59.0 million. This estimated consideration was based on the value of the acquirer as of the most recent third-party funding of which the Company participated. The Company recognized a non-cash gain on sale of \$38.7 million, which is recorded in other charges (income), net on the condensed consolidated statement of income in the six-month period ended September 29, 2017. The contingent consideration is expected to be settled in the fourth quarter of fiscal year 2018, based on a remeasured fair value on the settlement date. As of September 29, 2017, the total investment, including working capital advances, of \$72.8 million is accounted for as a cost method investment, and is included in other assets on the condensed consolidated balance sheet.

During the second quarter of fiscal year 2018, the Company deconsolidated one of its majority owned subsidiaries, following the amendments of certain agreements that resulted in joint control of the board of directors between the Company and other non-controlling interest holders. As of September 29, 2017, this subsidiary is accounted for as a cost method investment of approximately \$132.7 million and is included in other assets on the condensed consolidated balance sheet. See note 5 for additional information on the deconsolidation.

Table of Contents

## Other Current Liabilities

Other current liabilities include customer working capital advances of \$187.8 million and \$231.3 million, customer-related accruals of \$453.2 million and \$501.9 million, and deferred revenue of \$284.8 million and \$280.7 million as of September 29, 2017 and March 31, 2017, respectively. The customer working capital advances are not interest-bearing, do not have fixed repayment dates and are generally reduced as the underlying working capital is consumed in production.

## 3. SHARE-BASED COMPENSATION

Historically, the Company's primary plan used for granting equity compensation awards was the 2010 Equity Incentive Plan (the "2010 Plan"). Effective August 15, 2017, awards are granted under the Company's 2017 Equity Incentive Plan (the "2017 Plan"), which was approved by the Company's shareholders at the 2017 Annual General Meeting of Shareholders. For further discussion on this 2017 Plan, refer to the Company's Proxy Statement, which was filed with the Securities and Exchange Commission on July 5, 2017.

The following table summarizes the Company's share-based compensation expense:

|  | Three-Month Periods Ended |                    | Six-Month Periods Ended |                    |
|--|---------------------------|--------------------|-------------------------|--------------------|
|  | September 29, 2017        | September 30, 2016 | September 29, 2017      | September 30, 2016 |
|  | (In thousands)            |                    |                         |                    |
| Cost of sales                                | \$4,985                   | \$ 2,636           | \$8,304                 | \$ 5,069           |
| Selling, general and administrative expenses | 15,479                    | 20,097             | 33,956                  | 41,461             |
| Total share-based compensation expense       | \$20,464                  | \$ 22,733          | \$42,260                | \$ 46,530          |

Total unrecognized compensation expense related to share options under all plans was \$6.6 million, and will be recognized over a weighted-average remaining vesting period of 1.6 years. As of September 29, 2017, the number of options outstanding and exercisable under all plans was 1.7 million and 0.6 million, respectively, at a weighted-average exercise price of \$3.57 per share and \$4.33 per share, respectively.

During the six-month period ended September 29, 2017, the Company granted 5.0 million unvested share bonus awards. Of this amount, approximately 4.2 million unvested share bonus awards have an average grant date price of \$16.38 per share and vest over four years. Further, approximately 0.6 million of these unvested shares represents the target amount of grants made to certain key employees whereby vesting is contingent on certain market conditions. The average grant date fair value of these awards contingent on certain market conditions was estimated to be \$20.25 per award and was calculated using a Monte Carlo simulation. The number of shares contingent on market conditions that ultimately will vest will range from zero up to a maximum of 1.2 million based on a measurement of the percentile rank of the Company's total shareholder return over a certain specified period against the Standard and Poor's ("S&P") 500 Composite Index and will cliff vest after a period of three years, if such market conditions have been met. No additional share options under the immaterial plans were granted by the Company during the six-month period ended September 29, 2017.

As of September 29, 2017, approximately 16.3 million unvested share bonus awards under all plans were outstanding, of which vesting for a targeted amount of 2.1 million is contingent primarily on meeting certain market conditions. The number of shares that will ultimately be issued can range from zero to 4.2 million based on the

achievement levels of the respective conditions. During the six-month period ended September 29, 2017, 1.4 million shares vested in connection with the share bonus awards with market conditions granted in fiscal year 2015.

As of September 29, 2017, total unrecognized compensation expense related to unvested share bonus awards under all plans was approximately \$176.3 million, and will be recognized over a weighted-average remaining vesting period of 2.8 years.

Table of Contents

## 4. EARNINGS PER SHARE

The following table reflects basic weighted-average ordinary shares outstanding and diluted weighted-average ordinary share equivalents used to calculate basic and diluted earnings per share attributable to the shareholders of Flex Ltd.:

|   | Three-Month Periods                      |             | Six-Month Periods |            |
|---|--|-------------|-------------------|------------|
|   | September                                | September   | September         | September  |
|   | 29, 2017                                 | 30, 2016    | 29, 2017          | 30, 2016   |
|   | (In thousands, except per share amounts) |             |                   |            |
| Net income (loss)   | \$205,086                                | \$ (2,508 ) | \$329,796         | \$ 103,221 |
| Shares used in computation:   |  |             |                   |            |
| Weighted-average ordinary shares outstanding                                      | 531,313                                  | 544,055     | 530,790           | 544,353    |
| Basic earnings (losses) per share   | \$0.39                                   | \$ 0.00     | \$0.62            | \$ 0.19    |
| Diluted earnings (losses) per share:  |  |             |                   |            |
| Net income (loss)   | \$205,086                                | \$ (2,508 ) | \$329,796         | \$ 103,221 |
| Shares used in computation:   |  |             |                   |            |
| Weighted-average ordinary shares outstanding                                      | 531,313                                  | 544,055     | 530,790           | 544,353    |
| Weighted-average ordinary share equivalents from stock options and awards (1) (2) | 4,706                                    | —           | 5,521             | 5,581      |
| Weighted-average ordinary shares and ordinary share equivalents outstanding       | 536,019                                  | 544,055     | 536,311           | 549,934    |
| Diluted earnings (losses) per share   | \$0.38                                   | \$ 0.00     | \$0.61            | \$ 0.19    |

(1) Options to purchase ordinary shares of 0.1 million and 1.7 million during the three-month periods ended September 29, 2017 and September 30, 2016, respectively, and share bonus awards of 0.8 million and 3.4 million for the three-month periods ended September 29, 2017 and September 30, 2016, were excluded from the computation of diluted earnings per share due to their anti-dilutive impact on the weighted-average ordinary share equivalents. As a result of the Company's net loss for the three-month period ended September 30, 2016, ordinary share equivalents from approximately 4.3 million options and share bonus awards were excluded from the calculation of diluted earnings (losses) per share.

(2) Options to purchase ordinary shares of 0.1 million and 0.9 million during the six-month periods ended September 29, 2017 and September 30, 2016, respectively, and share bonus awards of 0.5 million for the six-month period ended September 29, 2017 were excluded from the computation of diluted earnings per share due to their anti-dilutive impact on the weighted-average ordinary share equivalents. An immaterial amount of anti-dilutive share bonus awards was excluded for the six-month period ended September 30, 2016.

## 5. DECONSOLIDATION OF SUBSIDIARY ENTITY

The Company has a majority owned subsidiary, Elementum SCM (Cayman) Ltd ("Elementum"), which qualifies as a variable interest entity for accounting purposes. The Company owns a majority of Elementum's outstanding equity (consisting primarily of preferred stock) and as of March 31, 2017, controlled its board of directors, which gave the Company the power to direct the activities of Elementum that most significantly impact its economic performance. Accordingly, the Company recognized the carrying value of the noncontrolling interest as a component of total shareholders' equity, and the consolidated financial statements include the financial position and results of operations of Elementum as of and for the period ended March 31, 2017.

During the quarter ended September 29, 2017, the Company and other minority shareholders of Elementum amended certain agreements resulting in joint control of the board of directors between the Company and other non-controlling interest holders. As a result, the Company concluded it is no longer the primary beneficiary of Elementum and accordingly, deconsolidated the entity. The Company no longer recognizes the carrying value of the noncontrolling interest as a component of total shareholder's equity resulting in a reduction of \$90.6 million of noncontrolling interest from its condensed consolidated balance sheet upon deconsolidation, which was treated as a non-cash financing activity in the condensed consolidated statement of cash flows for the period ended September 29, 2017. Further, the Company derecognized approximately \$72.6 million of cash of Elementum as of the date of deconsolidation which is reflected as an outflow from investing activities within other

Table of Contents

investing activities, net in the condensed consolidated statement of cash flows for the period ended September 29, 2017. There were no other material impacts to the condensed consolidated balance sheet or condensed consolidated cash flows resulting from deconsolidation of the entity. The noncontrolling interest in the operating losses of Elementum prior to deconsolidation is immaterial for all periods presented and is classified as a component of interest and other, net, in the Company's condensed consolidated statements of operations.

The carrying amount of the Company's variable interest in Elementum was approximately \$132.7 million as of September 29, 2017, is accounted for as a cost method investment, and is included in other assets on the condensed consolidated balance sheet. The value of the Company's variable interest was based on management's estimate of the fair value of Elementum on the date of deconsolidation. Given that Elementum had recently raised equity funding from third-party investors, the Company concluded that the market approach was the most appropriate method to determine the fair value of the entity on the date of deconsolidation. The Company recognized a gain on deconsolidation of approximately \$151.6 million with no related tax impact, which is included in other charges (income), net on the condensed consolidated statement of operations. As the Company is not obligated to fund future losses of Elementum, the carrying amount is the Company's maximum risk of loss. Pro-forma financials have not been presented because the effects were not material to the Company's condensed consolidated financial position and results of operation for all periods presented. Elementum remains a related party to the Company after deconsolidation.

## 6. BANK BORROWINGS AND LONG TERM DEBT

Bank borrowings and long-term debt are as follows:

|   | As of September 29, 2017<br>(In thousands) | As of March 31, 2017 |
|---|--|----------------------|
| 4.625% Notes due February 2020  | \$ 500,000                                 | \$ 500,000           |
| Term Loan, including current portion, due in installments through November 2021 | 700,000                                    | 700,000              |
| Term Loan, including current portion, due in installments through June 2022     | 496,219                                    | 502,500              |
| 5.000% Notes due February 2023  | 500,000                                    | 500,000              |
| 4.75% Notes due June 2025   | 596,180                                    | 595,979              |
| Other   | 179,101                                    | 169,671              |
| Debt issuance costs   | (15,379)                                   | (16,007)             |
| Total   | \$ 2,956,121                               | \$ 2,952,143         |

The weighted-average interest rates for the Company's long-term debt were 3.5% as of September 29, 2017 and March 31, 2017, respectively.

