FLEX LTD.
Form 10-Q
February 06, 2019
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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 December 31, 2018

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 incorporation or organization)	(I.R.S. Employer Identification No.)

2 Changi South Lane, Singapore	486123
(Address of registrant’s principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code
(65) 6876-9899

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Emerging growth company o

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

Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

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

Class	Outstanding at January 28, 2019
Ordinary Shares, No Par Value	521,417,529

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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

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of Flex Ltd. and subsidiaries (the "Company") as of December 31, 2018 and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended December 31, 2018 and December 31, 2017, the related condensed consolidated statements of cash flows for the nine-month periods ended December 31, 2018 and December 31, 2017, and the related notes. Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it 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) (PCAOB), the consolidated balance sheet of Flex Ltd. and subsidiaries as of March 31, 2018 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 June 14, 2018, 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, 2018 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

The interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ DELOITTE & TOUCHE LLP
San Jose, California
February 5, 2019

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CONDENSED CONSOLIDATED BALANCE SHEETS

	As of December 31, 2018	As of March 31, 2018
	(In thousands, except share amounts)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,503,368	$1,472,424
Accounts receivable, net of allowance for doubtful accounts of $77,805 and $60,051 as of December 31, 2018 and March 31, 2018, respectively	2,861,830	2,517,695
Contract assets	298,451	—
Inventories	3,897,891	3,799,829
Other current assets	930,376	1,380,466
Total current assets	9,491,916	9,170,414
Property and equipment, net	2,214,148	2,239,506
Goodwill	1,078,834	1,121,170
Other intangible assets, net	349,645	424,433
Other assets	840,542	760,332
Total assets	$13,975,085	$13,715,855
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Bank borrowings and current portion of long-term debt	$43,249	$43,011
Accounts payable	5,543,349	5,122,303
Accrued payroll	389,746	383,332
Other current liabilities	1,527,276	1,719,418
Total current liabilities	7,503,620	7,268,064
Long-term debt, net of current portion	2,906,251	2,897,631
Other liabilities	486,886	531,587
Shareholders’ equity		
Ordinary shares, no par value; 572,712,781 and 578,317,848 issued, and 522,473,426 and 528,078,493 outstanding as of December 31, 2018 and March 31, 2018, respectively	6,573,727	6,636,747
Treasury stock, at cost; 50,239,355 shares as of December 31, 2018 and March 31, 2018	(388,215)	(388,215)
Accumulated deficit	(2,947,661)	(3,144,114)
Accumulated other comprehensive loss	(159,523)	(85,845)
Total shareholders’ equity	3,078,328	3,018,573
Total liabilities and shareholders’ equity	$13,975,085	$13,715,855

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(In thousands, except per share amounts) (Unaudited)			
Net sales	$6,944,827	$6,751,552	$20,079,387	$19,030,244
Cost of sales	6,527,067	6,305,224	18,852,395	17,775,678
Restructuring charges	60,435	—	89,512	7,981
Gross profit	357,325	446,328	1,137,480	1,246,585
Selling, general and administrative expenses	237,556	247,365	722,608	772,325
Intangible amortization	20,308	19,588	57,059	55,865
Restructuring charges	5,408	—	10,921	—
Interest and other, net	54,087	31,350	136,889	85,780
Other charges (income), net	71,879	6,865	(8,515)	(172,467)
Income (loss) before income taxes	(31,913)	141,160	218,518	505,082
Provision for income taxes	13,256	22,827	60,767	56,953
Net income (loss)	$(45,169)	$118,333	$157,751	$448,129
Earnings (losses) per share:				
Basic	$(0.09)	$0.22	$0.30	$0.85
Diluted	$(0.09)	$0.22	$0.30	$0.84
Weighted-average shares used in computing per share amounts:				
Basic	524,876	528,405	528,528	529,984
Diluted	524,876	534,352	532,308	535,972

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(In thousands) (Unaudited)			
Net income (loss)	$(45,169)	$118,333	$157,751	$448,129
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of zero tax	(7,777)	7,492	(58,485)	27,806
Unrealized gain (loss) on derivative instruments and other, net of zero tax	4,635	(4,717)	(15,193)	(20,761)
Comprehensive income (loss)	$(48,311)	$121,108	$84,073	$455,174

