

FLEX LTD.  
Form 10-Q  
October 31, 2016  
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 30, 2016

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

FLEXTRONICS INTERNATIONAL LTD.

(Former name, former address and former fiscal year, if changed since last report)

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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Edgar Filing: FLEX LTD. - Form 10-Q

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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 24, 2016
Ordinary Shares, No Par Value	540,002,824

---

---

Table of Contents

FLEX LTD.

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	4
<u>Report of Independent Registered Public Accounting Firm</u>	4
<u>Condensed Consolidated Balance Sheets (unaudited) — September 30, 2016 and March 31, 2016</u>	5
<u>Condensed Consolidated Statements of Operations (unaudited) — Three-Month and Six-Month Periods Ended September 30, 2016 and September 25, 2015</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income (unaudited) — Three-Month and Six-Month Periods Ended September 30, 2016 and September 25, 2015</u>	7
<u>Condensed Consolidated Statements of Cash Flows (unaudited) — Six-Month Periods Ended September 30, 2016 and September 25, 2015</u>	8
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	9
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	43
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 3. Defaults Upon Senior Securities</u>	45
<u>Item 4. Mine Safety Disclosures</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	45
<u>Signatures</u>	46

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., formerly Flextronics International Ltd., and subsidiaries (the "Company") as of September 30, 2016, and the related condensed consolidated statements of operations and of comprehensive income for the three-month and six-month periods ended September 30, 2016 and September 25, 2015 and the condensed consolidated statements of cash flows for the six-month periods ended September 30, 2016 and September 25, 2015. 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, 2016, 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 20, 2016, 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, 2016 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 28, 2016

Table of Contents

FLEX LTD.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	As of September 30, 2016 (In thousands, except share amounts) (Unaudited)	As of March 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,537,056	\$ 1,607,570
Accounts receivable, net of allowance for doubtful accounts of \$63,150 and \$64,608 as of September 30, 2016 and March 31, 2016, respectively	2,341,393	2,044,757
Inventories	3,562,217	3,491,656
Other current assets	1,017,954	1,171,143
Total current assets	8,458,620	8,315,126
Property and equipment, net	2,335,959	2,257,633
Goodwill and other intangible assets, net	1,395,763	1,345,820
Other assets	470,792	466,402
Total assets	\$ 12,661,134	\$ 12,384,981
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Bank borrowings and current portion of long-term debt	\$ 65,969	\$ 65,166
Accounts payable	4,514,566	4,248,292
Accrued payroll	410,587	353,547
Other current liabilities	1,862,545	1,905,200
Total current liabilities	6,853,667	6,572,205
Long-term debt, net of current portion	2,678,115	2,709,389
Other liabilities	525,044	497,857
Commitments and contingencies (Note 11)		
Shareholders' equity		
Flex Ltd. shareholders' equity		
Ordinary shares, no par value; 590,804,836 and 595,062,966 issued, and 540,565,481 and 544,823,611 outstanding as of September 30, 2016 and March 31, 2016, respectively	6,861,624	6,987,214
Treasury stock, at cost; 50,239,355 shares as of September 30, 2016 and March 31, 2016	(388,215 )	(388,215 )
Accumulated deficit	(3,788,991 )	(3,892,212 )
Accumulated other comprehensive loss	(122,552 )	(135,915 )
Total Flex Ltd. shareholders' equity	2,561,866	2,570,872
Noncontrolling interests	42,442	34,658
Total shareholders' equity	2,604,308	2,605,530
Total liabilities and shareholders' equity	\$ 12,661,134	\$ 12,384,981

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 Ended		Six-Month Periods Ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
	(In thousands, except per share amounts)			
	(Unaudited)			
Net sales	\$6,008,525	\$6,316,762	\$11,885,338	\$11,883,010
Cost of sales	5,694,834	5,919,846	11,165,652	11,133,753
Gross profit	313,691	396,916	719,686	749,257
Selling, general and administrative expenses	243,943	216,796	483,489	426,181
Intangible amortization	21,986	16,127	43,584	23,798
Interest and other, net	24,632	22,035	49,031	38,540
Other charges, net	8,388	1,678	11,917	1,842
Income before income taxes	14,742	140,280	131,665	258,896
Provision for income taxes	17,250	17,303	28,444	25,069
Net income (loss)	\$(2,508)	) \$122,977	\$103,221	\$233,827
Earnings (losses) per share				
Basic	\$0.00	\$0.22	\$0.19	\$0.41
Diluted	\$0.00	\$0.22	\$0.19	\$0.41
Weighted-average shares used in computing per share amounts:				
Basic	544,055	563,333	544,353	564,417
Diluted	544,055	569,655	549,934	573,288

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	September	September	September
	30, 2016	25, 2015	30, 2016	25, 2015
	(In thousands)			
	(Unaudited)			
Net income (loss)	\$(2,508)	\$122,977	\$103,221	\$233,827
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of zero tax	4,213	(30,267 )	14,074	(27,484 )
Unrealized gain (loss) on derivative instruments and other, net of zero tax	(2,059 )	(5,544 )	(711 )	7,285
Comprehensive income (loss)	\$(354 )	\$87,166	\$116,584	\$213,628

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
	30, 2016	25, 2015
	(In thousands)	
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 103,221	\$ 233,827
Depreciation, amortization and other impairment charges	337,387	230,894
Changes in working capital and other	102,944	197,274
Net cash provided by operating activities	543,552	661,995
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(305,936 )	(296,401 )
Proceeds from the disposition of property and equipment	26,561	2,383
Acquisition of businesses, net of cash acquired	(189,895 )	(641,913 )
Proceeds from divestiture of businesses, net of cash held in divested businesses	36,073	—
Other investing activities, net	20,357	(10,516 )
Net cash used in investing activities	(412,840 )	(946,447 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from bank borrowings and long-term debt	75,035	595,553
Repayments of bank borrowings and long-term debt	(110,592 )	(21,090 )
Payments for repurchases of ordinary shares	(184,698 )	(241,978 )
Net proceeds from issuance of ordinary shares	11,344	49,074
Other financing activities, net	(6,836 )	(37,872 )
Net cash provided by (used in) financing activities	(215,747 )	343,687
Effect of exchange rates on cash and cash equivalents	14,521	(19,216 )
Net increase (decrease) in cash and cash equivalents	(70,514 )	40,019
Cash and cash equivalents, beginning of period	1,607,570	1,628,408
Cash and cash equivalents, end of period	\$ 1,537,056	\$ 1,668,427
Non-cash investing activity:		
Unpaid purchases of property and equipment	\$ 67,633	\$ 99,178

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., formerly Flextronics International 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 leading provider of innovative design, engineering, manufacturing, and supply chain services and solutions that span from sketch to scale<sup>tm</sup>; from conceptual sketch to full-scale production. The Company designs, builds, ships and services complete packaged consumer electronics and industrial products for original equipment manufacturers ("OEMs"), through its activities in the following segments: High Reliability Solutions ("HRS"), which is comprised of its medical business including consumer health, digital health, disposables, drug delivery, diagnostics, life sciences and imaging equipment; automotive business, including vehicle electronics, connectivity, and clean technologies; and defense and aerospace businesses, focused on commercial aviation, defense and military; Consumer Technologies Group ("CTG"), which includes its mobile devices business, including smart phones; consumer electronics business, including connected living, wearable electronics including digital sport, game consoles, and connectivity devices; and high-volume computing business, including various supply chain solutions for notebook personal computers ("PC"), tablets, and printers; in addition, CTG group is expanding its business relationships to include supply chain optimization for non-electronics products such as shoes and clothing; Industrial and Emerging Industries ("IEI"), which is comprised of semiconductor and capital equipment, office solutions, household industrial and lifestyle, industrial automation and kiosks, energy and metering, and lighting; and Communications & Enterprise Compute ("CEC"), includes radio access base stations, remote radio heads, and small cells for wireless infrastructure; 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. The Company's strategy is to provide customers with a full range of cost competitive, vertically integrated global supply chain solutions through which the Company can design, build, ship and service a complete packaged product for its OEM customers. This enables the Company's OEM customers to leverage the Company's supply chain solutions to meet their product requirements throughout the entire product life cycle.

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, 2016 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 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2017.

The first quarters for fiscal year 2017 and fiscal year 2016 ended on July 1, 2016, which is comprised of 92 days in the period, and June 26, 2015, which is comprised of 87 days in the period, respectively. The second quarters for fiscal year 2017 and fiscal year 2016 ended on September 30, 2016 and September 25, 2015, which are comprised of 91 days in both periods, respectively.

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-

## Table of Contents

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 presented as a separate component of total shareholders' equity in the condensed consolidated balance sheets. The associated noncontrolling owners' 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 an ownership 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 of the periods presented, and are included in interest and other, net in the condensed consolidated statements of operations.