On June 30, 2017, the Company entered into a five-year credit facility consisting of a \$1.75 billion revolving credit facility and a \$502.5 million term loan, which is due to mature on June 30, 2022 (the "2022 Credit Facility"). This 2022 Credit Facility replaced the Company's \$2.1 billion credit facility, which was due to mature on March 2019. The outstanding principal of the term loan portion of the 2022 Credit Facility is repayable in quarterly installments of

approximately \$6.3 million from September 30, 2017 through June 30, 2020 and approximately \$12.6 million from September 30, 2020 through March 31, 2022 with the remainder due upon maturity. The Company determined that effectively extending the maturity date of the revolving credit and repaying the term loan due March 2019 qualified as a debt modification and consequently all unamortized debt issuance costs related to the \$2.1 billion credit facility are capitalized and will be amortized over the term of the 2022 Credit Facility.

Borrowings under the 2022 Credit Facility bear interest, at the Company's option, either at (i) the Base Rate, which is defined as the greatest of (a) the Administrative Agent's prime rate, (b) the federal funds effective rate, plus 0.50% and (c) the LIBOR (the London Interbank Offered Rate) rate that would be calculated as of each day in respect of a proposed LIBOR loan with a one-month interest period, plus 1.0%; plus, in the case of each of clauses (a) through (c), an applicable margin ranging from 0.125% to 0.875% per annum, based on the Company's credit ratings (as determined by Standard & Poor's Financial Services LLC, Moody's Investors Service, Inc. and Fitch Ratings Inc.) or (ii) LIBOR plus the applicable margin for LIBOR loans ranging between 1.125% and 1.875% per annum, based on the Company's credit ratings.



Table of Contents

The 2022 Credit Facility is unsecured, and contains customary restrictions on the ability of the Company and its subsidiaries to (i) incur certain debt, (ii) make certain investments, (iii) make certain acquisitions of other entities, (iv) incur liens, (v) dispose of assets, (vi) make non-cash distributions to shareholders, and (vii) engage in transactions with affiliates. These covenants are subject to a number of significant exceptions and limitations. The 2022 Credit Facility also requires that the Company maintain a maximum ratio of total indebtedness to EBITDA (earnings before interest expense, taxes, depreciation and amortization), and a minimum interest coverage ratio during the term of the 2022 Credit Facility. As of September 29, 2017, the Company was in compliance with the covenants under the 2022 Credit Facility agreement.

The Company has three tranches of Notes, the 4.625% Notes due 2020, the 5.000% Notes due 2023 and the 4.75% Notes due 2025. These Notes are senior unsecured obligations, and prior to June 30, 2017, were guaranteed, fully and unconditionally, jointly and severally, on an unsecured basis, by certain of the Company's 100% owned subsidiaries (the "guarantor subsidiaries"). Upon the termination of the \$2.1 billion credit facility, all guarantor subsidiaries were released from their guarantees under each indenture for each Note. As a result, the Company will no longer be providing supplemental guarantor and non-guarantor condensed consolidating financial statements.

Repayment of the Company's long term debt outstanding as of September 29, 2017 is as follows:

| Fiscal Year Ending March 31, Amount | (In thousands) |
|-------------------------------------|----------------|
| 2018 (1)                            | \$ 26,720      |
| 2019                                | 44,080         |
| 2020                                | 542,846        |
| 2021                                | 111,784        |
| 2022                                | 806,973        |
| Thereafter                          | 1,439,097      |
| Total                               | \$ 2,971,500   |

---

(1) Represents scheduled repayment for the remaining six-month period ending March 31, 2018.

## 7. INTEREST AND OTHER, NET

During the three-month and six-month periods ended September 29, 2017, the Company recognized interest expense of \$29.6 million and \$58.6 million, respectively, on its debt obligations outstanding during the periods. During the three-month and six-month periods ended September 30, 2016, the Company recognized interest expense of \$26.5 million and \$53.4 million, respectively.

Table of Contents

## 8. FINANCIAL INSTRUMENTS

## Foreign Currency Contracts

The Company enters into forward contracts and foreign currency swap contracts primarily to manage the foreign currency risk associated with monetary accounts and anticipated foreign currency denominated transactions. The Company hedges committed exposures and does not engage in speculative transactions. As of September 29, 2017, the aggregate notional amount of the Company's outstanding foreign currency contracts was \$7.8 billion as summarized below:

| Currency                             | Foreign Currency Amount |            | Notional Contract Value in USD |              |
|--------------------------------------|-------------------------|------------|--------------------------------|--------------|
|                                      | Buy                     | Sell       | Buy                            | Sell         |
|                                      | (In thousands)          |            |                                |              |
| Cash Flow Hedges                     |                         |            |                                |              |
| CNY                                  | 1,966,000               | —          | \$ 295,973                     | \$ —         |
| EUR                                  | 27,750                  | 104,595    | 32,555                         | 121,947      |
| HUF                                  | 18,773,250              | —          | 70,800                         | —            |
| INR                                  | 1,577,172               | —          | 24,000                         | —            |
| MXN                                  | 2,906,280               | —          | 160,501                        | —            |
| MYR                                  | 134,500                 | 51,000     | 32,088                         | 12,167       |
| RON                                  | 104,130                 | —          | 26,573                         | —            |
| SGD                                  | 31,300                  | —          | 23,033                         | —            |
| Other                                | N/A                     | N/A        | 45,734                         | 5,206        |
|                                      |                         |            | 711,257                        | 139,320      |
| Other Foreign Currency Contracts     |                         |            |                                |              |
| BRL                                  | —                       | 706,000    | —                              | 221,407      |
| CAD                                  | 233,429                 | 246,916    | 188,706                        | 199,609      |
| CHF                                  | 13,160                  | 31,378     | 13,502                         | 32,192       |
| CNY                                  | 1,554,257               | —          | 234,000                        | —            |
| DKK                                  | 187,600                 | 158,800    | 29,576                         | 25,036       |
| EUR                                  | 1,926,154               | 2,309,322  | 2,261,811                      | 2,713,000    |
| GBP                                  | 34,051                  | 63,058     | 45,574                         | 84,125       |
| HUF                                  | 18,465,506              | 20,671,489 | 69,639                         | 77,959       |
| ILS                                  | 162,700                 | 97,800     | 45,932                         | 27,610       |
| INR                                  | 4,090,000               | 277,061    | 62,243                         | 4,200        |
| MXN                                  | 2,968,175               | 1,906,930  | 163,920                        | 105,312      |
| MYR                                  | 387,400                 | 56,450     | 92,423                         | 13,467       |
| SEK                                  | 173,247                 | 263,957    | 21,487                         | 32,355       |
| Other                                | N/A                     | N/A        | 93,599                         | 59,170       |
|                                      |                         |            | 3,322,412                      | 3,595,442    |
| Total Notional Contract Value in USD |                         |            | \$ 4,033,669                   | \$ 3,734,762 |

As of September 29, 2017, the fair value of the Company's short-term foreign currency contracts was included in other current assets or other current liabilities, as applicable, in the condensed consolidated balance sheets. Certain of these contracts are designed to economically hedge the Company's exposure to monetary assets and liabilities denominated in a non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of interest and other, net in the condensed consolidated statements of operations. As of September 29, 2017 and

March 31, 2017, the Company also has included net deferred gains and losses in accumulated other comprehensive loss, a component of shareholders' equity in the condensed consolidated balance sheets, relating to changes in fair value of its foreign currency contracts that are accounted for as cash

Table of Contents

flow hedges. These deferred losses were \$2.2 million as of September 29, 2017, and are expected to be recognized primarily as a component of cost of sales in the condensed consolidated statements of operations primarily over the next twelve-month period. The gains and losses recognized in earnings due to hedge ineffectiveness were not material for all fiscal periods presented and are included as a component of interest and other, net in the condensed consolidated statements of operations.

The following table presents the fair value of the Company's derivative instruments utilized for foreign currency risk management purposes:

|   | Fair Values of Derivative Instruments    |                |           |                           |                |          |
|---|--|----------------|-----------|---------------------------|----------------|----------|
|   | Asset Derivatives                        |                |           | Liability Derivatives     |                |          |
|   | Balance Sheet Location<br>(In thousands) | Fair Value     |           | Balance Sheet Location    | Fair Value     |          |
|   | September 29, 2017                       | March 31, 2017 |           | September 29, 2017        | March 31, 2017 |          |
| Derivatives designated as hedging instruments     |  |                |           |                           |                |          |
| Foreign currency contracts                        | Other current assets                     | \$8,422        | \$ 11,936 | Other current liabilities | \$7,691        | \$ 1,814 |
| Derivatives not designated as hedging instruments |  |                |           |                           |                |          |
| Foreign currency contracts                        | Other current assets                     | \$28,151       | \$ 10,086 | Other current liabilities | \$25,777       | \$ 9,928 |

The Company has financial instruments subject to master netting arrangements, which provides for the net settlement of all contracts with a single counterparty. The Company does not offset fair value amounts for assets and liabilities recognized for derivative instruments under these arrangements, and as such, the asset and liability balances presented in the table above reflect the gross amounts of derivatives in the condensed consolidated balance sheets. The impact of netting derivative assets and liabilities is not material to the Company's financial position for any of the periods presented.

## 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive loss by component, net of tax, are as follows:

|  | Three-Month Periods Ended                |   |  | September 30, 2016 |   |             |
|--|--|---|--|--------------------|---|-------------|
|  | September 29, 2017                       | Unrealized loss on derivative instruments and other |  | September 30, 2016 | Unrealized loss on derivative instruments and other |             |
|  | Foreign currency translation adjustments | Total   | Foreign currency translation adjustments | Total              | Foreign currency translation adjustments            | Total       |
|  | (In thousands)                           |   |  |                    |   |             |
| Beginning balance  | \$(34,595)                               | \$(84,881)  | \$(119,476)                              | \$(40,174)         | \$(84,532)  | \$(124,706) |
| Other comprehensive gain (loss) before reclassifications         | (3,865)                                  | 9,478   | 5,613                                    | (1,169)            | 4,213   | 3,044       |
| Net gains reclassified from accumulated other comprehensive loss | (10,010)                                 | —   | (10,010)                                 | (890)              | —   | (890)       |
|  | (13,875)                                 | 9,478   | (4,397)                                  | (2,059)            | 4,213   | 2,154       |

Net current-period other  
comprehensive gain (loss)  
Ending balance

\$(48,470) \$ (75,403 ) \$(123,873) \$(42,233) \$ (80,319 ) \$(122,552)

18

---

Table of Contents

|   | Six-Month Periods Ended<br>September 29, 2017                   |   |             | September 30, 2016   |   |             |
|---|---|---|-------------|--|---|-------------|
|   | Unrealized loss on<br>derivative<br>instruments<br>and<br>other | Foreign currency<br>translation<br>and<br>adjustments | Total       | Unrealized<br>gain<br>(loss) on<br>instruments<br>and<br>other | Foreign currency<br>translation<br>and<br>adjustments | Total       |
|   | (In thousands)  |   |             |  |   |             |
| Beginning balance   | \$(32,426)  | \$ (95,717 )  | \$(128,143) | \$(41,522)   | \$ (94,393 )  | \$(135,915) |
| Other comprehensive gain (loss) before<br>reclassifications         | (845 )  | 20,314  | 19,469      | 324  | 14,299  | 14,623      |
| Net gains reclassified from<br>accumulated other comprehensive loss | (15,199 )   | —   | (15,199 )   | (1,035 )   | (225 )  | (1,260 )    |
| Net current-period other<br>comprehensive gain (loss)               | (16,044 )   | 20,314  | 4,270       | (711 )   | 14,074  | 13,363      |
| Ending balance  | \$(48,470)  | \$ (75,403 )  | \$(123,873) | \$(42,233)   | \$ (80,319 )  | \$(122,552) |

Substantially all unrealized gains relating to derivative instruments and other, reclassified from accumulated other comprehensive loss for the three-month and six-month periods ended September 29, 2017 were recognized as a component of cost of sales in the condensed consolidated statement of operations, which primarily relate to the Company's foreign currency contracts accounted for as cash flow hedges.