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine-Month Periods Ended	
	December 31, 2018	December 31, 2017
	(In thousands) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$157,751	$448,129
Depreciation, amortization and other impairment charges	507,164	400,015
Gain from deconsolidation of Bright Machines	(86,614)	—
Gain from deconsolidation of Elementum	—	(151,574)
Changes in working capital and other	(2,906,906)	(3,804,156)
Net cash used in operating activities	(2,328,605)	(3,107,586)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(592,092)	(432,897)
Proceeds from the disposition of property and equipment	86,724	43,653
Acquisition of businesses, net of cash acquired	(12,796)	(269,724)
Proceeds from divestiture of businesses, net of cash held in divested businesses	267,147	(2,949)
Cash collections of deferred purchase price	2,707,562	3,538,604
Other investing activities, net	14,687	(120,934)
Net cash provided by investing activities	2,471,232	2,755,753
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank borrowings and long-term debt	2,481,407	866,000
Repayments of bank borrowings and long-term debt	(2,447,873)	(907,930)
Payments for repurchases of ordinary shares	(123,979)	(180,050)
Net proceeds from issuance of ordinary shares	195	2,063
Other financing activities, net	9,689	46,482
Net cash used in financing activities	(80,561)	(173,435)
Effect of exchange rates on cash and cash equivalents	(31,122)	(14,224)
Net increase (decrease) in cash and cash equivalents	30,944	(539,492)
Cash and cash equivalents, beginning of period	1,472,424	1,830,675
Cash and cash equivalents, end of period	$1,503,368	$1,291,183
Non-cash investing activities:		
Unpaid purchases of property and equipment	$94,592	$87,772
Non-cash investment in Elementum	$—	$132,679
Non-cash proceeds from sale of Wink	$—	$59,000
Non-cash investment in Bright Machines (Note 2)	$127,641	$—
Leased Assets to Bright Machines (Note 2)	$76,531	$—

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION OF THE COMPANY AND BASIS OF PRESENTATION

Organization of the Company

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

- Communications & Enterprise Compute ("CEC"), which includes telecom business of radio access base stations, remote radio heads, and small cells for wireless infrastructure; networking business which includes optical, routing, broadcasting, and switching products for the data and video networks; server and storage platforms for both enterprise and cloud-based deployments; next generation storage and security appliance products; and rack level solutions, converged infrastructure and software-defined product solutions;
- Consumer Technologies Group ("CTG"), which includes consumer-related businesses in connected living, audio, consumer power electronics, and mobile devices; and including various supply chain solutions for notebook personal computers, tablets, and printers;
- Industrial and Emerging Industries ("IEI"), which is comprised of energy including advanced metering infrastructure, energy storage, smart lighting, electric vehicle infrastructure, smart solar energy, semiconductor and capital equipment, office solutions, industrial, home and lifestyle, industrial automation, and kiosks; and
- High Reliability Solutions ("HRS"), which is comprised of health solutions business, including consumer health, digital health, medical disposables, drug delivery, and medical equipment; automotive business, including vehicle electrification, connectivity, autonomous vehicles, and smart technologies.

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 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, 2018 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 and nine-month periods ended December 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2019.

The first quarters for fiscal years 2019 and 2018 ended on June 29, 2018, which is comprised of 90 days in the period, and June 30, 2017, which is comprised of 91 days in the period, respectively. The second quarters for fiscal years 2019 and 2018 ended on September 28, 2018 and September 29, 2017, which are comprised of 91 days in both periods. The Company's third quarters ends on December 31 of each year, which are comprised of 94 days and 93 days for fiscal years 2019 and 2018, respectively.

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The accompanying unaudited condensed consolidated financial statements include the accounts of Flex and its majority-owned subsidiaries, after elimination of intercompany accounts and transactions. The Company consolidates its majority-owned subsidiaries and investments in entities in which the Company has a controlling interest. For the consolidated majority-owned subsidiaries in which the Company owns less than 100%, the Company recognizes a noncontrolling interest for the ownership of the noncontrolling owners. The associated noncontrolling owners' interest in the income or losses of these companies is not material to the Company's results of operations for all periods presented, and is classified as a component of interest and other, net, in the condensed consolidated statements of operations.

Recently Adopted Accounting Pronouncement

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update (ASU) No. 2017-01 “Business Combinations (Topic 805): Clarifying the Definition of a Business” to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted the guidance on a prospective basis during the first quarter of fiscal year 2019, which did not have a material impact to its financial position as there were no acquisitions during the period of adoption.

In January 2017, the FASB issued ASU 2017-04 "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" to simplify the subsequent measurement of goodwill by eliminating step 2 from the goodwill impairment test. This guidance requires that the change be applied on a prospective basis, and it is effective for the Company beginning in the first quarter of fiscal year 2021, with early application permitted. The Company adopted the guidance during the third quarter of fiscal year 2019, which did not have a material impact to its financial position as there were no identified impairments during the period.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)." The ASU is intended to address specific cash flow issues with the objective of reducing the existing diversity in practice and provide guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows. The majority of the guidance in ASU 2016-15 was consistent with the Company's current cash flow classification. However, cash receipts on the deferred purchase price from the Company's asset-backed securitization programs described in note 11 are now classified as cash flows from investing activities instead of the Company's former presentation as cash flows from operations. The Company adopted the guidance during the first quarter of fiscal year 2019 using a monthly approach to track cash flows on deferred purchase price and retrospectively adjusted cash flows from operating and investing activities for fiscal year 2018. Commencing with the second quarter of fiscal year 2019, the Company changed to a method based on daily activity and the amounts presented for operating and investing activities for the nine-month period ended December 31, 2018 reflect the use of this method for the entire period. The Company recorded $2.7 billion of cash receipts on the deferred purchase price from the Company's asset-backed securitization programs for the nine-month period ended December 31, 2018 and reclassified $3.5 billion of cash receipts on the deferred purchase price for the nine-month period ended December 31, 2017, from cash flows from operating activities to cash flows from investing activities.