### Recently Adopted Accounting Pronouncement

In March 2016, the Financial Accounting Standards Board ("FASB") issued new guidance intended to reduce the cost and complexity of the accounting for share-based payments. The new guidance simplifies various aspects of the accounting for share-based payments including income tax effects, withholding requirements and forfeitures. The Company elected to early adopt this new guidance beginning in the first quarter of fiscal year 2017. The guidance eliminates additional paid in capital ("APIC") pools and requires companies to recognize all excess tax benefits and tax deficiencies in the income statement when the awards vest or are settled. It also addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. Prior to adoption, the Company elected to not deduct tax benefits for stock-based compensation awards on its tax returns, and accordingly, did not have any excess tax benefits or tax deficiencies upon adoption. The Company therefore determined that adoption of the new guidance had no impact on the condensed consolidated statement of operations and the condensed consolidated statement of cash flows. Further, the new guidance eliminates the requirement to estimate forfeitures and reduce stock compensation expense during the vesting period. Instead, companies can elect to account for actual forfeitures as they occur and record any previously unrecognized compensation expense for estimated forfeitures up to the period of adoption as a retrospective adjustment to beginning retained earnings. The Company has made the election to account for actual forfeitures as they occur starting in fiscal year 2017. After assessment, it was determined that the cumulative effect adjustment required under the new guidance was immaterial and therefore the Company did not record a retrospective adjustment. The Company finally determined that the adoption of this guidance did not have a significant impact on the consolidated financial position, results of operations and cash flows of the Company.

### Recently Issued Accounting Pronouncement

In August 2016, the FASB issued new guidance intended to address specific cash flow issues with the objective of reducing the existing diversity in practice. This guidance is effective for the Company beginning in the first quarter of fiscal year 2019, with early application permitted. The Company is currently assessing the impact of this update and the timing of adoption.

## 2. BALANCE SHEET ITEMS

### Inventories

The components of inventories, net of applicable lower of cost or market write-downs, were as follows:

	As of September 30, 2016	As of March 31, 2016
	(In thousands)	
Raw materials	\$2,443,372	\$2,234,512
Work-in-progress	477,896	561,282
Finished goods	640,949	695,862
	\$3,562,217	\$3,491,656

Goodwill and Other Intangible Assets

Table of Contents

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 30, 2016:

	HRS	CTG	IEI	CEC	Amount
	(In thousands)				
Balance, beginning of the year	\$439,336	\$68,234	\$322,803	\$111,693	\$942,066
Additions (1)	—	39,822	16,031	—	55,853
Divestitures (2)	(1,787 )	—	(2,640 )	—	(4,427 )
Purchase accounting adjustments (3)	794	—	—	—	794
Foreign currency translation adjustments	(2,592 )	—	—	—	(2,592 )
Balance, end of the period	\$435,751	\$108,056	\$336,194	\$111,693	\$991,694

(1) The goodwill generated from the Company's business combinations completed during the six-month period ended September 30, 2016 is primarily related to value placed on the acquired employee workforces, service offerings and capabilities of the acquired businesses. The goodwill is not deductible for income tax purposes. See note 10 for additional information.

(2) During the six-month period ended September 30, 2016, the Company disposed of two non-strategic businesses within the IEI and HRS segments, and recorded an aggregate reduction of goodwill of \$4.4 million accordingly, which is included in the loss on sale in other expense on the condensed consolidated statement of operations.

(3) Includes adjustments to estimates resulting from the finalization of management's review of the valuation of assets acquired and liabilities assumed through certain business combinations completed in a period subsequent to the respective acquisition. These adjustments were not individually, nor in the aggregate, significant to the Company.

The components of acquired intangible assets are as follows:

	As of September 30, 2016			As of March 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Intangible assets:						
Customer-related intangibles	\$261,695	\$(89,596 )	\$172,099	\$223,046	\$(66,473 )	\$156,573
Licenses and other intangibles	290,020	(58,050 )	231,970	285,053	(37,872 )	247,181
Total	\$551,715	\$(147,646 )	\$404,069	\$508,099	\$(104,345 )	\$403,754

The gross carrying amounts of intangible assets are removed when fully amortized. During the six-month period ended September 30, 2016, the total value of intangible assets increased primarily as a result of three acquisitions. The estimated future annual amortization expense for intangible assets is as follows:

Table of Contents

Fiscal Year Ending March 31, Amount	
	(In thousands)
2017 (1)	\$ 40,069
2018	68,052
2019	61,398
2020	52,804
2021	48,562
Thereafter	133,184
Total amortization expense	\$ 404,069

---

(1) Represents estimated amortization for the remaining six-month period ending March 31, 2017.

## Other Current Assets

Other current assets include approximately \$461.5 million and \$501.1 million as of September 30, 2016 and March 31, 2016, respectively, for the deferred purchase price receivable from the Company's Global and North American Asset-Backed Securitization programs. See note 8 for additional information.

Also included in other current assets is the remaining value of certain assets purchased on behalf of a customer and financed by a third party banking institution in the amounts of \$83.9 million and \$83.6 million as of September 30, 2016 and March 31, 2016, respectively, the nature of which is more fully discussed in Note 17, "Business and Asset Acquisitions" to the Company's Form 10-K for the year ended March 31, 2016.

## Other Current Liabilities

Other current liabilities include customer working capital advances of \$223.9 million and \$253.7 million, customer-related accruals of \$511.7 million and \$479.5 million, and deferred revenue of \$302.9 million and \$332.3 million as of September 30, 2016 and March 31, 2016, 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. Other current liabilities also include the outstanding balance due to the third party banking institution related to the financed equipment discussed above of \$90.6 million and \$122.0 million as of September 30, 2016 and March 31, 2016, respectively.

## 3. SHARE-BASED COMPENSATION

The Company's primary plan used for granting equity compensation awards is the 2010 Equity Incentive Plan (the "2010 Plan").

During fiscal year 2016, in conjunction with the acquisition of NEXTracker Inc. ("NEXTracker"), the Company assumed all of the outstanding, unvested share bonus awards and outstanding, unvested options to purchase shares of common stock of NEXTracker, and converted all of these shares into Flex awards. As a result, the Company now offers the 2014 NEXTracker Equity Incentive Plan (the "NEXTracker Plan").

Further, during the first quarter of fiscal year 2017, in conjunction with an immaterial acquisition, the Company assumed all of the outstanding, unvested options to purchase shares of common stock of the acquiree, and converted all of these shares into Flex awards. As a result, the Company now offers an additional equity compensation plan, the BrightBox Technologies 2013 Plan (the "BrightBox Plan").





Table of Contents

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

	Three-Month Periods Ended		Six-Month Periods Ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
	(In thousands)			
Cost of sales	\$2,636	\$ 2,015	\$5,069	\$ 4,033
Selling, general and administrative expenses	20,097	14,185	41,461	28,293
Total share-based compensation expense	\$22,733	\$ 16,200	\$46,530	\$ 32,326

### The 2010 Equity Incentive Plan

Total unrecognized compensation expense related to share options under the 2010 Plan is not significant. As of September 30, 2016, the number of options outstanding and exercisable under the 2010 Plan was 0.2 million, for both, and at a weighted-average exercise price of \$9.27 per share and \$9.23 per share, respectively.

During the six-month period ended September 30, 2016, the Company granted 5.9 million unvested share bonus awards under the 2010 Plan. Of this amount, approximately 5.0 million unvested share bonus awards have an average grant date price of \$12.81 per share. Further, approximately 0.7 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 \$17.57 per award and was calculated using a Monte Carlo simulation. The remaining 0.2 million of unvested share bonus awards under the 2010 Plan have an average grant date price of \$12.82 per share and represents the target amount of grants made to certain executive officers whereby vesting is contingent on meeting certain free cash flow targets. The number of shares under the 2010 Plan, contingent on market conditions that ultimately will vest range from zero up to a maximum of 1.4 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. The number of shares under the 2010 Plan, contingent on free cash flow targets that ultimately will vest range from zero up to a maximum of 0.4 million of the target payment based on a measurement of cumulative three-year increase of free cash flow from operations of the Company, and will cliff vest after a period of three years.

As of September 30, 2016, approximately 15.9 million unvested share bonus awards under the 2010 Plan were outstanding, of which vesting for a targeted amount of 2.3 million is contingent primarily on meeting certain market conditions. The number of shares that will ultimately be issued can range from zero to 4.6 million based on the achievement levels of the respective conditions. During the six-month period ended September 30, 2016, 3.5 million shares under the 2010 Plan vested in connection with the share bonus awards with market conditions granted in fiscal year 2014.

As of September 30, 2016, total unrecognized compensation expense related to unvested share bonus awards under the 2010 Plan is \$159.5 million, and will be recognized over a weighted-average remaining vesting period of 2.8 years. Approximately \$26.3 million of the total unrecognized compensation cost, is related to awards under the 2010 Plan whereby vesting is contingent on meeting certain market conditions.

### The 2014 NEXTracker Equity Incentive Plan

All shares previously granted under the NEXTracker plan are the result of the Company's conversion of all outstanding, unvested shares of NEXTracker into unvested shares of the Company, as part of the acquisition. Therefore, no additional share options or share bonus awards were granted by the Company during the six-month period ended September 30, 2016.

As of September 30, 2016, total unrecognized compensation expense related to share options under the NEXTracker Plan is \$11.1 million, and will be recognized over a weighted-average remaining vesting period of 2.3 years. As of September 30, 2016, the number of options outstanding and exercisable was 2.2 million and 0.6 million, respectively, at a weighted-average exercise price of \$3.44 per share and \$2.72 per share, respectively.

Table of Contents

As of September 30, 2016, approximately 2.3 million unvested share bonus awards were outstanding. The total unrecognized compensation expense related to unvested share bonus awards under the NEXTracker Plan is \$12.2 million, and will be recognized over a weighted-average remaining vesting period of 2.0 years.