## 10. TRADE RECEIVABLES SECURITIZATION

The Company sells trade receivables under two asset-backed securitization programs and under an accounts receivable factoring program.

### Asset-Backed Securitization Programs

The Company continuously sells designated pools of trade receivables under its Global Asset-Backed Securitization Agreement (the "Global Program") and its North American Asset-Backed Securitization Agreement (the "North American Program," collectively, the "ABS Programs") to affiliated special purpose entities, each of which in turn sells 100% of the receivables to unaffiliated financial institutions. These programs allow the operating subsidiaries to receive a cash payment and a deferred purchase price receivable for sold receivables. Following the transfer of the receivables to the special purpose entities, the transferred receivables are isolated from the Company and its affiliates, and upon the sale of the receivables from the special purpose entities to the unaffiliated financial institutions, effective control of the transferred receivables is passed to the unaffiliated financial institutions, which has the right to pledge or sell the receivables. Although the special purpose entities are consolidated by the Company, they are separate corporate entities and their assets are available first to satisfy the claims of their creditors. The investment limits set by the financial institutions are \$850.0 million for the Global Program, of which \$750.0 million is committed and \$100.0 million is uncommitted, and \$250.0 million for the North American Program, of which \$210.0 million is committed and \$40.0 million is uncommitted. Both programs require a minimum level of deferred purchase price receivable to be retained by the Company in connection with the sales.

The Company services, administers and collects the receivables on behalf of the special purpose entities and receives a servicing fee of 0.1% to 0.5% of serviced receivables per annum. Servicing fees recognized during the three-month and six-month periods ended September 29, 2017 and September 30, 2016 were not material and are included in interest and other, net within the condensed consolidated statements of operations. As the Company estimates the fee it receives in return for its obligation to service these receivables is at fair value, no servicing assets and liabilities are

recognized.

As of September 29, 2017, approximately \$1.5 billion of accounts receivable had been sold to the special purpose entities under the ABS Programs for which the Company had received net cash proceeds of approximately \$1.0 billion and deferred purchase price receivables of approximately \$487.2 million. As of March 31, 2017, approximately \$1.5 billion of accounts receivable had been sold to the special purpose entities for which the Company had received net cash proceeds of \$1.0 billion and deferred purchase price receivables of approximately \$506.5 million. The portion of the purchase price for the receivables which is not paid by the unaffiliated financial institutions in cash is a deferred purchase price receivable, which is paid to the

19

---

Table of Contents

special purpose entity as payments on the receivables are collected from account debtors. The deferred purchase price receivable represents a beneficial interest in the transferred financial assets and is recognized at fair value as part of the sale transaction. The deferred purchase price receivables are included in other current assets as of September 29, 2017 and March 31, 2017, and were carried at the expected recovery amount of the related receivables. The difference between the carrying amount of the receivables sold under these programs and the sum of the cash and fair value of the deferred purchase price receivables received at time of transfer is recognized as a loss on sale of the related receivables and recorded in interest and other, net in the condensed consolidated statements of operations and were immaterial for all periods presented.

As of September 29, 2017 and March 31, 2017, the accounts receivable balances that were sold under the ABS Programs were removed from the condensed consolidated balance sheets and the net cash proceeds received by the Company were included as cash provided by operating activities in the condensed consolidated statements of cash flows.

For the six-month periods ended September 29, 2017 and September 30, 2016, cash flows from sales of receivables under the ABS Programs consisted of approximately \$3.1 billion and \$2.8 billion, for transfers of receivables, respectively (of which approximately \$135.7 million and \$92.7 million, respectively, represented new transfers and the remainder proceeds from collections reinvested in revolving-period transfers).

The following table summarizes the activity in the deferred purchase price receivables account:

|                          | Three-Month Periods Ended |                    | Six-Month Periods Ended |                    |
|--------------------------|---------------------------|--------------------|-------------------------|--------------------|
|                          | September 29, 2017        | September 30, 2016 | September 29, 2017      | September 30, 2016 |
|                          | (In thousands)            |                    |                         |                    |
| Beginning balance        | \$ 547,492                | \$ 460,334         | \$ 506,522              | \$ 501,097         |
| Transfers of receivables | 770,101                   | 760,540            | 1,617,105               | 1,522,724          |
| Collections              | (830,407 )                | (759,330 )         | (1,636,441 )            | (1,562,277 )       |
| Ending balance           | \$ 487,186                | \$ 461,544         | \$ 487,186              | \$ 461,544         |

#### Trade Accounts Receivable Sale Programs

The Company also sold accounts receivables to certain third-party banking institutions. The outstanding balance of receivables sold and not yet collected on accounts where the Company has continuing involvement was approximately \$231.1 million and \$225.2 million as of September 29, 2017 and March 31, 2017, respectively. For the six-month periods ended September 29, 2017 and September 30, 2016, total accounts receivable sold to certain third party banking institutions was approximately \$0.6 billion and \$0.8 billion, respectively. The receivables that were sold were removed from the condensed consolidated balance sheets and the cash received is reflected as cash provided by operating activities in the condensed consolidated statements of cash flows.

#### 11. FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability. The accounting guidance for fair value establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:



Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

The Company has deferred compensation plans for its officers and certain other employees. Amounts deferred under the plans are invested in hypothetical investments selected by the participant or the participant's investment manager. The Company's deferred compensation plan assets are for the most part included in other noncurrent assets on the condensed consolidated balance sheets and primarily include investments in equity securities that are valued using active market prices.

Level 2 - Applies to assets or liabilities for which there are inputs other than quoted prices included within level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets) such as cash

20

---

Table of Contents

and cash equivalents and money market funds; or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

The Company values foreign exchange forward contracts using level 2 observable inputs which primarily consist of an income approach based on the present value of the forward rate less the contract rate multiplied by the notional amount.

The Company's cash equivalents are comprised of bank deposits and money market funds, which are valued using level 2 inputs, such as interest rates and maturity periods. Due to their short-term nature, their carrying amount approximates fair value.

The Company's deferred compensation plan assets also include money market funds, mutual funds, corporate and government bonds and certain convertible securities that are valued using prices obtained from various pricing sources. These sources price these investments using certain market indices and the performance of these investments in relation to these indices. As a result, the Company has classified these investments as level 2 in the fair value hierarchy.

Level 3 - Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company has accrued for contingent consideration in connection with its business acquisitions as applicable, which is measured at fair value based on certain internal models and unobservable inputs.

The significant inputs in the fair value measurement not supported by market activity included the Company's probability assessments of expected future revenue during the earn-out period and associated volatility, appropriately discounted considering the uncertainties associated with the obligation, and calculated in accordance with the terms of the merger agreement. Significant decreases in expected revenue during the earn-out period, or significant increases in the discount rate or volatility in isolation would result in lower fair value estimates. The interrelationship between these inputs is not considered significant.

The following table summarizes the activities related to contingent consideration payable for historic acquisitions:

|                        | Three-Month Periods Ended |                    | Six-Month Periods Ended |                    |
|------------------------|---------------------------|--------------------|-------------------------|--------------------|
|                        | September 30, 2017        | September 30, 2016 | September 29, 2017      | September 30, 2016 |
|                        | (In thousands)            |                    |                         |                    |
| Beginning balance      | \$ 15,426                 | \$ 75,258          | \$ 22,426               | \$ 73,423          |
| Additions to accrual   | —                         | —                  | —                       | —                  |
| Payments               | —                         | (2,221)            | —                       | (2,221)            |
| Fair value adjustments | 1,916                     | 2,577              | (5,084)                 | 4,412              |
| Ending balance         | \$ 17,342                 | \$ 75,614          | \$ 17,342               | \$ 75,614          |

In connection with the acquisition of NEXTracker, Inc. in fiscal year 2016, the Company has an obligation to pay additional cash consideration to the former shareholders contingent upon NEXTracker, Inc.'s achievement of revenue targets during the two years after acquisition (ending on September 30, 2017). During the six-month period ended September 29, 2017, the Company reduced the obligation by \$5.1 million based on the NEXTracker revenue achievement over the contingent period.

The Company values deferred purchase price receivables relating to its asset-backed securitization program based on a discounted cash flow analysis using unobservable inputs (i.e., level 3 inputs), which are primarily risk free interest rates adjusted for the credit quality of the underlying creditor. Due to its high credit quality and short term maturity, the fair value approximates carrying value. Significant increases in either of the major unobservable inputs (credit spread, risk free interest rate) in isolation would result in lower fair value estimates, however the impact is not material. The interrelationship between these inputs is also insignificant. Refer to note 10 for a reconciliation of the change in the deferred purchase price receivable during the six-month periods ended September 29, 2017 and September 30, 2016.

There were no transfers between levels in the fair value hierarchy during the six-month periods ended September 29, 2017 and September 30, 2016.