In January 2016, the FASB issued ASU 2016-01 "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This guidance generally requires equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income. This guidance also requires the separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The Company adopted this guidance on April 1, 2018 with an immaterial impact on the Company's financial position, results of operations or cash flows.

In February 2018, the FASB issued ASU 2018-03 "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This standard comes as an addition to ASU 2016-01 which the Company adopted in the first quarter of fiscal year 2019. This update includes amendments to clarify certain aspects of the guidance issued in Update 2016-01. The Company adopted this guidance during the second quarter of fiscal year 2019 with an immaterial impact on its consolidated

financial statements.
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)" (also referred to as Accounting Standard Codification 606 ("ASC 606")) which requires an entity to recognize revenue relating to contracts with customers that depicts the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. In order to meet this requirement, the entity must apply the following steps: (i) identify the contracts with the customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Additionally, disclosures required for revenue

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recognition include qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from costs to obtain or fulfill a contract.

The Company adopted the standard on April 1, 2018 using the modified retrospective approach by applying the guidance to all open contracts at the adoption date and has implemented revised accounting policies, new operational and financial reporting processes, enhanced systems capabilities and relevant internal controls.

As part of adopting ASC 606, revenue for certain customer contracts where the Company is manufacturing products for which there is no alternative use and the Company has an enforceable right to payment including a reasonable profit for work-in-progress, inventory will be recognized over time (i.e., as the Company manufactures the product) instead of upon shipment of products. In addition to the following disclosures, note 3 provides further disclosures required by the new standard.

The cumulative effect of change made to our April 1, 2018 consolidated balance sheet for the adoption of ASC 606 was as follows:

Condensed Consolidated Balance Sheet

	Impact of Adopting ASC 606		
(In thousands) (Unaudited)	Balance at March 31, 2018	Adjustments	Balance at April 1, 2018
ASSETS			
Contract assets	—	412,787	412,787
Inventories	3,799,829	(409,252)	3,390,577
Other current assets	1,380,466	(51,479)	1,328,987
LIABILITIES AND SHAREHOLDERS' EQUITY			
Other current liabilities	1,719,418	(87,897)	1,631,521
Other liabilities	531,587	2,098	533,685
Accumulated deficit	(3,144,114)	(37,855)	(3,181,969)

The adoption of ASC 606 resulted in the establishment of contract asset and contract liability balance sheet accounts and in the reclassification to these new accounts from certain asset and liability accounts, primarily inventories. The increase in accumulated deficit in the table above reflects $37.9 million of net adjustments to the balance sheet as of April 1, 2018, resulting from the adoption of ASC 606 primarily related to certain customer contracts requiring an over-time method of revenue recognition. The declines in inventories and other current assets reflect reclassifications to contract assets due to the earlier recognition of certain costs of products sold for over-time contracts. The decline in other current liabilities is primarily due to the reclassification of payments from customers in advance of work performed to contract assets to reflect the net position of the related over-time contracts.

The following tables summarize the impacts of ASC 606 adoption on the Company's condensed consolidated balance sheets and condensed consolidated statements of operations:

Condensed Consolidated Balance Sheet

As of December 31, 2018

	Impact of Adopting ASC 606		
(In thousands) (Unaudited)	As Reported	Adjustments	Balance without ASC 606 Adoption
ASSETS			
Contract assets	298,451	(298,451)	—
Inventories	3,897,891	315,780	4,213,671

Other current assets	930,376	10,044	940,420
LIABILITIES AND SHAREHOLDERS' EQUITY			
Other current liabilities	1,527,276	51,294	1,578,570
Accumulated deficit	(2,947,661)	(36,498)	(2,984,159)

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Condensed Consolidated Statement of Operations

	Impact of Adopting ASC 606 Three-Month Period Ended December 31, 2018			Nine-Month Period Ended December 31, 2018		
(In thousands) (Unaudited)	As Reported	Adjustments	Balance without ASC 606 Adoption	As Reported	Adjustments	Balance without ASC 606 Adoption
Net sales	$6,944,827	$ (4,885)	$6,939,942	$20,079,387	$ (32,122)	$20,047,265
Cost of sales	6,587,502	(6,907)	6,580,595	18,941,907	(33,479)	18,908,428
Gross profit	357,325	2,022	359,347	1,137,480	1,357	1,138,837