## The BrightBox Technologies 2013 Plan

During the first quarter of fiscal year 2017, the Company granted 0.2 million share options under the BrightBox Plan, at an average grant date fair value price of \$11.99 per share, and with a vesting period of three years from the vesting commencement date. All shares granted under the BrightBox plan are the result of the Company's conversion of all outstanding, unvested shares of BrightBox into unvested shares of the Company, as part of the acquisition. No additional grants will be made out of this plan in the future.

As of September 30, 2016, total unrecognized compensation expense related to share options under the BrightBox Plan is \$1.6 million, and will be recognized over a weighted-average remaining vesting period of 2.6 years. As of September 30, 2016, the number of options outstanding was 0.2 million, at a weighted-average exercise price of \$0.51 per share. No options under this plan were exercisable as of September 30, 2016.

## 4. EARNINGS PER SHARE

The following table reflects the 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 Ended		Six-Month Periods Ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
	(In thousands, except per share amounts)			
Net income (loss)	\$(2,508)	\$ 122,977	\$ 103,221	\$ 233,827
Shares used in computation:				
Weighted-average ordinary shares outstanding	544,055	563,333	544,353	564,417
Basic earnings (losses) per share	\$0.00	\$ 0.22	\$ 0.19	\$ 0.41
Diluted earnings (losses) per share:				
Net income (loss)	\$(2,508)	\$ 122,977	\$ 103,221	\$ 233,827
Shares used in computation:				
Weighted-average ordinary shares outstanding	544,055	563,333	544,353	564,417
Weighted-average ordinary share equivalents from stock options and awards (1) (2)	—	6,322	5,581	8,871
Weighted-average ordinary shares and ordinary share equivalents outstanding	544,055	569,655	549,934	573,288
Diluted earnings (losses) per share	\$0.00	\$ 0.22	\$ 0.19	\$ 0.41

(1) As a result of the Company's net loss, ordinary share equivalents from approximately 4.3 million options and share bonus awards were excluded from the calculation of diluted earnings (losses) per share for the three-month period ended September 30, 2016. Options to purchase ordinary shares of 1.7 million and 1.1 million during the three-month periods ended September 30, 2016 and September 25, 2015, respectively, and share bonus awards of 3.4 million and 5.3 million for the three-month period ended September 30, 2016 and September 25, 2015, respectively,

were excluded from the computation of diluted earnings per share due to their anti-dilutive impact on the weighted-average ordinary share equivalents.

(2) Options to purchase ordinary shares of 0.9 million and 1.2 million during the six-month periods ended September 30, 2016 and September 25, 2015, respectively, and share bonus awards of 2.9 million for the six-month period ended September 25, 2015 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.

Table of Contents

## 5. INTEREST AND OTHER, NET

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, on its debt obligations outstanding during the periods. During the three-month and six-month periods ended September 25, 2015, the Company recognized interest expense of \$25.1 million and \$45.2 million, respectively.

## 6. FINANCIAL INSTRUMENTS

## Foreign Currency Contracts

The Company primarily enters into forward contracts and foreign currency swap contracts 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 30, 2016, the aggregate notional amount of the Company's outstanding foreign currency contracts was \$4.2 billion as summarized below:

Currency	Foreign Currency Amount		Notional Contract Value in USD	
	Buy	Sell	Buy	Sell
	(In thousands)			
Cash Flow Hedges				
CNY	874,000	—	\$ 130,927	\$ —
EUR	23,090	104,160	25,842	118,953
HUF	15,775,600	—	57,280	—
ILS	112,280	—	29,891	—
INR	1,282,982	—	18,600	—
MXN	1,673,000	—	85,680	—
MYR	153,000	7,000	36,970	1,691
PLN	62,840	—	16,379	—
Other	N/A	N/A	35,271	12,350
			436,840	132,994
Other Foreign Currency Contracts				
BRL	—	392,000	—	120,653
CHF	8,960	21,150	9,210	21,739
CNY	2,582,317	—	386,097	—
DKK	167,400	157,200	25,141	23,609
EUR	869,642	1,150,415	973,337	1,287,735
GBP	32,336	58,752	42,023	76,386
HUF	21,422,970	19,425,090	77,786	70,532
ILS	58,900	91,420	15,680	24,338
INR	2,780,000	26,687	41,817	400
MXN	1,808,051	637,803	93,003	32,889
MYR	348,477	20,200	84,204	4,881
PLN	122,136	73,747	31,834	19,222
SEK	225,946	298,985	26,294	34,857
SGD	43,274	3,620	31,775	2,658
Other	N/A	N/A	45,748	34,906
			1,883,949	1,754,805

Total Notional Contract Value in USD	\$ 2,320,789	\$ 1,887,799
--------------------------------------	--------------	--------------

15

---

Table of Contents

As of September 30, 2016, the fair value of the Company's short-term foreign currency contracts was not material and is 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 30, 2016 and March 31, 2016, 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 flow hedges. These deferred losses were not material as of September 30, 2016, 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 (In thousands)	Fair Value September 30, 2016	Fair Value March 31, 2016	Balance Sheet Location	Fair Value September 30, 2016	Fair Value March 31, 2016
Derivatives designated as hedging instruments						
Foreign currency contracts	Other current assets	\$6,253	\$ 5,510	Other current liabilities	\$4,456	\$ 2,446
Derivatives not designated as hedging instruments						
Foreign currency contracts	Other current assets	\$5,226	\$ 17,138	Other current liabilities	\$6,361	\$ 18,645

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.

## 7. ACCUMULATED OTHER COMPREHENSIVE LOSS

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



Table of Contents

	Three-Month Periods Ended			September 25, 2015		
	September 30, 2016			September 25, 2015		
	Unrealized loss on derivative instruments and other	Foreign currency translation adjustments	Total	Unrealized gain (loss) on derivative instruments and other	Foreign currency translation adjustments	Total
	(In thousands)					
Beginning balance	\$ (40,174)	\$ (84,532)	) \$ (124,706)	\$ (55,437)	\$ (109,456)	) \$ (164,893)
Other comprehensive gain (loss) before reclassifications	(1,169)	) 4,213	3,044	(13,818)	) (30,267)	) (44,085)
Net (gain) losses reclassified from accumulated other comprehensive loss	(890)	) —	(890)	) 8,274	—	8,274
Net current-period other comprehensive gain (loss)	(2,059)	) 4,213	2,154	(5,544)	) (30,267)	) (35,811)
Ending balance	\$ (42,233)	\$ (80,319)	) \$ (122,552)	\$ (60,981)	\$ (139,723)	) \$ (200,704)
	Six-Month Periods Ended			September 25, 2015		
	September 30, 2016			September 25, 2015		
	Unrealized gain (loss) on derivative instruments and other	Foreign currency translation adjustments	Total	Unrealized gain (loss) on derivative instruments and other	Foreign currency translation adjustments	Total
	(In thousands)					
Beginning balance	\$ (41,522)	\$ (94,393)	) \$ (135,915)	\$ (68,266)	\$ (112,239)	) \$ (180,505)
Other comprehensive gain (loss) before reclassifications	324	) 14,299	14,623	(14,419)	) (27,636)	) (42,055)
Net (gains) losses reclassified from accumulated other comprehensive loss	(1,035)	) (225)	(1,260)	) 21,704	152	21,856
Net current-period other comprehensive gain (loss)	(711)	) 14,074	13,363	7,285	) (27,484)	) (20,199)
Ending balance	\$ (42,233)	\$ (80,319)	) \$ (122,552)	\$ (60,981)	\$ (139,723)	) \$ (200,704)

Net gains reclassified from accumulated other comprehensive loss during the six-month period ended September 30, 2016 relating to derivative instruments and other includes \$1.9 million attributable to the Company's cash flow hedge instruments which were primarily recognized as a component of cost of sales in the condensed consolidated statement of operations.

Net losses reclassified from accumulated other comprehensive loss during the six-month period ended September 25, 2015 relating to derivative instruments and other includes \$20.7 million attributable to the Company's cash flow hedge instruments which were recognized as a component of cost of sales in the condensed consolidated statement of operations.

Substantially all unrealized losses relating to derivative instruments and other, reclassified from accumulated other comprehensive loss for the three-month and six-month periods ended September 25, 2015, was 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.

## 8. TRADE RECEIVABLES SECURITIZATION

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

Table of Contents

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 \$700.0 million for the Global Program, of which \$600.0 million is committed and \$100.0 million is uncommitted, and \$265.0 million for the North American Program, of which \$225.0 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 30, 2016 and September 25, 2015 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 30, 2016, approximately \$1.3 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 \$851.0 million and deferred purchase price receivables of approximately \$461.5 million. As of March 31, 2016, approximately \$1.4 billion of accounts receivable had been sold to the special purpose entities for which the Company had received net cash proceeds of \$880.8 million and deferred purchase price receivables of approximately \$501.1 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 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 30, 2016 and March 31, 2016, 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 30, 2016 and March 31, 2016, 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 30, 2016 and September 25, 2015, cash flows from sales of receivables under the ABS Programs consisted of approximately \$2.8 billion and \$2.4 billion, for transfers of receivables, respectively (of which approximately \$92.7 million and \$255.3 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 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
	(In thousands)			
Beginning balance	\$460,334	\$ 516,287	\$501,097	\$ 600,672
Transfers of receivables	760,540	983,677	1,522,724	1,750,725
Collections	(759,330 )	(962,345 )	(1,562,277 )	(1,813,778 )
Ending balance	\$461,544	\$ 537,619	\$461,544	\$ 537,619

Trade Accounts Receivable Sale Programs

## Table of Contents

The Company also sold accounts receivables to certain third-party banking institutions. The outstanding balance of receivables sold and not yet collected was approximately \$362.7 million and \$339.1 million as of September 30, 2016 and March 31, 2016, respectively. For the six-month periods ended September 30, 2016 and September 25, 2015, total accounts receivable sold to certain third party banking institutions was approximately \$0.8 billion and \$1.2 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.