Table of Contents

## Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis:

|  | Fair Value Measurements as of<br>September 29, 2017 |          |               |
|--|---|----------|---------------|
|  | Level 1   | Level 2  | Level 3 Total |
|  | (In thousands)                                      |          |               |
| Assets:  |   |          |               |
| Money market funds and time deposits (included in cash and cash equivalents of the condensed consolidated balance sheet) | \$ 593,539  | \$ —     | \$ 593,539    |
| Deferred purchase price receivable (Note 10)   | —   | 487,186  | 487,186       |
| Foreign exchange contracts (Note 8)  | 36,573  | —        | 36,573        |
| Deferred compensation plan assets:   |   |          | 0             |
| Mutual funds, money market accounts and equity securities  | 6,833,395   | —        | 70,224        |
| Liabilities:   |   |          |               |
| Foreign exchange contracts (Note 8)  | \$(33,468)  | \$ —     | \$(33,468)    |
| Contingent consideration in connection with business acquisitions  | —   | (17,342) | (17,342)      |

|  | Fair Value Measurements as of<br>March 31, 2017 |          |               |
|--|---|----------|---------------|
|  | Level 1   | Level 2  | Level 3 Total |
|  | (In thousands)                                  |          |               |
| Assets:  |   |          |               |
| Money market funds and time deposits (included in cash and cash equivalents of the condensed consolidated balance sheet) | \$ 1,066,841                                    | \$ —     | \$ 1,066,841  |
| Deferred purchase price receivable (Note 10)   | —   | 506,522  | 506,522       |
| Foreign exchange contracts (Note 8)  | 22,022  | —        | 22,022        |
| Deferred compensation plan assets:   |   |          | 0             |
| Mutual funds, money market accounts and equity securities  | 7,062,680                                       | —        | 59,742        |
| Liabilities:   |   |          |               |
| Foreign exchange contracts (Note 8)  | \$(11,742)                                      | \$ —     | \$(11,742)    |
| Contingent consideration in connection with business acquisitions  | —   | (22,426) | (22,426)      |

## Other financial instruments

The following table presents the Company's major debts not carried at fair value:

|   | As of September 29,<br>2017 |               | As of March 31, 2017 |               |                         |
|---|-----------------------------|---------------|----------------------|---------------|-------------------------|
|   | Carrying<br>Amount          | Fair<br>Value | Carrying<br>Amount   | Fair<br>Value | Fair Value<br>Hierarchy |
|   | (In thousands)              |               |                      |               |                         |
| 4.625% Notes due February 2020  | \$ 500,000                  | \$ 523,360    | \$ 500,000           | \$ 526,255    | Level 1                 |
| Term Loan, including current portion, due in installments through November 2021 | 700,000                     | 700,441       | 700,000              | 699,566       | Level 1                 |
| Term Loan, including current portion, due in installments through June 2022 (1) | 496,219                     | 496,532       | 502,500              | 503,756       | Level 1                 |
| 5.000% Notes due February 2023  | 500,000                     | 543,685       | 500,000              | 534,820       | Level 1                 |

Edgar Filing: FLEX LTD. - Form 10-Q

|                                   |             |             |             |             |         |
|-----------------------------------|-------------|-------------|-------------|-------------|---------|
| 4.750% Notes due June 2025        | 596,180     | 650,490     | 595,979     | 633,114     | Level 1 |
| Euro Term Loan due September 2020 | 57,359      | 57,359      | 53,075      | 53,075      | Level 1 |
| Euro Term Loan due January 2022   | 117,660     | 117,660     | 107,357     | 107,357     | Level 1 |
| Total                             | \$2,967,418 | \$3,089,527 | \$2,958,911 | \$3,057,943 |         |

Table of Contents

(1) On June 30, 2017, the Company entered into a new agreement that effectively extended the maturity date of the loan from March 31, 2019 to June 30, 2022. Refer to note 6 for further details of the arrangement.

The Company values its Euro Term Loans due September 2020 and January 2022 based on the current market rate, and as of September 29, 2017, the carrying amounts approximate fair values.

The Term Loans due November 2021 and June 2022, and the Notes due February 2020, February 2023 and June 2025 are valued based on broker trading prices in active markets.

## 12. BUSINESS AND ASSET ACQUISITIONS & DIVESTITURES

### Business and asset acquisitions

In April 2017, the Company completed its acquisition of AGM, which expanded its capabilities in the automotive market, and is included within the HRS segment. The Company paid \$213.7 million, net of cash acquired.

A summary of the allocation of the total purchase consideration is presented as follows (in thousands):

| Purchase<br>Consideration | Net<br>Tangible<br>Assets<br>Acquired | Purchased<br>Intangible<br>Assets | Goodwill  |
|---------------------------|---------------------------------------|-----------------------------------|-----------|
| AGM\$ 213,718             | \$ 56,438                             | \$ 82,000                         | \$ 75,280 |

The intangible assets of \$82.0 million is comprised solely of customer relationships of AGM, and are amortized over a weighted-average estimated useful life of 10 years.

The Company is in the process of finalizing its valuation of the fair value of the assets and liabilities acquired from AGM. Additional information, which existed as of the acquisition date, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the date of acquisition. Changes to amounts recorded as assets and liabilities may result in a corresponding adjustment to goodwill during the respective measurement periods.

The results of operations of the AGM acquisition were included in the Company's condensed consolidated financial results beginning on the date of acquisition, and the total amount of net income and revenue were immaterial to the Company's condensed consolidated financial results for the three-month and six-month periods ended September 29, 2017. Pro-forma results of operations have not been presented because the effects were not material to the Company's condensed consolidated financial results for all periods presented.

During the quarter ended September 29, 2017, the Company paid a deposit of \$59.0 million for the acquisition of certain assets and related operations to a customer. The acquisition closed on September 30, 2017. As of September 29, 2017, the deposit is included in other current assets on the consolidated balance sheet and is reflected as a payment for businesses acquired in the consolidated statement of cash flows for the six-month period then ended. The acquisition is included in the CEC segment and will not be significant to the consolidated financial position, result of operations and cash flows of the Company.

## 13. COMMITMENTS AND CONTINGENCIES

### Litigation and other legal matters

In connection with the matters described below, the Company has accrued for loss contingencies where it believes that losses are probable and estimable. The Company does not believe that the amounts accrued are material. Although it is reasonably possible that actual losses could be in excess of the Company's accrual, the Company is unable to estimate a reasonably possible loss or range of loss in excess of its accrual, except as discussed below, due to various reasons, including, among others, that: (i) the proceedings are in early stages or no claims has been asserted, (ii) specific damages have not been sought in all of these matters, (iii) damages, if asserted, are considered unsupported and/or exaggerated, (iv) there is uncertainty as to the outcome of pending appeals, motions, or settlements, (v) there are significant factual issues to be resolved, and/or (vi) there are novel legal issues or unsettled legal theories presented. Any such excess could have a material adverse effect on the Company's results of operations or cash flows for a particular period or on the Company's financial condition.

## Table of Contents

On April 21, 2016, SunEdison, Inc. (together with certain of its subsidiaries, "SunEdison") filed for protection under Chapter 11 of the U.S. Bankruptcy Code. During the fiscal year ended March 31, 2016, the Company recognized a bad debt reserve charge of \$61.0 million associated with its outstanding SunEdison receivables and accepted return of previously shipped inventory of approximately \$90.0 million. SunEdison stated in schedules filed with the Bankruptcy Court that, within the 90 days preceding SunEdison's bankruptcy filing, the Company received approximately \$98.6 million of inventory and cash transfers of \$69.2 million, which in aggregate represents the Company's estimate of the maximum reasonably possible loss. No preference claims have been asserted against the Company and consideration has been given to the related contingencies based on the facts currently known. The Company has a number of affirmative and direct defenses to any potential claims for recovery and intends to vigorously defend any such claim, if asserted.

One of the Company's Brazilian subsidiaries has received related assessments for certain sales and import taxes. There are six tax assessments totaling 291 million Brazilian reais (approximately USD \$91 million based on the exchange rate as of September 29, 2017). The assessments are in various stages of the review process at the administrative level. The Company has meritorious defenses and plans to continue to vigorously oppose all of these assessments, as well as any future assessments. The Company does not expect final judicial determination on any of these claims for several years.

In addition to the matters discussed above, from time to time, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management expects that any losses that are probable or reasonably possible of being incurred as a result of these matters, which are in excess of amounts already accrued in the Company's consolidated balance sheets, would not be material to the financial statements as a whole.

## 14. SHARE REPURCHASES

During the three-month and six-month periods ended September 29, 2017, the Company repurchased 4.4 million shares at an aggregate purchase price of \$71.1 million, and 8.9 million shares at an aggregate purchase price of \$145.0 million, and retired all of these shares.

Under the Company's current share repurchase program, the Board of Directors authorized repurchases of its outstanding ordinary shares for up to \$500 million in accordance with the share repurchase mandate approved by the Company's shareholders at the date of the most recent Annual General Meeting held on August 15, 2017. As of September 29, 2017, shares in the aggregate amount of \$445.1 million were available to be repurchased under the current plan.

## 15. SEGMENT REPORTING

The Company has four reportable segments: HRS, CTG, IEL, and CEC. These segments are determined based on several factors, including the nature of products and services, the nature of production processes, customer base, delivery channels and similar economic characteristics. Refer to note 1 for a description of the various product categories manufactured under each of these segments.

An operating segment's performance is evaluated based on its pre-tax operating contribution, or segment income. Segment income is defined as net sales less cost of sales, and segment selling, general and administrative expenses, and does not include amortization of intangibles, stock-based compensation, other charges (income), net and interest and other, net.





Table of Contents

Selected financial information by segment is as follows:

|   | Three-Month Periods Ended |                    | Six-Month Periods Ended |                    |
|---|---------------------------|--------------------|-------------------------|--------------------|
|   | September 29, 2017        | September 30, 2016 | September 29, 2017      | September 30, 2016 |
|   | (In thousands)            |                    |                         |                    |
| Net sales:  |                           |                    |                         |                    |
| Communications & Enterprise Compute                     | \$1,901,057               | \$2,101,922        | \$3,874,390             | \$4,297,912        |
| Consumer Technologies Group                             | 1,755,143                 | 1,664,736          | 3,267,112               | 2,978,518          |
| Industrial & Emerging Industries                        | 1,454,539                 | 1,242,722          | 2,845,138               | 2,531,737          |
| High Reliability Solutions                              | 1,159,681                 | 999,145            | 2,292,052               | 2,077,171          |
|   | \$6,270,420               | \$6,008,525        | \$12,278,692            | \$11,885,338       |
| Segment income and reconciliation of income before tax: |                           |                    |                         |                    |
| Communications & Enterprise Compute                     | \$42,733                  | \$52,453           | \$91,335                | \$114,352          |
| Consumer Technologies Group                             | 30,722                    | 55,314             | 48,726                  | 79,948             |
| Industrial & Emerging Industries                        | 50,945                    | 37,363             | 106,322                 | 87,340             |
| High Reliability Solutions                              | 92,364                    | 78,707             | 182,576                 | 167,243            |
| Corporate and Other                                     | (28,438)                  | (26,902)           | (62,716)                | (61,702)           |
| Total segment income                                    | 188,326                   | 196,935            | 366,243                 | 387,181            |
| Reconciling items:                                      |                           |                    |                         |                    |
| Intangible amortization                                 | 16,376                    | 21,986             | 36,277                  | 43,584             |
| Stock-based compensation                                | 20,464                    | 22,733             | 42,260                  | 46,530             |
| Distressed customers assets impairment (1)              | 4,753                     | 92,915             | 4,753                   | 92,915             |
| Contingencies and other (2)                             | 43,933                    | 11,539             | 43,933                  | 11,539             |
| Other charges (income), net                             | (143,167)                 | 8,388              | (179,332)               | 11,917             |
| Interest and other, net                                 | 27,554                    | 24,632             | 54,430                  | 49,031             |
| Income before income taxes                              | \$218,413                 | \$14,742           | \$363,922               | \$131,665          |

(1) During the fourth quarter of fiscal year 2016, the Company accepted return of previously shipped inventory from a former customer, SunEdison, of approximately \$90 million. On April 21, 2016, SunEdison filed a petition for reorganization under bankruptcy law, and as a result, the Company recognized a bad debt reserve of \$61 million as of March 31, 2016, associated with its outstanding SunEdison receivables.