To align contractual terms across the vast majority of customers to allow the Company to efficiently and accurately manage its contracts, in the first quarter of fiscal year 2019, the Company waived certain contractual rights to bill profit for work in progress in the event of a contract termination which is expected to be infrequent. These modifications resulted in revenue from these customers being recognized upon shipment of products, rather than over time (i.e., as the Company manufactures products) as further explained in note 3. The result of the modifications for the nine-month period ended December 31, 2018, was to reduce revenue and gross profit by approximately $132.7 million and $9.3 million, respectively, compared to amounts that would have been reported both (i) under ASC 606 had the Company not amended the contracts, and (ii) had the Company not adopted ASC 606.

The impacts to revenue and gross profit as a result of the adoption of ASC 606 are driven by a number of factors including the timing of inventory levels for over time ("OT") customers at the end of each reporting period and the mix of customer profitability. These impacts were not material for the three-month period ended December 31, 2018. For the nine-month period ended December 31, 2018 the as reported revenue was approximately $32.1 million higher and the gross profit approximately $1.4 million lower than it would have been without the adoption of ASC 606. Additional revenue of $164.8 million was reported under ASC 606 due to the accelerated timing of recognition of revenue for contracts which meet the criteria for over-time recognition and revenue recognized for certain contracts that no longer qualify for net revenue treatment. Approximately $7.9 million of additional gross profit was recognized on the customers qualifying for accelerated revenue recognition. These increases were offset by reductions of $132.7 million of revenue and $9.3 million of gross profit respectively, as a result of the waiver of contract rights noted above. There was no material tax impact for the three and nine-month periods ended December 31, 2018 from the adoption of ASC 606.

The Company applies the following practical expedients:

- The Company elected to not disclose information about remaining performance obligations as its performance obligations generally have an expected duration of one year or less.
- In accordance with ASC 606-10-25-18B the Company will account for certain shipping and handling as activities to fulfill the promise to transfer the good, instead of a promised service to its customer.
- In accordance with ASC 606-10-32-18 the Company elected to not adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will generally be one year or less.

Recently Issued Accounting Pronouncements

In November 2018, the FASB issued ASU 2018-19 “Codification Improvements to Topic 326: Financial Instruments - Credit Losses” to introduce an expected credit loss methodology for the impairment of financial assets measured at amortized cost basis. That methodology replaces the probable, incurred loss model for those assets. The guidance is effective for the Company beginning in the first quarter of fiscal year 2021 with early adoption permitted. The Company expects the new guidance will have an immaterial impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2021.

In October 2018, the FASB issued ASU 2018-17 “Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities” to provides a new private company variable interest entity exemption and changes how decision makers apply the variable interest criteria. The guidance is effective for the Company beginning in the first quarter of fiscal year 2021 with early adoption permitted. The Company expects the new guidance will have an immaterial impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2021.

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In October 2018, the FASB issued ASU 2018-16 “Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes” to expand the lists of eligible benchmark interest rates to include OIS based on SOFR to facilitate the marketplace transition from LIBOR. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020 with early adoption permitted. The Company is still evaluating the impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2020.

In August 2018, the FASB issued ASU 2018-15 "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract” to provide guidance on a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor, i.e., a service contract. Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The new guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, as well as requires additional quantitative and qualitative disclosures. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020 with early adoption permitted. The Company is still evaluating the impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2020.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement”, which amends ASC 820 to add, remove, and modify fair value measurement disclosure requirements. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020 with early adoption permitted. The Company expects the new guidance will have an immaterial impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2020.

In June 2018, the FASB issued ASU 2018-07 "Compensation - Stock Compensation (Topic 718): Improvement to Nonemployee Share-Based Payment Accounting" with the objective of simplifying several aspects of the accounting for nonemployee share-based payment transactions in current GAAP. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020 with early adoption permitted. The Company expects the new guidance will have an immaterial impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2020.

In August 2017, the FASB issued ASU 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" with the objective of improving the financial reporting of hedging relationships and simplifying the application of the hedge accounting guidance in current GAAP. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020 with early adoption permitted. The Company expects the new guidance will have an immaterial impact on its consolidated financial statements, and it intends to adopt the guidance when it becomes effective in the first quarter of fiscal year 2020.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)" intended to improve financial reporting on leasing transactions. The new lease guidance will require entities that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. The guidance will also enhance existing disclosure requirements relating to those leases. In January 2018, the FASB issued ASU 2018-01, “Land Easement Practical Expedient for Transition to Topic 842”, which permits an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity’s adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements", which provides entities with relief from the costs of implementing certain aspects of the new leasing standard, ASC 842. Specifically, under the amendments in ASU 2018-11, (1) entities may elect not to recast the comparative periods presented when transitioning to ASC 842 and (2) lessors may elect not to separate lease and nonlease components when certain conditions are met. Also in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases", which clarifies how to apply certain aspects of the new leases standard, ASC 842. The amendments address