### 9. 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 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, which is measured at fair value based on certain internal models and unobservable inputs.

The fair value of the liability was estimated using a simulation-based measurement technique with significant inputs that are not observable in the market and thus represents a level 3 fair value measurement. 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:

Table of Contents

	Three-Month Periods Ended		Six-Month Periods Ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
	(In thousands)			
Beginning balance	\$75,258	\$ 4,500	\$73,423	\$ 4,500
Additions to accrual	—	—	—	—
Payments	(2,221 )	—	(2,221 )	—
Fair value adjustments	2,577	—	4,412	—
Ending balance	\$75,614	\$ 4,500	\$75,614	\$ 4,500

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 meaningful. The interrelationship between these inputs is also insignificant. Refer to note 8 for a reconciliation of the change in the deferred purchase price receivable during the three-month and six-month periods ended September 30, 2016 and September 25, 2015.

There were no transfers between levels in the fair value hierarchy during the three-month and six-month periods ended September 30, 2016 and September 25, 2015.

#### 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:

Table of Contents

	Fair Value Measurements as of September 30, 2016		
	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)	\$-1,120,831	\$ —	\$ 1,120,831
Deferred purchase price receivable (Note 8)	—	461,544	461,544
Foreign exchange contracts (Note 6)	-11,479	—	11,479
Deferred compensation plan assets:			0
Mutual funds, money market accounts and equity securities	7,408,124	—	55,621
Liabilities:			
Foreign exchange contracts (Note 6)	\$(10,817 )	\$ —	\$(10,817 )
Contingent consideration in connection with business acquisitions	—	(75,614)	(75,614 )

	Fair Value Measurements as of March 31, 2016		
	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)	\$-1,074,132	\$ —	\$ 1,074,132
Deferred purchase price receivable (Note 8)	—	501,097	501,097
Foreign exchange contracts (Note 6)	-22,648	—	22,648
Deferred compensation plan assets:			0
Mutual funds, money market accounts and equity securities	9,208,556	—	49,784
Liabilities:			
Foreign exchange contracts (Note 6)	\$(21,091 )	\$ —	\$(21,091 )
Contingent consideration in connection with business acquisitions	—	(73,423)	(73,423 )

## Other financial instruments

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

	As of September 30, 2016		As of March 31, 2016		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair Value Hierarchy
Term Loan, including current portion, due in installments through August 2018	\$570,000	\$568,222	\$577,500	\$573,533	Level 1
Term Loan, including current portion, due in installments through March 2019	525,000	520,406	547,500	542,709	Level 1
4.625% Notes due February 2020	500,000	536,250	500,000	524,735	Level 1
5.000% Notes due February 2023	500,000	550,000	500,000	507,500	Level 1
4.750% Notes due June 2025	595,782	639,000	595,589	604,926	Level 1
Total	\$2,690,782	\$2,813,878	\$2,720,589	\$2,753,403	



The term loans and Notes due February 2020, February 2023 and June 2025 are valued based on broker trading prices in active markets.

21

---

## Table of Contents

The Company values its €50 million (approximately \$56.1 million as of September 30, 2016), 5-year, unsecured, term-loan due September 30, 2020 based on the current market rate, and as of September 30, 2016, the carrying amount approximates fair value.

### 10. BUSINESS AND ASSET ACQUISITIONS & DIVESTITURES

#### Business and asset acquisitions

During the six-month period ended September 30, 2016, the Company completed three acquisitions that were not individually, nor in the aggregate, significant to the consolidated financial position, results of operations and cash flows of the Company. Most notably is the Company's acquisition of two manufacturing and development facilities from Bose Corporation ("Bose"), a global leader in audio systems. The acquisition expanded the Company's capabilities in the audio market and is included in the CTG segment. The other acquired businesses strengthen the Company's capabilities in the energy market within the IEI segment. The Company paid a total of \$189.3 million, net of cash acquired, of which \$171.6 million, net of \$17.8 million of cash acquired is related to the Bose acquisition. The Company acquired primarily \$73.6 million of inventory, \$66.8 million of property and equipment, recorded goodwill of \$52.8 million and intangible assets of \$44.9 million substantially related to Bose. The intangibles will amortize over a weighted-average estimated useful life of 7.4 years. In connection with these acquisitions, the Company assumed \$57.5 million in other liabilities including additional consideration of \$28.0 million payable to Bose by the end of fiscal year 2017. Further, the equity incentive plan of one of the acquirees was assumed as part of the acquisition.

The results of operations for each of the acquisitions completed in fiscal year 2017, including the Bose acquisition, were included in the Company's consolidated financial results beginning on the date of each acquisition, and the total amount of net income and revenue of the acquisitions, collectively, were immaterial to the Company's consolidated financial results for the three-month and six-month periods ended September 30, 2016. Pro-forma results of operations for the acquisitions completed in fiscal year 2017 have not been presented because the effects, individually and in the aggregate, were not material to the Company's consolidated financial results for all periods presented.

The total amount of net income and revenue for the acquisitions completed in fiscal year 2016, collectively, was not material to the Company's consolidated financial results for the three-month and six-month period ended September 30, 2016. On a pro-forma basis, and assuming the fiscal year 2016 acquisitions occurred on the first day of that fiscal year, or April 1, 2015, the Company's net income would have been estimated to be \$130.1 million and \$243.1 million for the three-month and six-month periods ended September 25, 2015, respectively. Pro-forma revenue for the acquisitions in fiscal year 2016 has not been presented because the effect, collectively, was not material to the Company's consolidated revenues for all periods presented.

The Company is in the process of evaluating the fair value of the assets and liabilities related to business combinations completed during fiscal year 2017. 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.

#### Divestitures

During the six-month period ended September 30, 2016, the Company disposed of two non-strategic businesses within the HRS and IEI segments. The Company received \$33.0 million of proceeds, net of an immaterial amount of cash held in one of the divested businesses. The property and equipment and various other assets sold, and liabilities transferred were not material to the Company's consolidated financial results. The loss on disposition was not material

to the Company's consolidated financial results, and is included in other charges, net in the condensed consolidated statements of operations for the six-month period ended September 30, 2016.

Table of Contents

11. COMMITMENTS AND CONTINGENCIES

Litigation and other legal matters

During the third quarter of fiscal year 2014, one of the Company's Brazilian subsidiaries received an assessment for certain sales and import taxes. The tax assessment notice was for nine months of calendar year 2010 for an alleged amount of 52 million Brazilian reals (approximately USD \$16 million based on the exchange rate as of September 30, 2016) plus interest. This assessment is in the second stage of the review process at the administrative level. During the fourth quarter of fiscal year 2016, the same Brazilian subsidiary received a further assessment related to the same import taxes of an additional 57 million Brazilian reals (approximately USD \$18 million based on the exchange rate as of September 30, 2016) plus interest. This assessment is in the first stage of the review process at the administrative level. The Company plans to continue to vigorously oppose both of these assessments, as well as any future assessments. The Company is unable to determine the likelihood of an unfavorable outcome of these assessments against our Brazilian subsidiary. While the Company believes there is no legal basis for the alleged liabilities, due to the complexities and uncertainty surrounding the administrative-review and judicial processes in Brazil and the nature of the claims, it is unable to reasonably estimate a range of loss for this assessment or any future assessments that are reasonably possible. The Company does not expect final judicial determination on either of these claims for several years.

During fiscal year 2015, one of the Company's non-operating Brazilian subsidiaries received an assessment of approximately USD \$100 million related to income and social contribution taxes, interest and penalties. During the first quarter of fiscal year 2017, the Company received a final favorable judgment in the judicial process reversing the assessment and the case is now closed. As the Company had previously determined there was no legal basis for the assessment, no adjustment was required to be recorded during the first quarter of fiscal year 2017.

In addition, 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 condensed consolidated balance sheets, would not be material to the financial statements as a whole.

12. SHARE REPURCHASES

During the three-month and six-month periods ended September 30, 2016, the Company repurchased 6.9 million shares at an aggregate purchase price of \$90.0 million, and 14.2 million shares at an aggregate purchase price of \$181.0 million, respectively, 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 24, 2016. As of September 30, 2016, shares in the aggregate amount of \$450.2 million were available to be repurchased under the current plan.

13. SEGMENT REPORTING

The Company has four reportable segments: HRS, CTG, IEI, 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, restructuring charges, distressed customer charges, other charges (income), net and interest and other, net.