During the second quarter of fiscal year 2017, prices for solar panel modules declined significantly. The Company determined that certain solar panel inventory on hand as of September 30, 2016 was not fully recoverable and recorded a charge of \$60.0 million to reduce the carrying costs to market in the three and six-month periods ended September 30, 2016. The Company also recognized a \$16.0 million impairment charge for solar module equipment and \$16.9 million primarily related to negative margin sales and other associated solar panel direct costs incurred during the same periods. The total charge of \$92.9 million is included in cost of sales for the three and six-month periods ended September 30, 2016 but is excluded from segment results above.

(2) During the second quarter of fiscal year 2018, the Company incurred charges in connection with the matters described in note 13, for certain loss contingencies where it believes that losses are probable and estimable. Additionally, the Company incurred various other charges predominately related to damages incurred from a typhoon that impacted one of its China facilities.

During fiscal year 2017, the Company initiated a plan to rationalize the current footprint at existing sites including corporate SG&A functions and to continue to shift the talent base in support of its Sketch-to-Scale<sup>tm</sup> initiatives. As part of this plan, approximately \$11.5 million was recognized in the quarter ended September 30, 2016. The plan was

finalized and completed during fiscal year 2017.

## Table of Contents

Corporate and other primarily includes corporate services costs that are not included in the Chief Operating Decision Maker's ("CODM") assessment of the performance of each of the identified reporting segments.

Property and equipment on a segment basis is not disclosed as it is not separately identified and is not internally reported by segment to the Company's CODM.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise specifically stated, references in this report to "Flex," "the Company," "we," "us," "our" and similar terms mean Flex Ltd., and its subsidiaries.

This report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "expects," "anticipates," "believes," "intends," "plans" and similar expressions identify forward-looking statements. In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. We undertake no obligation to publicly disclose any revisions to these forward-looking statements to reflect events or circumstances occurring subsequent to filing this Form 10-Q with the Securities and Exchange Commission. These forward-looking statements are subject to risks and uncertainties, including, without limitation, those risks and uncertainties discussed in this section, as well as any risks and uncertainties discussed in Part II, Item 1A, "Risk Factors" of this report on Form 10-Q, and in Part I, Item 1A, "Risk Factors" and in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended March 31, 2017. In addition, new risks emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. Accordingly, our future results may differ materially from historical results or from those discussed or implied by these forward-looking statements. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements.

## OVERVIEW

We are a globally-recognized, provider of Sketch-to-Scale<sup>tm</sup> services - innovative design, engineering, manufacturing, and supply chain services and solutions - from conceptual sketch to full-scale production. We design, build, ship and service complete packaged consumer and industrial products, from athletic shoes to electronics, for companies of all sizes in various industries and end-markets, through our activities in the following segments:

Communications & Enterprise Compute ("CEC"), which includes our telecom business of radio access base stations, remote radio heads, and small cells for wireless infrastructure; our networking business which includes optical, routing, broadcasting, and switching products for the data and video networks; our server and storage platforms for both enterprise and cloud-based deployments; next generation storage and security appliance products; and rack level solutions, converged infrastructure and software-defined product solutions;

Consumer Technologies Group ("CTG"), which includes our consumer-related businesses in connected living, wearables, gaming, augmented and virtual reality, fashion, and mobile devices; and including various supply chain solutions for notebook personal computers ("PC"), tablets, and printers; in addition, CTG is expanding its business relationships to include supply chain optimization for non-electronics products such as footwear and clothing;

Industrial and Emerging Industries ("IEI"), which is comprised of energy and metering, semiconductor and capital equipment, office solutions, industrial, home and lifestyle, industrial automation and kiosks, and lighting; and

High Reliability Solutions ("HRS"), which is comprised of our medical business, including consumer health, digital health, disposables, precision plastics, drug delivery, diagnostics, life sciences and imaging equipment; our automotive business, including vehicle electrification, connectivity, autonomous vehicles, and clean technologies; and

our defense and aerospace businesses, focused on commercial aviation, defense and military.

Our strategy is to provide customers with a full range of cost competitive, vertically-integrated global supply chain solutions through which we can design, build, ship and service a complete packaged product for our customers. This enables our customers to leverage our supply chain solutions to meet their product requirements throughout the entire product life cycle.

Table of Contents

Over the past few years, we have seen an increased level of diversification by many companies, primarily in the technology sector. Some companies that have historically identified themselves as software providers, Internet service providers or e-commerce retailers have entered the highly competitive and rapidly evolving technology hardware markets, such as mobile devices, home entertainment and wearable devices. This trend has resulted in a significant change in the manufacturing and supply chain solutions requirements of such companies. While the products have become more complex, the supply chain solutions required by such companies have become more customized and demanding, and it has changed the manufacturing and supply chain landscape significantly.

We use a portfolio approach to manage our extensive service offerings. As our customers change the way they go to market, we are able to reorganize and rebalance our business portfolio in order to align with our customers' needs and requirements in an effort to optimize operating results. The objective of our business model is to allow us to be flexible and redeploy and reposition our assets and resources as necessary to meet specific customer's supply chain solutions needs across all of the markets we serve and earn a return on our invested capital above the weighted average cost of that capital.

During the past few years, we have made significant efforts to evolve our long-term portfolio towards a higher mix of businesses which possess longer product life cycles and higher segment operating margins such as reflected in our IEI and HRS businesses. Since the beginning of fiscal year 2016, we launched several programs broadly across our portfolio of services and in some instances we deployed certain new technologies. We continue to invest in innovation and we have expanded our design and engineering relationships through our product innovation centers.

We believe that our business transformation has strategically positioned us to take advantage of the long-term, future growth prospects for outsourcing of advanced manufacturing capabilities, design and engineering services and after-market services, which remain strong.

We are one of the world's largest providers of global supply chain solutions, with revenues of \$12.3 billion for the six-month period ended September 29, 2017 and \$23.9 billion in fiscal year 2017. The following tables set forth the relative percentages and dollar amounts of net sales and net property and equipment, by country, based on the location of our manufacturing sites:

| Net sales: | Three-Month Periods Ended |     |                    |     | Six-Month Periods Ended |     |                    |     |
|------------|---------------------------|-----|--------------------|-----|-------------------------|-----|--------------------|-----|
|            | September 29, 2017        |     | September 30, 2016 |     | September 29, 2017      |     | September 30, 2016 |     |
|            | (In thousands)            |     |                    |     |                         |     |                    |     |
| China      | \$1,752,076               | 28% | \$1,959,064        | 32% | \$3,496,616             | 29% | \$3,799,916        | 32% |
| Mexico     | 1,078,933                 | 17% | 952,857            | 16% | 2,119,378               | 17% | 1,868,202          | 16% |
| U.S.       | 740,261                   | 12% | 708,858            | 12% | 1,434,597               | 12% | 1,417,268          | 12% |
| Brazil     | 642,130                   | 10% | 417,958            | 7%  | 1,240,181               | 10% | 789,631            | 7%  |
| Malaysia   | 515,396                   | 8%  | 539,985            | 9%  | 1,019,968               | 8%  | 1,112,748          | 9%  |
| Other      | 1,541,624                 | 25% | 1,429,803          | 24% | 2,967,952               | 24% | 2,897,573          | 24% |
|            | \$6,270,420               |     | \$6,008,525        |     | \$12,278,692            |     | \$11,885,338       |     |

| Property and equipment, net: | As of September 29, 2017 |                | As of March 31, 2017 |     |
|------------------------------|--------------------------|----------------|----------------------|-----|
|                              |                          | (In thousands) |                      |     |
| China                        | \$700,524                | 29%            | \$719,972            | 31% |
| Mexico                       | 596,288                  | 25%            | 525,282              | 23% |
| U.S.                         | 297,595                  | 12%            | 290,463              | 13% |

Edgar Filing: FLEX LTD. - Form 10-Q

|          |             |      |             |      |
|----------|-------------|------|-------------|------|
| Malaysia | 162,988     | 7 %  | 173,410     | 7 %  |
| Hungary  | 145,613     | 6 %  | 132,527     | 6 %  |
| Other    | 512,566     | 21 % | 475,372     | 20 % |
|          | \$2,415,574 |      | \$2,317,026 |      |

We believe that the combination of our extensive open innovation platform solutions, design and engineering services, advanced supply chain management solutions and services, significant scale and global presence, and industrial campuses in

27

---

## Table of Contents

low-cost geographic areas provide us with a competitive advantage and strong differentiation in the market for designing, manufacturing and servicing consumer electronics and industrial products for leading multinational and regional customers. Specifically, we have launched multiple product innovation centers ("PIC") focused exclusively on offering our customers the ability to simplify their global product development, manufacturing process, and after sales services, and enable them to meaningfully accelerate their time to market and cost savings.

Our operating results are affected by a number of factors, including the following:

- changes in the macro-economic environment and related changes in consumer demand;
- the mix of the manufacturing services we are providing, the number and size of new manufacturing programs, the degree to which we utilize our manufacturing capacity, seasonal demand, shortages of components and other factors;
- the effects on our business when our customers are not successful in marketing their products, or when their products do not gain widespread commercial acceptance;
- our ability to achieve commercially viable production yields and to manufacture components in commercial quantities to the performance specifications demanded by our customers;
- the effects on our business due to our customers' products having short product life cycles;
- our customers' ability to cancel or delay orders or change production quantities;
- our customers' decision to choose internal manufacturing instead of outsourcing for their product requirements;
- our exposure to financially troubled customers;
- integration of acquired businesses and facilities;
- increased labor costs due to adverse labor conditions in the markets we operate;
- changes in tax legislation; and
- changes in trade regulations and treaties.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

Refer to the accounting policies under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017, where we discuss our more significant judgments and estimates used in the preparation of the condensed consolidated financial statements.