the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments, among other things. In December 2018, the FASB issued ASU 2018-20 “Leases (Topic 842): Narrow-Scope Improvements for Lessors” to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. The amendments have the same effective date and transition requirements as the new lease standard. The Company intends to adopt the new lease guidance when it becomes effective in the first quarter of fiscal year 2020 using a modified retrospective approach as described in the new transition option above under ASU 2018-11. In conjunction, the Company intends to elect the package of practical expedients offered, which would allow entities to not i) reassess whether any expired or existing contracts contain leases in

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accordance with the new guidance, ii) reassess lease classifications, and iii) reassess whether initial direct costs capitalized under ASC 840 continue to meet the definition of initial direct costs under the new guidance. While the Company continues to evaluate the effect of adopting the new lease guidance on its consolidated financial statement and related disclosures, the new guidance is expected to have a material impact on the Company's consolidated balance sheets upon adoption. The Company expect all of its leases including its operating leases will be subject to the new standard. The Company will recognize right-of-use assets and operating lease liabilities on the consolidated balance sheets upon adoption which will increase total assets and liabilities.

In December 2017, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 118 (SAB 118), Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("Tax Act"), which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As of December 31, 2018, the Company has finalized all provisional amounts related to the Tax Act. Finalizing provisional adjustments related to the Tax Act did not have a material impact on our consolidated financial statements as of December 31, 2018. The Company expects further guidance may be forthcoming from the FASB and the SEC, as well as regulations, interpretations and rulings from federal and state tax agencies, which could result in additional impacts.

2. BALANCE SHEET ITEMS

Inventories

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

	As of December 31, 2018	As of March 31, 2018
	(In thousands)	
Raw materials	$3,069,688	$2,760,410
Work-in-progress	354,294	450,569
Finished goods	473,909	588,850
	$3,897,891	$3,799,829

Due to the adoption of ASC 606, amounts that would have been reported as inventory under prior guidance are now included in contract assets or liabilities, depending on the net position of the contract, as disclosed in note 1. As a result of this accounting change, work-in-progress and finished goods as of December 31, 2018 are $315.8 million less than they would have been, had the Company not adopted ASC 606. The comparative information as of March 31, 2018, has not been restated and continues to be reported under the accounting standards in effect at that time.

Goodwill and Other Intangible Assets

The following table summarizes the activity in the Company's goodwill account for each of its four reporting units (which align to the Company's reportable segments) during the nine-month period ended December 31, 2018:

	HRS	CTG	IEI	CEC	Amount
	(In thousands)				
Balance, beginning of the year	$550,983	$107,748	$337,707	$124,732	$1,121,170
Additions (1)	—	—	—	10,984	10,984
Divestitures (2)	(5,303)	(4,484)	(4,450)	(6,391)	(20,628)
Foreign currency translation adjustments (3)	(32,692)	—	—	—	(32,692)
Balance, end of the period	$512,988	$103,264	$333,257	$129,325	$1,078,834

(1) The goodwill generated during the nine-month period ended December 31, 2018, is primarily related to value placed on the acquired employee workforce, service offerings and capabilities of the acquired business which may change as the Company is still in the process of evaluating the fair value of the assets and liabilities related to

business combination completed during the recent period. The goodwill is not deductible for income tax purposes. See note 13 for additional information.

(2) During the nine-month period ended December 31, 2018, the Company divested its China-based Multek operations along with another non-strategic immaterial business, and as a result, recorded an aggregate reduction of goodwill of $20.6 million. See note 13 for additional information.

(3) During the nine-month period ended December 31, 2018, the Company recorded $32.7 million of foreign currency translation adjustments primarily related to the goodwill associated with historical acquisitions, as the U.S. Dollar fluctuated against foreign currencies.

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In accordance with accounting guidance on goodwill and other intangible assets, the Company evaluates goodwill for impairment at the reporting unit level annually, and whenever circumstances occur indicating that goodwill might be impaired. The performance of the test involves comparing the fair value of each of the Company's reporting units with the reporting unit's carrying amount, including goodwill. Upon adoption of ASU 2017-04, the Company now recognizes an impairment charge (not to exceed the total amount of goodwill allocated to the reporting units) for the amount by which the carrying amount of a reporting unit exceeds the reporting unit's fair value.