Selected financial information by segment is as follows:

23

---

Table of Contents

	Three-Month Periods Ended		Six-Month Periods Ended	
	September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
	(In thousands)			
Net sales:				
Communications & Enterprise Compute	\$2,101,922	\$2,204,966	\$4,297,912	\$4,171,528
Consumer Technology Group	1,664,736	2,011,089	2,978,518	3,576,052
Industrial & Emerging Industries	1,242,722	1,145,842	2,531,737	2,275,981
High Reliability Solutions	999,145	954,865	2,077,171	1,859,449
	\$6,008,525	\$6,316,762	\$11,885,338	\$11,883,010
Segment income and reconciliation of income before tax:				
Communications & Enterprise Compute	\$52,453	\$65,758	\$114,352	\$122,822
Consumer Technology Group	55,314	41,170	79,948	80,013
Industrial & Emerging Industries	37,363	32,268	87,340	61,268
High Reliability Solutions	78,707	71,199	167,243	131,085
Corporate and Other	(26,902)	(14,075)	(61,702)	(39,786)
Total segment income	196,935	196,320	387,181	355,402
Reconciling items:				
Intangible amortization	21,986	16,127	43,584	23,798
Stock-based compensation	22,733	16,200	46,530	32,326
Inventory impairment and other (1)	92,915	—	92,915	—
Restructuring (2)	11,539	—	11,539	—
Other charges, net	8,388	1,678	11,917	1,842
Interest and other, net	24,632	22,035	49,031	38,540
Income before income taxes	\$14,742	\$140,280	\$131,665	\$258,896

(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 \$61.0 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) The Company has 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™ initiatives. As part of this plan, approximately \$11.5 million was recognized in the quarter ended September 30, 2016. The Company expects to finalize the plan by the end of fiscal year 2017.

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.



Table of Contents

14. SUPPLEMENTAL GUARANTOR AND NON-GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Flex Ltd. (“Parent”) has three tranches of Notes of \$500 million, \$500 million, and \$600 million, respectively, each outstanding, which mature on February 15, 2020, February 15, 2023 and June 15, 2025, respectively. These Notes are senior unsecured obligations, and are guaranteed, fully and unconditionally, jointly and severally, on an unsecured basis, by certain of the Company’s 100% owned subsidiaries (the “guarantor subsidiaries”). These subsidiary guarantees will terminate upon 1) a sale or other disposition of the guarantor or the sale or disposition of all or substantially all the assets of the guarantor (other than to the Parent or a subsidiary); 2) such guarantor ceasing to be a guarantor or a borrower under the Company’s Term Loan Agreement and the Revolving Line of Credit; 3) defeasance or discharge of the Notes, as provided in the Notes indenture; or 4) if at any time the Notes are rated investment grade, provided that each rating agency confirms that the Notes will continue to be rated investment grade after the Note Guaranties are terminated.

In lieu of providing separate financial statements for the guarantor subsidiaries, the Company has included the accompanying condensed consolidating financial statements, which are presented using the equity method of accounting. The principal elimination entries relate to investment in subsidiaries and intercompany balances and transactions, including transactions with the Company’s non-guarantor subsidiaries.



Table of Contents

## Condensed Consolidating Balance Sheets as of September 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$823,435	\$122,531	\$591,090	\$—	\$1,537,056
Accounts receivable	—	941,596	1,399,797	—	2,341,393
Inventories	—	1,545,142	2,017,075	—	3,562,217
Inter company receivable	9,952,291	7,457,490	14,178,475	(31,588,256 )	—
Other current assets	2,947	179,553	835,454	—	1,017,954
Total current assets	10,778,673	10,246,312	19,021,891	(31,588,256 )	8,458,620
Property and equipment, net	—	576,336	1,759,623	—	2,335,959
Goodwill and other intangible assets, net	1,239	90,316	1,304,208	—	1,395,763
Other assets	2,224,133	276,072	2,001,421	(4,030,834 )	470,792
Investment in subsidiaries	2,739,759	3,274,766	17,932,399	(23,946,924 )	—
Total assets	\$15,743,804	\$14,463,802	\$42,019,542	\$(59,566,014)	\$12,661,134
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Bank borrowings and current portion of long-term debt	\$58,836	\$946	\$6,187	\$—	\$65,969
Accounts payable	—	1,497,129	3,017,437	—	4,514,566
Accrued payroll	—	119,846	290,741	—	410,587
Inter company payable	10,416,283	10,238,176	10,933,797	(31,588,256 )	—
Other current liabilities	21,350	796,156	1,045,039	—	1,862,545
Total current liabilities	10,496,469	12,652,253	15,293,201	(31,588,256 )	6,853,667
Long term liabilities	2,685,469	2,058,750	2,489,774	(4,030,834 )	3,203,159
Flex Ltd. shareholders' equity (deficit)	2,561,866	(247,201 )	24,194,125	(23,946,924 )	2,561,866
Noncontrolling interests	—	—	42,442	—	42,442
Total shareholders' equity (deficit)	2,561,866	(247,201 )	24,236,567	(23,946,924 )	2,604,308
Total liabilities and shareholders' equity	\$15,743,804	\$14,463,802	\$42,019,542	\$(59,566,014)	\$12,661,134

Table of Contents

## Condensed Consolidating Balance Sheets as of March 31, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$734,869	\$148,201	\$724,500	\$—	\$1,607,570
Accounts receivable	—	729,331	1,315,426	—	2,044,757
Inventories	—	1,482,410	2,009,246	—	3,491,656
Inter company receivable	9,105,728	5,568,392	12,404,722	(27,078,842 )	—
Other current assets	2,951	180,842	987,350	—	1,171,143
Total current assets	9,843,548	8,109,176	17,441,244	(27,078,842 )	8,315,126
Property and equipment, net	—	553,072	1,704,561	—	2,257,633
Goodwill and other intangible assets, net	175	60,895	1,284,750	—	1,345,820
Other assets	2,249,145	267,034	2,004,437	(4,054,214 )	466,402
Investment in subsidiaries	2,815,426	3,010,111	18,175,348	(24,000,885 )	—
Total assets	\$14,908,294	\$12,000,288	\$40,610,340	\$(55,133,941)	\$12,384,981
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Bank borrowings and current portion of long-term debt	\$58,836	\$946	\$5,384	\$—	\$65,166
Accounts payable	—	1,401,835	2,846,457	—	4,248,292
Accrued payroll	—	114,509	239,038	—	353,547
Inter company payable	9,562,405	7,999,335	9,517,102	(27,078,842 )	—
Other current liabilities	33,008	869,470	1,002,722	—	1,905,200
Total current liabilities	9,654,249	10,386,095	13,610,703	(27,078,842 )	6,572,205
Long term liabilities	2,683,173	2,063,988	2,514,299	(4,054,214 )	3,207,246
Flex Ltd. shareholders' equity (deficit)	2,570,872	(449,795 )	24,450,680	(24,000,885 )	2,570,872
Noncontrolling interests	—	—	34,658	—	34,658
Total shareholders' equity (deficit)	2,570,872	(449,795 )	24,485,338	(24,000,885 )	2,605,530
Total liabilities and shareholders' equity	\$14,908,294	\$12,000,288	\$40,610,340	\$(55,133,941)	\$12,384,981

Table of Contents

## Condensed Consolidating Statements of Operations for the Three-Month Period Ended September 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net sales	\$—	\$3,991,248	\$ 5,191,500	\$(3,174,223)	\$6,008,525
Cost of sales	—	3,686,831	5,182,226	(3,174,223 )	5,694,834
Gross profit	—	304,417	9,274	—	313,691
Selling, general and administrative expenses	—	75,351	168,592	—	243,943
Intangible amortization	75	717	21,194	—	21,986
Interest and other, net	125,803	243,460	(336,243 )	—	33,020
Income (loss) from continuing operations before income taxes	(125,878)	(15,111 )	155,731	—	14,742
Provision for income taxes	11	2,476	14,763	—	17,250
Equity in earnings in subsidiaries	123,381	(63,394 )	(52,231 )	(7,756 )	—
Net income (loss)	\$(2,508)	\$(80,981 )	\$ 88,737	\$(7,756 )	\$(2,508 )

## Condensed Consolidating Statements of Operations for the Three-Month Period Ended September 25, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net sales	\$—	\$4,482,213	\$ 5,514,535	\$(3,679,986)	\$6,316,762
Cost of sales	—	4,141,254	5,458,578	(3,679,986 )	5,919,846
Gross profit	—	340,959	55,957	—	396,916
Selling, general and administrative expenses	—	66,682	150,114	—	216,796
Intangible amortization	75	960	15,092	—	16,127
Interest and other, net	(131,637 )	277,002	(121,652 )	—	23,713
Income (loss) from continuing operations before income taxes	131,562	(3,685 )	12,403	—	140,280
Provision for (benefit from) income taxes	—	(5,658 )	22,961	—	17,303
Equity in earnings in subsidiaries	(8,585 )	(33,421 )	16,794	25,212	—
Net income (loss)	\$122,977	\$(31,448 )	\$ 6,236	\$25,212	\$122,977

## Condensed Consolidating Statements of Operations for the Six-Month Period Ended September 30, 2016

Table of Contents

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net sales	\$—	\$7,821,600	\$9,528,146	\$(5,464,408)	\$11,885,338
Cost of sales	—	7,100,113	9,529,947	(5,464,408 )	11,165,652
Gross profit	—	721,487	(1,801 )	—	719,686
Selling, general and administrative expenses	—	145,321	338,168	—	483,489
Intangible amortization	150	1,434	42,000	—	43,584
Interest and other, net	(190,588 )	659,777	(408,241 )	—	60,948
Income (loss) from continuing operations before income taxes	190,438	(85,045 )	26,272	—	131,665
Provision for income taxes	11	3,070	25,363	—	28,444
Equity in earnings in subsidiaries	(87,206 )	(64,121 )	(74,336 )	225,663	—
Net income (loss)	\$103,221	\$(152,236 )	\$(73,427 )	\$225,663	\$103,221