## RESULTS OF OPERATIONS



The following table sets forth, for the periods indicated, certain statements of operations data expressed as a percentage of net sales. The financial information and the discussion below should be read together with the condensed consolidated financial statements and notes thereto included in this document. In addition, reference should be made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2017 Annual Report on Form 10-K.

Table of Contents

|  | Three-Month Periods Ended |   |                    |    | Six-Month Periods Ended |   |                    |   |
|--|---------------------------|---|--------------------|----|-------------------------|---|--------------------|---|
|  | September 29, 2017        |   | September 30, 2016 |    | September 29, 2017      |   | September 30, 2016 |   |
| Net sales                                    | 100.0                     | % | 100.0              | %  | 100.0                   | % | 100.0              | % |
| Cost of sales                                | 93.7                      |   | 94.8               |    | 93.5                    |   | 93.9               |   |
| Gross profit                                 | 6.3                       |   | 5.2                |    | 6.5                     |   | 6.1                |   |
| Selling, general and administrative expenses | 4.4                       |   | 4.1                |    | 4.3                     |   | 4.1                |   |
| Intangible amortization                      | 0.3                       |   | 0.4                |    | 0.3                     |   | 0.4                |   |
| Interest and other, net                      | 0.4                       |   | 0.4                |    | 0.4                     |   | 0.4                |   |
| Other charges (income), net                  | (2.3                      | ) | 0.1                |    | (1.5                    | ) | 0.1                |   |
| Income before income taxes                   | 3.5                       |   | 0.2                |    | 3.0                     |   | 1.1                |   |
| Provision for income taxes                   | 0.2                       |   | 0.3                |    | 0.3                     |   | 0.2                |   |
| Net income (loss)                            | 3.3                       | % | (0.1               | )% | 2.7                     | % | 0.9                | % |

## Net sales

The following table sets forth our net sales by segment and their relative percentages. Historical information has been recast to reflect realignment of customers and/or products between segments to ensure comparability:

| Segments:                           | Three-Month Periods Ended |     |                    |     | Six-Month Periods Ended |     |                    |     |
|-------------------------------------|---------------------------|-----|--------------------|-----|-------------------------|-----|--------------------|-----|
|                                     | September 29, 2017        |     | September 30, 2016 |     | September 29, 2017      |     | September 30, 2016 |     |
|                                     | (In thousands)            |     |                    |     |                         |     |                    |     |
| Communications & Enterprise Compute | \$ 1,901,057              | 30% | \$ 2,101,922       | 35% | \$ 3,874,390            | 31% | \$ 4,297,912       | 36% |
| Consumer Technologies Group         | 1,755,143                 | 28% | 1,664,736          | 28% | 3,267,112               | 27% | 2,978,518          | 25% |
| Industrial & Emerging Industries    | 1,454,539                 | 23% | 1,242,722          | 21% | 2,845,138               | 23% | 2,531,737          | 21% |
| High Reliability Solutions          | 1,159,681                 | 19% | 999,145            | 16% | 2,292,052               | 19% | 2,077,171          | 18% |
|                                     | \$ 6,270,420              |     | \$ 6,008,525       |     | \$ 12,278,692           |     | \$ 11,885,338      |     |

Net sales during the three-month period ended September 29, 2017 totaled \$6.3 billion, representing an increase of approximately \$0.3 billion, or 4% from \$6.0 billion during the three-month period ended September 30, 2016. The overall increase in sales was driven by increases in three of our segments offset with a decline in sales in our CEC segment. Our IEI segment increased \$212 million, mainly driven by our industrial, home and lifestyle business in addition to growth in our solar energy business. Our HRS segment increased \$161 million from higher sales in our automotive business. Our CTG segment increased \$90 million, primarily because of stronger sales in our connected living and mobile devices businesses, offset by a decrease in gaming. Sales in our CEC segment declined \$201 million, largely attributable to lower sales within our telecom and networking business, offset by increased sales of our cloud and data center business. Net sales increased \$396 million to \$2.5 billion in the Americas and \$36 million to \$1.1 billion in Europe, offset by a decrease of \$170 million to \$2.7 billion in Asia.

Net sales during the six-month period ended September 29, 2017 totaled \$12.3 billion, representing an increase of approximately \$0.4 billion, or 3% from \$11.9 billion during the six-month period ended September 30, 2016. The overall increase in net sales during the six-month period ended September 29, 2017, was driven by increases of \$313 million in our IEI segment, \$289 million in our CTG segment, and \$215 million in our HRS segment due to the same drivers as described above. These increases were offset by a decrease of \$424 million in our CEC segment as a result of lower sales within our telecom and legacy server & storage business, offset by increased sales of our cloud and data center business. Net sales increased \$747 million to \$4.8 billion in the Americas, offset by decreases of \$276 million to \$5.4 billion in Asia and \$78 million to \$2.1 billion in Europe.



## Table of Contents

Our ten largest customers, during the three and six-month periods ended September 29, 2017 accounted for approximately 42% of net sales, respectively. No customer accounted for more than 10% of net sales during the three and six-month periods ended September 29, 2017.

Our ten largest customers, during the three and six-month periods ended September 30, 2016 accounted for approximately 42% and 43% of net sales, respectively. No customer accounted for more than 10% of net sales during the three and six-month periods ended September 30, 2016.

### Gross profit

Gross profit is affected by a number of factors, including the number and size of new manufacturing programs, product mix, component costs and availability, product life cycles, unit volumes, pricing, competition, new product introductions, capacity utilization and the expansion or consolidation of manufacturing facilities. The flexible design of our manufacturing processes allows us to build a broad range of products in our facilities and better utilize our manufacturing capacity across our diverse geographic footprint. In the cases of new programs, profitability normally lags revenue growth due to product start-up costs, lower manufacturing program volumes in the start-up phase, operational inefficiencies, and under-absorbed overhead. Gross margin for these programs often improves over time as manufacturing volumes increase, as our utilization rates and overhead absorption improve, and as we increase the level of manufacturing services content. As a result of these various factors, our gross margin varies from period to period.

Gross profit during the three-month period ended September 29, 2017 increased \$80 million to \$393 million, or 6.3% of net sales, from \$314 million, or 5.2% of net sales, during the three-month period ended September 30, 2016. Gross profit during the six-month period ended September 29, 2017 increased \$81 million to \$800 million, or 6.5% of net sales, from \$720 million, or 6.1% of net sales, during the six-month period ended September 30, 2016. The increase in gross profit for both the three and six-month periods ended September 29, 2017 is primarily the result of \$93 million of charges recognized during the second quarter of fiscal year 2017 related to the significant decline in prices for solar modules and slowdown in demand, which negatively impacted our prior year gross profits. This was partially offset by an elevated level of costs associated with material management, labor inefficiencies and capacity refinements as we transition through a production curve with a strategic customer in our CTG segment.

Gross margins improved 110 basis points and 40 basis points in the three and six-month periods ended September 29, 2017, respectively, compared to that of the three and six-month periods ended September 30, 2016 primarily as a result of the various factors described above.

### Segment Income

An operating segment's performance is evaluated based on its pre-tax operating contribution, or segment income. Segment income is defined as net sales less cost of sales, and segment selling, general and administrative expenses, and does not include amortization of intangibles, stock-based compensation, other charges (income), net and interest and other, net. A portion of depreciation is allocated to the respective segment together with other general corporate research and development and administrative expenses.

Table of Contents

The following table sets forth segment income and margins. Historical information has been recast to reflect realignment of customers and/or products between segments:

|  | Three-Month Periods Ended |      |                       |      | Six-Month Periods Ended |      |                       |      |
|--|---------------------------|------|-----------------------|------|-------------------------|------|-----------------------|------|
|  | September 29,<br>2017     |      | September 30,<br>2016 |      | September 29,<br>2017   |      | September 30,<br>2016 |      |
|  | (In thousands)            |      |                       |      |                         |      |                       |      |
| Segment income & margin:                   |                           |      |                       |      |                         |      |                       |      |
| Communications & Enterprise Compute        | \$42,733                  | 2.2% | \$52,453              | 2.5% | \$91,335                | 2.4% | \$114,352             | 2.7% |
| Consumer Technologies Group                | 30,722                    | 1.8% | 55,314                | 3.3% | 48,726                  | 1.5% | 79,948                | 2.7% |
| Industrial & Emerging Industries           | 50,945                    | 3.5% | 37,363                | 3.0% | 106,322                 | 3.7% | 87,340                | 3.4% |
| High Reliability Solutions                 | 92,364                    | 8.0% | 78,707                | 7.9% | 182,576                 | 8.0% | 167,243               | 8.1% |
| Corporate and Other                        | (28,438 )                 |      | (26,902 )             |      | (62,716 )               |      | (61,702 )             |      |
| Total segment income                       | 188,326                   | 3.0% | 196,935               | 3.3% | 366,243                 | 3.0% | 387,181               | 3.3% |
| Reconciling items:                         |                           |      |                       |      |                         |      |                       |      |
| Intangible amortization                    | 16,376                    |      | 21,986                |      | 36,277                  |      | 43,584                |      |
| Stock-based compensation                   | 20,464                    |      | 22,733                |      | 42,260                  |      | 46,530                |      |
| Distressed customers assets impairment (1) | 4,753                     |      | 92,915                |      | 4,753                   |      | 92,915                |      |
| Contingencies and other (2)                | 43,933                    |      | 11,539                |      | 43,933                  |      | 11,539                |      |
| Other charges (income), net                | (143,167 )                |      | 8,388                 |      | (179,332 )              |      | 11,917                |      |
| Interest and other, net                    | 27,554                    |      | 24,632                |      | 54,430                  |      | 49,031                |      |
| Income before income taxes                 | \$218,413                 |      | \$14,742              |      | \$363,922               |      | \$131,665             |      |

(1) During the fourth quarter of fiscal year 2016, the Company accepted return of previously shipped inventory from a former customer, SunEdison, Inc. ("SunEdison"), of approximately \$90 million. On April 21, 2016, SunEdison filed a petition for reorganization under bankruptcy law, and as a result, the Company recognized a bad debt reserve of \$61 million as of March 31, 2016, associated with its outstanding SunEdison receivables.

During the three-month period ended September 30, 2016, prices for solar panel modules declined significantly. The Company determined that certain solar panel inventory on hand as of September 30, 2016 was not fully recoverable and recorded a charge of \$60.0 million to reduce the carrying costs to market in the three and six-month periods ended September 30, 2016. The Company also recognized a \$16.0 million impairment charge for solar module equipment and \$16.9 million primarily related to negative margin sales and other associated solar panel direct costs incurred during the same periods. The total charge of \$92.9 million is included in cost of sales for the three and six-month periods ended September 30, 2016 but is excluded from segment results above.