During the quarter ended December 31, 2018, the Company's market capitalization declined significantly. The Company believed the significant drop in market value constituted a “triggering event” in accordance with the applicable accounting literature, and accordingly completed an interim impairment test as of December 31, 2018. Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit, which is measured based upon, among other factors, market multiples for comparable companies as well as a discounted cash flow analysis. These approaches use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy and require us to make various judgmental assumptions about sales, operating margins, growth rates and discount rates which consider our budgets, business plans and economic projections, and are believed to reflect market participant views. Some of the inherent estimates and assumptions used in determining fair value of the reporting units are outside the control of management, including interest rates, cost of capital, tax rates, market EBITDA comparables and credit ratings. While we believe we have made reasonable estimates and assumptions to calculate the fair value of the reporting units, it is possible a material change could occur. If our actual results are not consistent with our estimates and assumptions used to calculate fair value, it could result in material impairments of our goodwill.

Based on the latest assessment as of December 31, 2018, no impairment existed as of the date of the impairment test as the fair value of each reporting unit exceeds its carrying value. As of the date of the impairment test, all reporting units' fair values were more than 25% over their respective carrying values, with the exception of the CTG reporting unit which was 23% in excess of its carrying value. The estimated future results for CTG used in the impairment analysis reflect the Company’s revised strategy including the wind down of its NIKE operations in Mexico, further restrictions on capital expenditures related to its expansion into India and its focus on partnering with well-funded, leading multi-national brands that control multiple categories of products and have regional demand requirements.

The components of acquired intangible assets are as follows:

	As of December 31, 2018			As of March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Intangible assets:						
Customer-related intangibles	$297,563	$(105,000)	$192,563	$306,943	$(79,051)	$227,892
Licenses and other intangibles	276,844	(119,762)	157,082	304,007	(107,466)	196,541
Total	$574,407	$(224,762)	$349,645	$610,950	$(186,517)	$424,433

The gross carrying amounts of intangible assets are removed when fully amortized. The estimated future annual amortization expense for intangible assets is as follows:

Fiscal Year Ending March 31,	Amount
	(In thousands)
2019 (1)	$ 17,436
2020	65,155
2021	60,826
2022	52,290
2023	44,553
Thereafter	109,385

Total amortization expense	$ 349,645

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(1) Represents estimated amortization for the remaining three-month period ending March 31, 2019.

Other Current Assets

Other current assets include approximately $318.5 million and $445.4 million as of December 31, 2018 and March 31, 2018, respectively, for the deferred purchase price receivable from the Company's Asset-Backed Securitization programs. See note 11 for additional information. Assets held for sale related to the China-based Multek operations previously recorded in other current assets have been removed from the condensed consolidated balance sheet as of December 31, 2018, following the execution of the divestiture during the Company's second quarter of fiscal year 2019. See note 13 for additional information.

Investments

The Company has an investment portfolio that consists of strategic investments in privately held companies, and certain venture capital funds which are included within other assets. These privately held companies range from startups to more mature companies with established revenue streams and business models. The primary purpose of these investments is to create an ecosystem of partnerships with customers developing emerging technologies aligned to the Company's corporate strategy with bringing in future opportunities for exclusive manufacturing. As of December 31, 2018, and March 31, 2018, the Company's investments in non-consolidated companies totaled $441.4 million and $411.1 million, respectively. The equity in the earnings or losses of the Company's equity method investments was not material to the consolidated results of operations for any period presented and is included in interest and other, net. The Company is currently assessing its strategy with respect to its investment portfolio including its investment in Elementum as well as certain investment funds. As of the date of the filing of this Form 10-Q, no decisions have been made by management. Accordingly, management has not identified any impairment indicators with respect to these investments as of December 31, 2018. However, upon completion by management of its evaluations and decisions, the Company may incur impairment charges, which could be material.
Non-consolidated investments in entities are accounted for using the equity method when the Company has an investment in common stock or in-substance common stock, and either (a) has the ability to significantly influence the operating decisions of the issuer, or (b) if the Company has a voting percentage equal to or generally greater than 20% but less than 50%, and for non-majority-owned investments in partnerships when generally greater than 5%. Cost method is used for investments which the Company does not have the ability to significantly influence the operating decisions of the investee, or if the Company’s investment is in securities other than common stock or in-substance common stock.
The Company monitors these investments for impairment indicators and makes appropriate reductions in carrying values as required whenever events or changes in circumstances indicate that the assets may be impaired. The factors the Company considers in its evaluation of potential impairment of its investments include, but are not limited to, a significant deterioration in the earnings performance or business prospects of the investee, or factors that raise significant concerns about the investee’s ability to continue as a going concern, such as negative cash flows from operation or working capital deficiencies. Fair values of these investments, when required, are estimated using unobservable inputs, primarily comparable company multiples and discounted cash flow projections. For investments accounted for under cost method that do not have readily determinable fair values, the Company has elected, per ASU 2016-01, to measure them at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.
Joint Venture with RIB Software AG
During the third quarter of fiscal year 2019, the Company sold its non-controlling interest in the joint venture with RIB Software AG, a provider of technology for the construction industry, to its former joint venture partner, for a total consideration of approximately $48.4 million. The Company recognized an immaterial gain on sale, which is recorded in other charges (income), net on the condensed consolidated statement of operations for the three and nine-month periods ended December 31, 2018. The cash inflows received as part of the selling consideration have been included

in cash flows from other investing activities during the nine-month period ended December 31, 2018.