## Condensed Consolidating Statements of Operations for the Six-Month Period Ended September 25, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net sales	\$—	\$8,528,598	\$9,450,050	\$(6,095,638)	\$11,883,010
Cost of sales	—	7,785,313	9,444,078	(6,095,638 )	11,133,753
Gross profit	—	743,285	5,972	—	749,257
Selling, general and administrative expenses	—	130,238	295,943	—	426,181
Intangible amortization	150	1,921	21,727	—	23,798
Interest and other, net	(397,020 )	613,414	(176,012 )	—	40,382
Income (loss) from continuing operations before income taxes	396,870	(2,288 )	(135,686 )	—	258,896
Provision for income taxes	—	3,441	21,628	—	25,069
Equity in earnings in subsidiaries	(163,043 )	(51,830 )	52,755	162,118	—
Net income (loss)	\$233,827	\$(57,559 )	\$(104,559 )	\$162,118	\$233,827

Table of Contents

## Condensed Consolidating Statements of Comprehensive Income (Loss) for the Three-Month Period Ended September 30, 2016

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net income (loss)	\$ (2,508)	\$ (80,981 )	\$ 88,737	\$ (7,756 )	\$ (2,508 )
Other comprehensive income:					
Foreign currency translation adjustments, net of zero tax	4,213	(7,528 )	(3,368 )	10,896	4,213
Unrealized gain (loss) on derivative instruments and other, net of zero tax	(2,059 )	1,050	(2,059 )	1,009	(2,059 )
Comprehensive income (loss)	\$ (354 )	\$ (87,459 )	\$ 83,310	\$ 4,149	\$ (354 )

## Condensed Consolidating Statements of Comprehensive Income (Loss) for the Three-Month Period Ended September 25, 2015

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net income (loss)	\$ 122,977	\$ (31,448 )	\$ 6,236	\$ 25,212	\$ 122,977
Other comprehensive income (loss):					
Foreign currency translation adjustments, net of zero tax	(30,267 )	(33,696 )	(30,633 )	64,329	(30,267 )
Unrealized gain (loss) on derivative instruments and other, net of zero tax	(5,544 )	1,160	(5,544 )	4,384	(5,544 )
Comprehensive income (loss)	\$ 87,166	\$ (63,984 )	\$ (29,941 )	\$ 93,925	\$ 87,166

## Condensed Consolidating Statements of Comprehensive Income (Loss) for the Six-Month Period Ended September 30, 2016

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net income (loss)	\$ 103,221	\$ (152,236 )	\$ (73,427 )	\$ 225,663	\$ 103,221
Other comprehensive income (loss):	0				
Foreign currency translation adjustments, net of zero tax	14,074	10,181	21,395	(31,576 )	14,074
Unrealized gain (loss) on derivative instruments and other, net of zero tax	(711 )	3,500	(711 )	(2,789 )	(711 )
Comprehensive income (loss)	\$ 116,584	\$ (138,555 )	\$ (52,743 )	\$ 191,298	\$ 116,584

Table of Contents

## Condensed Consolidating Statements of Comprehensive Income (Loss) for the Six-Month Period Ended September 25, 2015

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net income (loss)	\$233,827	\$ (57,559 )	\$ (104,559 )	\$ 162,118	\$ 233,827
Other comprehensive income (loss):					
Foreign currency translation adjustments, net of zero tax	(27,484 )	(57,186 )	(51,530 )	108,716	(27,484 )
Unrealized gain on derivative instruments and other, net of zero tax	7,285	5,785	7,285	(13,070 )	7,285
Comprehensive income (loss)	\$213,628	\$ (108,960 )	\$ (148,804 )	\$ 257,764	\$ 213,628

Table of Contents

## Condensed Consolidating Statements of Cash Flows for the Six-Month Period Ended September 30, 2016

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Net cash provided by (used in) operating activities	\$157,337	\$(390,057)	\$776,305	\$ (33 )	\$543,552
Cash flows from investing activities:					
Purchases of property and equipment, net of proceeds from disposal	—	(92,393 )	(186,982 )	—	(279,375 )
Acquisition of businesses, net of cash acquired	—	(80,339 )	(109,556 )	—	(189,895 )
Proceeds from divestiture of businesses, net of cash held in divested businesses	—	20,500	15,573	—	36,073
Investing cash flows to affiliates	(426,040 )	(2,041,309 )	(669,967 )	3,137,316	—
Other investing activities, net	(1,213 )	(7,051 )	28,621	—	20,357
Net cash used in investing activities	(427,253 )	(2,200,592 )	(922,311 )	3,137,316	(412,840 )
Cash flows from financing activities:					
Proceeds from bank borrowings and long-term debt	74,944	—	91	—	75,035
Repayments of bank borrowings, long-term debt and capital lease obligations	(105,000 )	(3,491 )	(2,101 )	—	(110,592 )
Payments for repurchases of ordinary shares	(184,698 )	—	—	—	(184,698 )
Net proceeds from issuance of ordinary shares	11,344	—	—	—	11,344
Financing cash flows from affiliates	539,454	2,581,240	16,589	(3,137,283)	—
Other financing activities, net	30,000	(11,347 )	(25,489 )	—	(6,836 )
Net cash provided by financing activities	366,044	2,566,402	(10,910 )	(3,137,283)	(215,747 )
Effect of exchange rates on cash and cash equivalents	(7,562 )	(1,423 )	23,506	—	14,521
Net increase (decrease) in cash and cash equivalents	88,566	(25,670 )	(133,410 )	—	(70,514 )
Cash and cash equivalents, beginning of period	734,869	148,201	724,500	—	1,607,570
Cash and cash equivalents, end of period	\$823,435	\$122,531	\$591,090	\$ —	\$1,537,056

Table of Contents

## Condensed Consolidating Statements of Cash Flows for the Six-Month Period Ended September 25, 2015

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)				
Net cash provided by (used in) operating activities	\$389,949	\$(248,082)	\$520,128	\$ —	\$661,995
Cash flows from investing activities:					
Purchases of property and equipment, net of proceeds from disposal	—	(88,699)	(205,330)	11	(294,018)
Acquisition and divestiture of businesses, net of cash acquired and cash held in divested business	—	(559,442)	(82,471)	—	(641,913)
Investing cash flows from (to) affiliates	(1,326,493)	(836,415)	(1,194,368)	3,357,276	—
Other investing activities, net	—	(22,822)	12,306	—	(10,516)
Net cash used in investing activities	(1,326,493)	(1,507,378)	(1,469,863)	3,357,287	(946,447)
Cash flows from financing activities:					
Proceeds from bank borrowings and long-term debt	595,309	209	35	—	595,553
Repayments of bank borrowings, long-term debt and capital lease obligations	(17,507)	(1,039)	(2,544)	—	(21,090)
Payments for repurchases of ordinary shares	(241,978)	—	—	—	(241,978)
Net proceeds from issuance of ordinary shares	49,074	—	—	—	49,074
Financing cash flows from affiliates	435,540	1,811,532	1,110,215	(3,357,287)	—
Other financing activities, net	—	—	(37,872)	—	(37,872)
Net cash provided by financing activities	820,438	1,810,702	1,069,834	(3,357,287)	343,687
Effect of exchange rates on cash and cash equivalents	24,766	2,955	(46,937)	—	(19,216)
Net decrease (increase) in cash and cash equivalents	(91,340)	58,197	73,162	—	40,019
Cash and cash equivalents, beginning of period	608,971	168,272	851,165	—	1,628,408
Cash and cash equivalents, end of period	\$517,631	\$226,469	\$924,327	\$ —	\$1,668,427



Table of Contents

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., formerly known as Flextronics International 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, 2016. 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, leading provider of innovative design, engineering, manufacturing, and supply chain services and solutions that span from sketch to scale<sup>tm</sup>; from conceptual sketch to full-scale production. We design, build, ship and service complete packaged consumer electronics and industrial products for original equipment manufacturers ("OEMs"), through our activities in the following segments: High Reliability Solutions ("HRS"), which is comprised of our medical business including consumer health, digital health, disposables, drug delivery, diagnostics, life sciences and imaging equipment; our automotive business, including vehicle electronics, connectivity, and clean technologies; and our defense and aerospace businesses, focused on commercial aviation, defense and military; Consumer Technologies Group ("CTG"), which includes our mobile devices business, including smart phones; our consumer electronics business, including connected living, wearable electronics including digital sport, game consoles, and connectivity devices; and our high-volume computing business, including various supply chain solutions for notebook personal computers ("PC"), tablets, and printers; in addition, our CTG group is expanding its business relationships to include supply chain optimization for non-electronics products such as shoes and clothing; Industrial and Emerging Industries ("IEI"), which is comprised of semiconductor and capital equipment, office solutions, household industrial and lifestyle, industrial automation and kiosks, energy and metering, and lighting; and Communications & Enterprise Compute ("CEC"), which includes radio access base stations, remote radio heads, and small cells for wireless infrastructure; 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.

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 OEM customers. This enables our OEM customers to leverage our supply chain solutions to meet their product requirements throughout the entire product life cycle.

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 OEM 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 a 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.