(2) During the second quarter of fiscal year 2018, the Company incurred charges in connection with the matters described in note 13 to the condensed consolidated financial statements for certain loss contingencies where it believes that losses are probable and estimable. Additionally, the Company incurred various other charges predominately related to damages incurred from a typhoon that impacted one of our China facilities.

During fiscal year 2017, the Company initiated a plan to rationalize the current footprint at existing sites including corporate SG&A functions and to continue to shift the talent base in support of its Sketch-to-Scale<sup>tm</sup> initiatives. As part of this plan, approximately \$11.5 million was recognized in the quarter ended September 30, 2016. The plan was finalized and completed during fiscal year 2017.

CEC segment margin decreased 30 basis points, to 2.2% for the three-month period ended September 29, 2017, from 2.5% during the three-month period ended September 30, 2016. CEC segment margin decreased 30 basis points, to 2.4% for the six-month period ended September 29, 2017, from 2.7% for the six-month period ended September 30,

2016. The decreases in CEC's margins for both the three and six-month periods ended September 29, 2017 were due to lower capacity utilization

31

---

## Table of Contents

causing reduced overhead absorption, coupled with modest increased investments to expand its converged enterprise and cloud capabilities.

CTG segment margin decreased 150 basis point to 1.8% for the three-month period ended September 29, 2017, from 3.3% during the three-month period ended September 30, 2016. CTG segment margin decreased 120 basis points, to 1.5% for the six-month period ended September 29, 2017 from 2.7% for the six-month period ended September 30, 2016. The decrease in CTG's margins for both the three and six-month periods ended September 29, 2017 reflected the negative impacts from the elevated levels of costs associated with material management, labor inefficiencies and capacity refinements as we transition through a production curve with a strategic customer.

IEI segment margin increased 50 basis points, to 3.5% for the three-month period ended September 29, 2017, from 3.0% during the three-month period ended September 30, 2016. IEI segment margin increased 30 basis points, to 3.7% for the six-month period ended September 29, 2017, from 3.4% for the six-month period ended September 30, 2016. The increases in IEI's margins for both the three and six-month periods ended September 29, 2017 are primarily due to revenue increases resulting in improved absorption of costs as a result of ramping multiple new programs in our industrial, home and lifestyle and energy businesses. This was partially offset by high levels of start-up costs on several new customer programs as we repositioned resources in advance of the significant underlying ramps, as well as an impact from the underlying mix of business.

HRS segment margin increased 10 basis points, to 8.0% for the three-month period ended September 29, 2017, from 7.9% during the three-month period ended September 30, 2016 primarily as a result of new customers and programs ramp up coupled with solid operational management. HRS segment margin decreased 10 basis points, to 8.0% for the six-month period ended September 29, 2017, from 8.1% for the six-month period ended September 30, 2016 as a result of an elevated level of investments during the period as part of our Sketch-to-Scale™ initiatives and relative revenue mix.

### Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") was \$274 million, or 4.4% of net sales, during the three-month period ended September 29, 2017, increasing \$30 million from \$244 million, or 4.1% of net sales, during the three-month period ended September 30, 2016. SG&A was \$525 million, or 4.3% of net sales, during the six-month period ended September 29, 2017, increasing \$42 million from \$483 million, or 4.1% of net sales, during the six-month period ended September 30, 2016. The increase in SG&A in dollars and as a percentage of net sales was primarily due to incremental costs associated with our continued expansion of our design and engineering resources and innovation system to support our increased Sketch-to-Scale™ initiatives and the recognition of certain contingencies that are probable and estimable of payout combined with incremental costs from our acquisitions.

### Intangible amortization

Amortization of intangible assets marginally declined during the three-month period ended September 29, 2017 to \$16 million from \$22 million for the three-month period ended September 30, 2016, and decreased by \$7 million during the six-month period ended September 29, 2017 to \$36 million from \$44 million during the six-month period ended September 30, 2016, due to certain intangibles now being fully amortized.

### Interest and other, net

Interest and other, net was \$28 million during the three-month period ended September 29, 2017 compared to \$25 million during the three-month period ended September 30, 2016, and \$54 million during the six-month period ended September 29, 2017 compared to \$49 million during the six-month period ended September 30, 2016. The increase in

interest and other, net was primarily a result of higher interest expense due to higher interest rates and higher average borrowing level.

Other charges (income), net

Other charges (income), net was \$143 million of income during the three-month period ended September 29, 2017 compared to \$8 million of charges during the three-month period ended September 30, 2016. Other charges (income), net was \$179 million of income during the six-month period ended September 29, 2017 compared to \$12 million of expense during the six-month period ended September 30, 2016. The increases are primarily due to a \$152 million non-cash gain as a result of the deconsolidation of our investment in Elementum. This is coupled with a \$39 million gain recognized for the disposition of Wink during the first quarter of fiscal year 2018. Refer to note 5 and note 2 of the condensed consolidated financial statements for details of the deconsolidation and the disposition of Wink, respectively.



Table of Contents

## Income taxes

Certain of our subsidiaries have, at various times, been granted tax relief in their respective countries, resulting in lower income taxes than would otherwise be the case under ordinary tax rates. Refer to note 13, "Income Taxes" of the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended March 31, 2017 for further discussion.

Our policy is to provide a valuation allowance against deferred tax assets that in our estimation are not more likely than not to be realized.

The consolidated effective tax rate was 6.1% and 9.4% for the three and six-month periods ended September 29, 2017, and 117.0% and 21.6% for the three and six-month periods ended September 30, 2016. The effective rate varies from the Singapore statutory rate of 17.0% as a result of recognition of earnings in different jurisdictions (we generate most of our revenues and profits from operations outside of Singapore), operating loss carryforwards, income tax credits, release of previously established valuation allowances for deferred tax assets, liabilities for uncertain tax positions, as well as the effect of certain tax holidays and incentives granted to our subsidiaries primarily in China, Malaysia and Israel. The effective tax rate for the three-month and six-month periods ended September 29, 2017 is significant lower than the effective tax rate for the three-month and six-month periods ended September 30, 2016, respectively, primarily due to the charges related to the solar panel inventory impairment and business exit and the rationalization costs incurred during the three-month period ended September 30, 2016 that were in jurisdictions which resulted in minimal tax benefit.

## LIQUIDITY AND CAPITAL RESOURCES

As of September 29, 2017, we had cash and cash equivalents of approximately \$1.4 billion and bank and other borrowings of approximately \$3.0 billion. We have a \$1.75 billion revolving credit facility that expires in June 2022, under which there were no borrowings outstanding as of the end of the quarter. As of September 29, 2017, we were in compliance with the covenants under each of our existing credit facilities and indentures.

Cash provided by operating activities was \$281 million during the six-month period ended September 29, 2017. This resulted from \$330 million of net income for the period plus adjustments for \$282 million, net, non-cash charges such as depreciation, amortization, and stock-based compensation. These were partially offset by a \$152 million gain from the deconsolidation of Elementum, and a \$39 million gain on sale of Wink, which are both included in the determination of net income. The foregoing was further offset by a \$140 million net increase in our operating assets and liabilities as we ramp into third quarter production.

For the quarterly periods indicated, certain key liquidity metrics were as follows:

|                                   | Three-Month Periods Ended |               |
|-----------------------------------|---------------------------|---------------|
|                                   | September 29,             | September 30, |
|                                   | 2017                      | 2016          |
| Days in trade accounts receivable | 44 days                   | 40 days       |
| Days in inventory                 | 57 days                   | 58 days       |
| Days in accounts payable          | 78 days                   | 72 days       |
| Cash conversion cycle             | 23 days                   | 26 days       |

Days in trade accounts receivable was calculated as average accounts receivable, net of allowance for doubtful accounts, for the current and prior quarters, adding back the reduction in accounts receivable resulting from non-cash accounts receivable sales, divided by annualized sales for the current quarter by day. During the three-month period

ended September 29, 2017, days in trade accounts receivable increased by 4 days compared to the three-month period ended September 30, 2016 due to an increase in accounts receivable not offset by a proportionate increase in sales. Non-cash accounts receivable sales or deferred purchase price receivables included for the purposes of the calculation were \$487 million and \$462 million for the quarters ended September 29, 2017 and September 30, 2016, respectively. Deferred purchase price receivables are recorded in other current assets in the condensed consolidated balance sheets. For further information regarding deferred purchase price receivables see note 10 to the condensed consolidated financial statements.

Days in inventory was calculated as the average inventory for the current and prior quarters divided by annualized cost of sales for the respective quarter by day. Days in inventory decreased by 1 day during the three-month period ended

Table of Contents

September 29, 2017, compared to the three-month period ended September 30, 2016, primarily driven by an increase of cost of sales.

Days in accounts payable was calculated as the average accounts payable for the current and prior quarters divided by annualized cost of sales for the respective quarter by day. Days in accounts payable increased by 6 days during the three-month period ended September 29, 2017, compared to the three-month period ended September 30, 2016, primarily due to timing of purchases driving an increase in accounts payable not offset by a proportionate increase in cost of sales.

Our cash conversion cycle was calculated as the sum of days of inventory and days of account receivables outstanding less days payable outstanding. Our cash conversion cycle decreased by 3 days during the three-month period ended September 29, 2017, compared to the three-month period ended September 30, 2016, due to the factors for each of the components in the calculation discussed above.

Cash used in investing activities amounted to \$618 million during the six-month period ended September 29, 2017. During the six-month period ended September 29, 2017, we paid \$214 million for the acquisition of AGM, net of cash acquired, invested \$228 million for property and equipment to expand capabilities and capacity in support of our automotive and medical businesses, and paid a deposit of \$59 million to a customer for an acquisition of certain assets that closed September 30, 2017. In addition, other investing activities includes \$73 million of cash outflow resulting from the deconsolidation of Elementum, and \$40 million of payments for investments, net of cash received, in non-core businesses.

We believe free cash flow is an important liquidity metric because it measures, during a given period, the amount of cash generated that is available to repay debt obligations, make investments, fund acquisitions, repurchase company shares and for certain other activities. Our free cash flow is calculated as cash from operations less net purchases of property and equipment. Our free cash flows for the six-month period ended September 29, 2017 was \$53 million compared to \$264 million for the six-month period ended September 30, 2016. Free cash flow is not a measure of liquidity under U.S. GAAP, and may not be defined and calculated by other companies in the same manner. Free cash flow should not be considered in isolation or as an alternative to net cash provided by operating activities. Free cash flows reconcile to the most directly comparable GAAP financial measure of cash flows from operations as follows:

|   | Six-Month Periods<br>Ended |                       |
|---|----------------------------|-----------------------|
|   | September<br>29, 2017      | September<br>30, 2016 |
|   | (In thousands)             |                       |
| Net cash provided by operating activities               | \$280,805                  | \$543,552             |
| Purchases of property and equipment                     | (264,030 )                 | (305,936 )            |
| Proceeds from the disposition of property and equipment | 36,123                     | 26,561                |
| Free cash flow  | \$52,898                   | \$264,177             |

Cash used in financing activities was \$110 million during the six-month period ended September 29, 2017, which was primarily for the repurchase of our ordinary shares in the amount of \$145 million, offset by \$59 million received from third party investors, during our first quarter, in exchange for an additional noncontrolling equity interest in Elementum.