Investment in Unrelated Third-party Company

During the three-month period ended December 31, 2018, the Company noted, as part of the evaluation of its investment portfolio, a significant deterioration in a certain investee's performance and near-term projections. Additionally, the Company identified certain risks around that investee's capability to acquire additional funding to support its operation in the near term. The Company considered these noted facts as triggering events for impairment evaluations, and as a result recognized a $70.1 million impairment charge, during the three and nine-month periods ended December 31, 2018, which is included in other charges (income), net on the condensed consolidated statement of operations. The remaining carrying value of this investment at December 31, 2018 was immaterial, and was determined using a discounted cash flow approach which relied on inputs that would be considered Level 3 inputs in the fair value hierarchy.

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Bright Machines (formerly known as AutoLab AI)

During the first quarter of fiscal year 2019, the Company transferred existing employees and equipment with a net book value of approximately $40 million along with certain related software and Intellectual Property ("IP"), into the newly created Bright Machines, in exchange for shares of preferred stock and a controlling financial interest in Bright Machines. Bright Machines is a privately held software-as-a service (SaaS) and hardware company focused on developing and deploying an automation solution worldwide. The Company has concluded that Bright Machines does not qualify as a variable interest entity for purposes of evaluating whether it has a controlling financial interest.
Subsequent to the initial formation and prior to June 29, 2018, Bright Machines received equity funding from third party investors and expanded the board of directors, resulting in dilution of the Company's voting interest below 50%. As a result, the Company concluded it no longer held a controlling financial interest in Bright Machines and accordingly, deconsolidated the entity.

The fair value of the Company’s non-controlling interest in Bright Machines upon deconsolidation was approximately $127.6 million as of the date of deconsolidation. The Company accounts for its investment in Bright Machines under the equity method, with the carrying amount included in other assets on the condensed consolidated balance sheet. The value of the Company’s interest on the date of deconsolidation was based on management’s estimate of the fair value of Bright Machines at that time. Management relied on a multi-stage process which involved calculating the enterprise and equity value of Bright Machines, then allocating the equity value of the entity to the Company’s securities. The enterprise value of Bright Machines was estimated based on the value implied by the equity funding Bright Machines received from third parties in the same period (i.e., level 2 inputs). The Company recognized a gain on deconsolidation of approximately $87.3 million with no material tax impact, which is included in other charges (income), net on the condensed consolidated statement of operations.

In addition, during the first quarter of fiscal year 2019, the Company leased approximately $76.5 million of fixed assets to Bright Machines under a five-year lease term based on an interest rate of 4.20% per year. The leases were concluded to be sales-type leases and as such, the Company derecognized the associated assets from property and equipment, net and recorded a total net investment in the lease of $88.2 million in other current assets and other assets, based on the present value of lease receivables. The Company recorded an immaterial gain related to this leasing transaction, which is included in cost of sales on the condensed consolidated statement of operations.

Pro-forma financials have not been presented because the effects were not material to the Company’s condensed consolidated financial position and results of operation for all periods presented. Bright Machines became a related party to the Company starting on the date of deconsolidation. The Company has engaged Bright Machines as a strategic partner to develop and deploy automation solutions for Flex and has entered into a 5-year subscription agreement. Subscription fees under the Bright Machines agreement were immaterial for the nine-month period ended December 31, 2018.

Other Current Liabilities

Other current liabilities include customer working capital advances of $235.9 million and $153.6 million, customer-related accruals of $300.5 million and $439.0 million, and deferred revenue of $308.0 million and $329.0 million as of December 31, 2018 and March 31, 2018, 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. Liabilities held for sale related to the China-based Multek operations previously recorded in other current liabilities have been removed from the condensed consolidated balance sheet as of December 31, 2018, following the execution of the divestiture. See note 13 for additional information.

3. REVENUE

Revenue Recognition

The Company provides a comprehensive suite of services for its customers that range from advanced product design to manufacturing and logistics to after-sales services. The first step in its process for revenue recognition is to identify a contract with a customer. A contract is defined as an agreement between two parties that create enforceable rights and obligations and can be written, verbal, or implied. The Company generally enters into master supply agreements

(“MSA”) with its customers that provide the framework under which business will be conducted. This includes matters such as warranty, indemnification, transfer of title and risk of loss, liability for excess and obsolete inventory, pricing formulas, payment terms, etc., and the level of business under those agreements may not be guaranteed. In those instances, the Company bids on a program-by-program basis and typically receives customer purchase orders for specific quantities and timing of products. As a result, the Company

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considers its contract with a customer to be the combination of the MSA and the purchase order, or any other similar documents such as a statement of work, product addenda, emails or other communications that embody the commitment by the customer.