Table of Contents

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. During the last two fiscal years we launched several programs broadly across our portfolio of services and in some instances we deployed certain new technologies. Some of these programs have started to yield better results, as demonstrated by our segment operating margin improvement while our sales decreased compared to the prior year. 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 \$11.9 billion for the six-month period ended September 30, 2016 and \$24.4 billion in fiscal year 2016. 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 30, 2016		September 25, 2015		September 30, 2016		September 25, 2015	
	(In thousands)							
China	\$1,959,064	32%	\$2,340,475	37%	\$3,799,916	32%	\$4,176,663	35%
Mexico	952,857	16%	943,624	15%	1,868,202	16%	1,850,503	16%
U.S.	708,858	12%	627,757	10%	1,417,268	12%	1,270,346	11%
Malaysia	539,985	9%	566,919	9%	1,112,748	9%	1,112,289	9%
Brazil	417,958	7%	498,697	8%	789,631	7%	982,827	8%
Other	1,429,803	24%	1,339,290	21%	2,897,573	24%	2,490,382	21%
	\$6,008,525		\$6,316,762		\$11,885,338		\$11,883,010	

Property and equipment, net:	As of September 30, 2016		As of March 31, 2016	
		(In thousands)		
China	\$765,432	33%	\$789,571	35%
Mexico	484,418	21%	429,989	19%
U.S.	302,163	13%	330,778	15%
Malaysia	190,161	8%	159,787	7%
Hungary	127,902	5%	107,492	5%
Other	465,883	20%	425,559	19%
	\$2,335,959		\$2,257,633	

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 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 OEMs. 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;

35

---

Table of Contents

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 OEM 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; and

changes in tax legislation.

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, 2016, 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 in conjunction 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 2016 Annual Report on Form 10-K.

Three-Month Periods Ended		Six-Month Periods Ended	
September 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015

Edgar Filing: FLEX LTD. - Form 10-Q

Net sales	100.0	%	100.0	%	100.0%	100.0	%
Cost of sales	94.8		93.7		93.9	93.7	
Gross profit	5.2		6.3		6.1	6.3	
Selling, general and administrative expenses	4.1		3.4		4.1	3.6	
Intangible amortization	0.4		0.3		0.4	0.2	
Interest and other, net	0.4		0.3		0.4	0.3	
Other charges, net	0.1		0.0		0.1	0.0	
Income before income taxes	0.2		2.3		1.1	2.2	
Provision for income taxes	0.3		0.3		0.2	0.2	
Net income (loss)	(0.1	)%	2.0	%	0.9	% 2.0	%

36

---

Table of Contents

## 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 30, 2016		September 25, 2015		September 30, 2016		September 25, 2015	
	(In thousands)							
Communications & Enterprise Compute	\$2,101,922	35 %	\$2,204,966	35 %	\$4,297,912	36 %	\$4,171,528	35 %
Consumer Technology Group	1,664,736	28 %	2,011,089	32 %	2,978,518	25 %	3,576,052	30 %
Industrial & Emerging Industries	1,242,722	21 %	1,145,842	18 %	2,531,737	21 %	2,275,981	19 %
High Reliability Solutions	999,145	16 %	954,865	15 %	2,077,171	18 %	1,859,449	16 %
	\$6,008,525		\$6,316,762		\$11,885,338		\$11,883,010	

Net sales during the three-month period ended September 30, 2016 totaled \$6.0 billion, representing a decrease of approximately \$0.3 billion, or 4.9% from \$6.3 billion during the three-month period ended September 25, 2015. The overall decline in sales was driven by decreases in two of our segments, with our CTG segment declining \$346.4 million, almost entirely due to a decline in demand from our largest smartphone customer Lenovo/Motorola in connection with our exit of a China operation dedicated to them, and a \$103.0 million decrease in our CEC segment largely attributable to lower sales within our legacy server and storage business. These decreases were offset by modest increases in our other segments with a \$96.9 million increase in our IEI segment driven by contribution from our NEXTracker Inc. ("NEXTracker") acquisition and expansion within our capital equipment business. Also offsetting the declines in CTG and CEC segments was a \$44.3 million increase in our HRS segment primarily attributable to successful new program ramps in our automotive and medical businesses. Net sales decreased \$290.0 million to \$2.9 billion in Asia, while remaining relatively consistent in the Americas and Europe at \$2.1 billion and \$1.0 billion, respectively.

Net sales during the six-month periods ended September 30, 2016 and September 25, 2015, remained consistent at \$11.9 billion. Net sales within our CTG segment decreased by \$597.5 million primarily as a result of the decline in demand from our largest smartphone customer Lenovo/Motorola in connection with the exit of the China operation described above, offset by slight increases in each of our other three segments. Net sales increased \$213.9 million to \$2.2 billion in Europe offset by a decrease of \$190.1 million to \$5.6 billion in Asia. Sales in the Americas remained relatively consistent at \$4.1 billion.

Our ten largest customers, during the three-month 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.

Our ten largest customers, during the three-month and six-month periods ended September 25, 2015, accounted for approximately 47% and 46% of net sales, respectively. Lenovo/Motorola accounted for more than 10% of net sales during the three and six-month periods ended September 25, 2015.

## 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 and 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. 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.



Table of Contents

Gross profit during the three-month period ended September 30, 2016 decreased \$83.2 million to \$313.7 million, or 5.2% of net sales, from \$396.9 million, or 6.3% of net sales, during the three-month period ended September 25, 2015. Gross profit during the six-month period ended September 30, 2016 decreased \$29.6 million to \$719.7 million, or 6.1% of net sales from \$749.3 million, or 6.3% of net sales, during the six-month period ended September 25, 2015. Gross profit for both the three-month and the six-month periods ended September 30, 2016 was negatively impacted by the \$92.9 million, or 160 basis points and 70 basis points for the three and six-month periods, respectively, of charges recognized related to the significant decline in prices for solar modules and the slowdown in demand. This negative impact was partially offset by a richer business mix due to a greater concentration of our higher margin HRS business coupled with improved operational efficiencies and improved customer mix in our CTG segment.

Gross margins deteriorated 110 and 20 basis points in the three-month and six-month periods ended September 30, 2016, respectively, compared to that of the three-month and six-month periods ended September 25, 2015, 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, restructuring charges, distressed customer charges, other charges (income), net and interest and other, net. A portion of amortization and depreciation is allocated to the respective segment together with other general corporate research and development and administrative expenses.

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 30, 2016	September 25, 2015	September 30, 2016	September 25, 2015
	(In thousands)			
Segment income & margin:				
Communications & Enterprise Compute	\$52,453	2.5%	\$65,758	3.0%
Consumer Technology Group	55,314	3.3%	41,170	2.0%
Industrial & Emerging Industries	37,363	3.0%	32,268	2.8%
High Reliability Solutions	78,707	7.9%	71,199	7.5%
Corporate and Other	(26,902 )		(14,075 )	
Total segment income	196,935	3.3%	196,320	3.1%
Reconciling items:				
Intangible amortization	21,986		16,127	
Stock-based compensation	22,733		16,200	
Inventory impairment and other (1)	92,915		—	
Restructuring (2)	11,539		—	
Other charges, net	8,388		1,678	
Interest and other, net	24,632		22,035	
Income before income taxes	\$14,742		\$140,280	
			\$131,665	\$258,896

(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 \$61.0 million as of March 31, 2016, associated with its outstanding SunEdison receivables.

Table of Contents

During the three-month period ended September 30, 2016, prices for solar panel modules declined significantly due to global oversupply and continued deregulation. 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.

The Company has 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 our sketch to scale<sup>tm</sup> initiatives. As part of this plan, (2) approximately \$11.5 million was recognized in the quarter ended September 30, 2016. The Company expects to finalize the plan by the end of fiscal year 2017.

CEC segment margin decreased 50 basis points, to 2.5% for the three-month period ended September 30, 2016, from 3.0% during the three-month period ended September 25, 2015 due to lower capacity utilization causing reduced overhead absorption, as well as incurring incremental costs associated with our proactive repositioning of certain programs and actions to better align CEC's operating structure. CEC segment margin decreased 20 basis points, to 2.7% for the six-month period ended September 30, 2016, from 2.9% during the six-month period ended September 25, 2015 as a result of changes in product mix as well as incurring incremental costs associated with our proactive repositioning of certain programs and actions to better align CEC's operating structure.

CTG segment margin increased 130 and 50 basis points, to 3.3% and 2.7%, respectively, for the three-month and six-month periods ended September 30, 2016, from 2.0% and 2.2%, during the three-month and six-month periods ended September 25, 2015, respectively. The increase is primarily driven by portfolio shift within the CTG product mix with a greater concentration of higher margin consumer products where we provide greater levels of design and engineering value-added content, as well as our exiting of lower margin businesses.

IEI segment margin increased 20 and 70 basis points, to 3.0% and 3.4%, respectively, for the three-month and six-month periods ended September 30, 2016, from 2.8% and 2.7% during the three-month and six-month periods ended September 25, 2015, respectively. The increases are primarily due to contribution from our NEXTracker acquisition, partially offset by underperformance primarily driven by our formerly largest IEI customer, SunEdison, declaring bankruptcy in April 2016.

HRS segment margin increased 40 and 110 basis points, to 7.9% and 8.1%, respectively, for the three-month and six-month periods ended September 30, 2016, from 7.5% and 7.0%, during the three-month and six-month periods ended September 25, 2015, respectively. These improvements are primarily the result of new program launches and richer mix with greater value-added business engagements as a result of greater design and engineering solutions as part of our sketch to scale<sup>tm</sup> offering in our core HRS business, and contribution from our MCi acquisition since the second quarter of fiscal year 2016.

#### Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") was \$243.9 million, or 4.1% of net sales, during the three-month period ended September 30, 2016, increasing \$27.1 million from \$216.8 million, or 3.4% of net sales, during the three-month period ended September 25, 2015. SG&A was \$483.5 million, or 4.1% of net sales, during the six-month period ended September 30, 2016, increasing \$57.3 million from \$426.2 million, or 3.6% of net sales, during the six-month period ended September 25, 2015. The increase in SG&A in dollars and as a percentage of net sales was primarily due to increases in stock-based compensation expense, incremental costs associated with our acquisition of NEXTracker which drives a higher proportional SG&A level and further investments in design and

engineering resources by the Company, to support our increased sketch to scale<sup>tm</sup> initiatives, and to a lesser extent the charges described below.

The Company has initiated a plan to accelerate its ability to support more sketch to scale<sup>tm</sup> efforts across the company and reposition away from historical legacy programs and structures through rationalizing its current footprint at existing sites and at corporate SG&A functions. The Company estimates that costs associated with its plan will range from \$40 million to \$60 million in fiscal year 2017, including approximately \$11.5 million recognized in the quarter ended September 30, 2016, of which \$4.7 million is included in SG&A and \$6.8 million is included in cost of sales. The Company expects to finalize the plan by the end of fiscal year 2017.

Intangible amortization

39

---

## Table of Contents

Amortization of intangible assets increased by \$5.9 million during the three-month period ended September 30, 2016 to \$22.0 million from \$16.1 million for the three-month period ended September 25, 2015, and increased by \$19.8 million during the six-month period ended September 30, 2016 to \$43.6 million from \$23.8 million during the six-month period ended September 25, 2015. The increase is primarily due to incremental amortization expense on intangible assets relating to our acquisitions completed during the second half of fiscal year 2016.

### Interest and other, net

Interest and other, net was \$24.6 million during the three-month period ended September 30, 2016 compared to \$22.0 million during the three-month period ended September 25, 2015. The increase in interest and other, net of \$2.6 million was primarily due to a decline of \$9.1 million of foreign currency gains recognized during the three-month period ended September 30, 2016 primarily related to the Chinese Yuan (CNY). The increase was partially offset by \$8.1 million of non-recurring acquisition-related costs incurred during the three-month period ended September 25, 2015.

Interest and other, net was \$49.0 million during the six-month period ended September 30, 2016 compared to \$38.5 million during the six-month period ended September 25, 2015. The increase in interest and other, net of \$10.5 million was primarily as a result of \$8.1 million of incremental interest expense mainly from the 4.750% Notes due June 15, 2025 issued during the first quarter of fiscal year 2016, as well as the decline in foreign currency gains recognized, offset by the acquisition-related costs as discussed above.

### 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, 2016 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 117.0% and 21.6% for the three-month and six-month periods ended September 30, 2016, respectively, and 12.3% and 9.7% for the three-month and six-month periods ended September 25, 2015, respectively, and varies from the Singapore statutory rate of 17.0% as a result of recognition of earnings in different jurisdictions, 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. We generate most of our revenues and profits from operations outside of Singapore. The effective tax rates for the three and six-month periods ended September 30, 2016 are higher than the effective tax rates for the three and six-month periods ended September 25, 2015 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 thereby increasing the company's effective tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2016, we had cash and cash equivalents of approximately \$1.5 billion and bank and other borrowings of approximately \$2.7 billion. We have a \$1.5 billion revolving credit facility that expires in March 2019, under which there were no borrowings outstanding as of the end of the quarter. As of September 30, 2016, we were in

compliance with the covenants under each of our existing credit facilities and indentures.

Cash provided by operating activities was \$543.6 million during the six-month period ended September 30, 2016. This resulted from \$103.2 million of net income for the period plus adjustments for \$337.4 million of non-cash charges such as depreciation, amortization, and other impairment charges (which includes the \$60.0 million inventory write-down recorded during the three-month period ended September 30, 2016), and \$102.9 million from changes in our operating assets and liabilities. These changes were mainly related to an increase in accounts payable due to timing of payments to suppliers, offset by an increase in accounts receivable driven by the increase in sales activity.

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

Table of Contents

	Three-Month Periods Ended	
	September 30, 2016	September 25, 2015
Days in trade accounts receivable	40 days	41 days
Days in inventory	58 days	54 days
Days in accounts payable	72 days	70 days
Cash conversion cycle	26 days	25 days

Days in trade accounts receivable was calculated as average accounts receivable, net of allowance for double 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 30, 2016, days in trade accounts receivable decreased by 1 day compared to the three-month period ended September 25, 2015 largely due to an improvement in our collection efforts and timing of invoicing customers during the current period. Non-cash accounts receivable sales or deferred purchase price receivables included for the purposes of the calculation were \$461.5 million and \$537.6 million for the quarters ended September 30, 2016 and September 25, 2015, 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 8 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 increased by 4 days during the three-month period ended September 30, 2016, compared to the three-month period ended September 25, 2015, primarily due to lower sales activities in the current quarter.

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 2 days during the three-month period ended September 30, 2016, compared to the three-month period ended September 25, 2015, primarily due to timing of payments, combined with a lower cost of sales attributable to lower sales in the current period compared to the prior year.

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 increased by 1 day during the three-month period ended September 30, 2016, compared to the three-month period ended September 25, 2015, due to the factors for each of the components in the calculation discussed above.

Cash used in investing activities amounted to \$412.8 million during the six-month period ended September 30, 2016. This resulted primarily from \$279.4 million of net capital expenditures for property and equipment to expand capability and capacity in support of our automotive and medical businesses and further investments in both automation and expanding technologies to support our innovation services. In addition, \$189.9 million was paid primarily for the acquisition of three businesses, net of cash acquired, including \$171.6 million, net of \$17.8 million of cash acquired related to the acquisition of the manufacturing facilities from Bose. Offsets in other investing activities include \$33.0 million received for the sale of two non-strategic businesses, and \$26.8 million of proceeds from the sale of certain assets that were purchased on behalf of a customer and financed by a third party banking institution.

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 30, 2016 was \$264.2 million compared to \$368.0 million for the six-month period ended September 25, 2015. 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:

41

---



Table of Contents

	Six-Month Periods Ended	
	September 30, 2016	September 25, 2015
	(In thousands)	
Net cash provided by operating activities	\$543,552	\$661,995
Purchases of property and equipment	(305,936 )	(296,401 )
Proceeds from the disposition of property and equipment	26,561	2,383
Free cash flow	\$264,177	\$367,977

Cash used in financing activities was \$215.7 million during the six-month period ended September 30, 2016, which was primarily for the repurchase of our ordinary shares in the amount of \$184.7 million, and \$110.6 million for repayment of bank borrowings and long-term debt. These cash outflows were partially offset by \$75.0 million of net proceeds from bank borrowings and long-term debt.

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 30, 2016 approximately half of our cash and cash equivalents was held by foreign subsidiaries outside of Singapore. As of March 31, 2016, 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 \$916.0 million as of March 31, 2016). 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 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, 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 Extraordinary General Meeting which was held on August 24, 2016. During the six-month period ended September 30, 2016, we paid \$184.7 million to repurchase shares (under the current and prior repurchase plans) at an average price of \$12.69 per share. As of September 30, 2016, shares in the aggregate amount of \$450.2 million were available to be repurchased under the current plan.

Table of Contents

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, 2016. There have been no material changes in our contractual obligations and commitments since March 31, 2016.

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 30, 2016 and March 31, 2016, the fair values of our deferred purchase price receivable were approximately \$461.5 million and \$501.1 million, respectively. As of September 30, 2016 and March 31, 2016, the outstanding balances on receivables sold for cash were \$1.2 billion, respectively, under all our accounts receivable sales programs, which are not included in our condensed consolidated balance sheets. For further information see note 8 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 30, 2016 as compared to the fiscal year ended March 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of September 30, 2016, the end of the quarterly fiscal period covered by this quarterly report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2016 such disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports that we file or submit 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 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our material legal proceedings, see note 11 “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, 2016, 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 2, 2016 through September 30, 2016:

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 2- August 5, 2016 (2)	1,423,900	\$ 12.63	1,423,900	\$ 133,131,627
August 6 - September 2, 2016 (2) (3)	2,789,900	\$ 12.96	2,789,900	\$ 486,005,179
September 3 - September 30, 2016 (3)	2,730,209	\$ 13.13	2,730,209	\$ 450,156,888
Total	6,944,009		6,944,009	

During the period from July 2, 2016 through September 30, 2016, 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 20, 2015, 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 July 1, 2016, we had shares in the aggregate amount of \$151.1 million were available to be repurchased under this plan, of which 3.1 million shares in the aggregate amount of \$40.1 million were repurchased prior to August 24, 2016 (after which authorization under this plan terminated).

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 (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 30, 2016, shares in the aggregate amount of \$450.2 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

ITEM 6. EXHIBITS

Exhibits — See Exhibit Index below.

45

---

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 28, 2016

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

Date: October 28, 2016

Table of Contents

## EXHIBIT INDEX

Exhibit No	Exhibit	Incorporated by Reference			Filed Herewith
		Form	File No.	Filing Date	
3.01	Constitution of Registrant				X
15.01	Letter in lieu of consent of Deloitte & Touche LLP.				X
31.01	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
31.02	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
32.01	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.