Our cash balances are held in numerous locations throughout the world. Liquidity is affected by many factors, some of which are based on normal ongoing operations of the business and some of which arise from fluctuations related to global economics and markets. Local government regulations may restrict our ability to move cash balances to meet

cash needs under certain circumstances; however, any current restrictions are not material. We do not currently expect such regulations and restrictions to impact our ability to pay vendors and conduct operations throughout the global organization. We believe that our existing cash balances, together with anticipated cash flows from operations and borrowings available under our credit facilities, will be sufficient to fund our operations through at least the next twelve months. As of September 29, 2017 and March 31, 2017, over half of our cash and cash equivalents was held by foreign subsidiaries outside of Singapore. Although substantially all of the amounts held outside of Singapore could be repatriated under current laws, a significant amount could be subject to income tax withholdings. We provide for tax liabilities on these amounts for financial statement purposes, except for certain of our foreign earnings that are considered indefinitely reinvested outside of Singapore (approximately \$1.2 billion as of March 31, 2017). Repatriation could result in an additional income tax payment, however, our intent is to permanently reinvest these funds outside of Singapore and our current plans do not demonstrate a need to repatriate them to fund our operations in jurisdictions outside of where they are held. Where local restrictions prevent an efficient intercompany transfer of

Table of Contents

funds, our intent is that cash balances would remain outside of Singapore and we would meet our liquidity needs through ongoing cash flows, external borrowings, or both.

Future liquidity needs will depend on fluctuations in levels of inventory, accounts receivable and accounts payable, the timing of capital expenditures for new equipment, the extent to which we utilize operating leases for new facilities and equipment, the levels of shipments and changes in the volumes of customer orders, our targeted investments, and our targeted business and asset acquisitions.

Historically, we have funded operations from cash and cash equivalents generated from operations, proceeds from public offerings of equity and debt securities, bank debt and lease financings. We also sell a designated pool of trade receivables under asset-backed securitization programs and sell certain trade receivables, which are in addition to the trade receivables sold in connection with these securitization agreements.

We anticipate that we will enter into debt and equity financings, sales of accounts receivable and lease transactions to fund acquisitions and growth. The sale or issuance of equity or convertible debt securities could result in dilution to current shareholders. Further, we may issue debt securities that have rights and privileges senior to those of holders of ordinary shares, and the terms of this debt could impose restrictions on operations and could increase debt service obligations. This increased indebtedness could limit our flexibility as a result of debt service requirements and restrictive covenants, potentially affect our credit ratings, and may limit our ability to access additional capital or execute our business strategy. Any downgrades in credit ratings could adversely affect our ability to borrow as a result of more restrictive borrowing terms. We continue to assess our capital structure and evaluate the merits of redeploying available cash to reduce existing debt or repurchase ordinary shares.

Under our current share repurchase program, our Board of Directors authorized repurchases of our outstanding ordinary shares for up to \$500 million in accordance with the share purchase mandate approved by our shareholders at the date of the most recent Annual General Meeting which was held on August 15, 2017. During the six-month period ended September 29, 2017, we paid \$145 million to repurchase shares under the current and prior repurchase plans at an average price of \$16.37 per share. As of September 29, 2017, shares in the aggregate amount of \$445 million were available to be repurchased under the current plan.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

Information regarding our long-term debt payments, operating lease payments, capital lease payments and other commitments is provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on our Form 10-K for the fiscal year ended March 31, 2017. There have been no material changes in our contractual obligations and commitments since March 31, 2017 except for the following changes to our debt obligations.

On June 30, 2017 we extended the maturity date of one of our term loan agreements from March 31, 2019 to June 30, 2022. Refer to note 6 to the condensed consolidated financial statements for additional details on this term loan.

Future payments due under our long-term debt changed from those described in the Contractual Obligations and Commitments table contained within our Annual Report on our Form 10-K for the fiscal year ended March 31, 2017, and accordingly have been updated as follows:

| Total | Less Than 1 Year | 1-3 Years | 4-5 Years | Great Than 5 Years |
|-------|------------------|-----------|-----------|--------------------|
|-------|------------------|-----------|-----------|--------------------|

(In thousands)

Long-term Debt Obligations:

Edgar Filing: FLEX LTD. - Form 10-Q

|                |             |          |           |           |             |
|----------------|-------------|----------|-----------|-----------|-------------|
| Long-term debt | \$2,968,150 | \$37,730 | \$585,434 | \$905,870 | \$1,439,116 |
|----------------|-------------|----------|-----------|-----------|-------------|

35

---

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

We sell designated pools of trade receivables to unaffiliated financial institutions under our ABS programs, and in addition to cash, we receive a deferred purchase price receivable for each pool of the receivables sold. Each of these deferred purchase price receivables serves as additional credit support to the financial institutions and is recorded at its estimated fair value. As of September 29, 2017 and March 31, 2017, the fair values of our deferred purchase price receivable were approximately \$487 million and \$507 million, respectively. As of September 29, 2017 and March 31, 2017, the outstanding balance on receivables sold for cash was \$1.2 billion under all our accounts receivable sales programs, which are not included in our condensed consolidated balance sheets. For further information, see note 10 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in our exposure to market risks for changes in interest and foreign currency exchange rates for the six-month period ended September 29, 2017 as compared to the fiscal year ended March 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 29, 2017. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of September 29, 2017, the Company's disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during our second quarter of fiscal year 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material legal proceedings, see note 13 “Commitments and Contingencies” in the notes to the condensed consolidated financial statements, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risks and uncertainties discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended March 31, 2017, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be not material also may materially and adversely affect our business, financial condition and/or operating results.



Table of Contents

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

The following table provides information regarding purchases of our ordinary shares made by us for the period from July 1, 2017 through September 29, 2017:

| Period                               | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|--------------------------------------|------------------------------|--|--|
| July 1, 2017 - August 4, 2017 (2)    | 532,632                              | \$ 16.43                     | 532,632  | \$ 202,708,281   |
| August 5 - September 1, 2017 (2) (3) | 1,605,642                            | \$ 15.88                     | 1,605,642  | \$ 482,001,726   |
| September 2 - September 29, 2017 (3) | 2,223,919                            | \$ 16.59                     | 2,223,919  | \$ 445,109,240   |
| Total                                | 4,362,193                            |                              | 4,362,193  |  |

During the period from July 1, 2017 through September 29, 2017, all purchases were made pursuant to the (1) programs discussed below in open market transactions. All purchases were made in accordance with Rule 10b-18 under the Securities Exchange Act of 1934.

On August 24, 2016, our Board of Directors authorized the repurchase of our outstanding ordinary shares for up to \$500 million. This is in accordance with the share purchase mandate whereby our shareholders approved a (2) repurchase limit of 20% of our issued ordinary shares outstanding at the Annual General Meeting held on the same date as the Board authorization. As of June 30, 2017 we had shares in the aggregate amount of \$211.5 million available to be repurchased under this plan, of which 1.0 million shares in the aggregate amount of \$16.3 million were repurchased prior to August 15, 2017 (after which authorization under this plan terminated).

On August 15, 2017, our Board of Directors authorized repurchases of our outstanding ordinary shares for up to \$500 million. This is in accordance with the share purchase mandate whereby our shareholders approved a (3) repurchase limit of 20% of our issued ordinary shares outstanding at the Annual General Meeting held on the same date as the Board authorization. As of September 29, 2017, shares in the aggregate amount of \$445.1 million were available to be repurchased under the current plan.

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

39

---

Table of Contents

## ITEM 6. EXHIBITS

## EXHIBIT INDEX

| Exhibit No.  | Exhibit  | Incorporated by Reference |           |             | Exhibit No. | Filed Herewith |
|--------------|--|---------------------------|-----------|-------------|-------------|----------------|
|              |  | Form                      | File No.  | Filing Date |             |                |
| <u>10.01</u> | Amendment No. 1, dated as of July 25, 2017, to Term Loan Agreement, dated as of November 30, 2016, among Flex Ltd., as borrower, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent, and the other Lenders party thereto.       |                           |           |             |             | X              |
| <u>10.02</u> | Summary of Directors' Compensation.  |                           |           |             |             | X              |
| <u>10.03</u> | Summary of Compensation Arrangements of Certain Executive Officers of Flex Ltd.  |                           |           |             |             | X              |
| <u>10.04</u> | Flex Ltd. 2017 Equity Incentive Plan.  | DEF 14A                   | 000-23354 | 7/5/2017    | ANNEX       |                |
| <u>10.05</u> | Form of Restricted Share Unit Award Agreement under the 2017 Equity Incentive Plan for time-based vesting awards   |                           |           |             |             | X              |
| <u>10.06</u> | Form of Restricted Share Unit Award Agreement under the 2017 Equity Incentive Plan for performance-based vesting awards.   |                           |           |             |             | X              |
| <u>15.01</u> | Letter in lieu of consent of Deloitte & Touche LLP.  |                           |           |             |             | X              |
| <u>31.01</u> | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |                           |           |             |             | X              |
| <u>31.02</u> | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |                           |           |             |             | X              |
| <u>32.01</u> | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |                           |           |             |             | X              |
| 101.INS      | XBRL Instance Document   |                           |           |             |             | X              |
| 101.SCH      | XBRL Taxonomy Extension Schema Document  |                           |           |             |             | X              |
| 101.CAL      | XBRL Taxonomy Extension Calculation Linkbase Document  |                           |           |             |             | X              |
| 101.DEF      | XBRL Taxonomy Extension Definition Linkbase Document   |                           |           |             |             | X              |
| 101.LAB      | XBRL Taxonomy Extension Label Linkbase Document  |                           |           |             |             | X              |
| 101.PRE      | XBRL Taxonomy Extension Presentation Linkbase Document   |                           |           |             |             | X              |

\* This exhibit is furnished with this Quarterly Report on Form 10-Q, is not deemed filed with the Securities and Exchange Commission, and is not incorporated by reference into any filing of Flex Ltd. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLEX LTD.  
(Registrant)

/s/ Michael M. McNamara  
Michael M. McNamara  
Chief Executive Officer  
(Principal Executive Officer)

Date: October 30, 2017

/s/ Christopher Collier  
Christopher Collier  
Chief Financial Officer  
(Principal Financial Officer)

Date: October 30, 2017