In determining the appropriate amount of revenue to recognize, the Company applies the following steps: (i) identify the contracts with the customers; (ii) identify performance obligations in the contracts; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations per the contracts; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. Further, the Company assesses whether control of the product or services promised under the contract is transferred to the customer at a point in time (PIT) or over time (OT). The Company is first required to evaluate whether its contracts meet the criteria for OT recognition. The Company has determined that for a portion of its contracts the Company is manufacturing products for which there is no alternative use (due to the unique nature of the customer-specific product and IP restrictions) and the Company has an enforceable right to payment including a reasonable profit for work-in-progress inventory with respect to these contracts. As a result, revenue is recognized under these contracts OT based on the cost-to-cost method as it best depicts the transfer of control to the customer measured based on the ratio of costs incurred to date as compared to the total estimated costs at completion of the performance obligation. For all other contracts that do not meet these criteria, the Company recognizes revenue when it has transferred control of the related manufactured products which generally occurs upon delivery and passage of title to the customer.

Customer Contracts and Related Obligations

Certain of the Company’s customer agreements include potential price adjustments which may result in variable consideration. These price adjustments include, but are not limited to, sharing of cost savings, committed price reductions, material margins earned over the period that are contractually required to be paid to the customers, rebates, refunds tied to performance metrics such as on-time delivery, and other periodic pricing resets that may be refundable to customers. The Company estimates the variable consideration related to these price adjustments as part of the total transaction price and recognizes revenue in accordance with the pattern applicable to the performance obligation, subject to a constraint. The Company constrains the amount of revenues recognized for these contractual provisions based on its best estimate of the amount which will not result in a significant reversal of revenue in a future period. The Company determines the amounts to be recognized based on the amount of potential refunds required by the contract, historical experience and other surrounding facts and circumstances. Often these obligations are settled with the customer in a period after shipment through various methods which include reduction of prices for future purchases, issuance of a payment to the customer, or issuance of a credit note applied against the customer’s accounts receivable balance. In many instances, the agreement is silent on the settlement mechanism. Any difference between the amount accrued upon shipment for potential refunds and the actual amount agreed to with the customer is recorded as an increase or decrease in revenue. These potential price adjustments are included as part of other current liabilities on the consolidated balance sheet and disclosed as part of customer related accruals in note 2.

Performance Obligations

The Company derives its revenues primarily from manufacturing services, and to a lesser extent, from innovative design, engineering, and supply chain services and solutions.

A performance obligation is an implicitly or explicitly promised good or service that is material in the context of the contract and is both capable of being distinct (customer can benefit from the good or service on its own or together with other readily available resources) and distinct within the context of the contract (separately identifiable from other promises). The Company considers all activities typically included in its contracts, and identifies those activities representing a promise to transfer goods or services to a customer. These include, but are not limited to, design and engineering services, prototype products, tooling, etc. Each promised good or service with regards to these identified activities is accounted for as a separate performance obligation only if it is distinct - i.e., the customer can benefit from it on its own or together with other resources that are readily available to the customer. Certain activities on the other hand are determined not to constitute a promise to transfer goods or service, and therefore do not represent separate performance obligations for revenue recognition (e.g., procurement of materials and standard workmanship warranty).

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A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The majority of the Company's contracts have a single performance obligation as the promise to transfer the individual good or service is not separately identifiable from other promises in the contract and is, therefore, not distinct. Promised goods or services that are immaterial in the context of the contract are not separately assessed as performance obligations. In the event that more than one performance obligation is identified in a contract, the Company is required to allocate the transaction price between the performance obligations. The allocation would generally be performed on the basis of a relative standalone price for each distinct good or service. This standalone price most often represents the price that the Company would sell similar goods or services separately.

Contract Balances

A contract asset is recognized when the Company has recognized revenue, but not issued an invoice for payment. Contract assets are classified separately on the condensed consolidated balance sheets and transferred to receivables when rights to payment become unconditional. The following table summarizes the activity in the Company's contract assets during the nine-month period ended December 31, 2018 (in thousands):

	Contract Assets
Beginning balance, April 1, 2018	$—
Cumulative effect adjustment at April 1, 2018	412,787
Revenue recognized	5,483,688
Amounts collected or invoiced	(5,598,024)
Ending balance, December 31, 2018	$298,451

A contract liability is recognized when the Company receives payments in advance of the satisfaction of performance and is included in other current liabilities on the condensed consolidated balance sheets. Contract liabilities were $308.0 million and $265.3 million as of December 31, 2018 and April 1, 2018, respectively.

Disaggregation of Revenue

The following table presents the Company's revenue disaggregated based on timing of transfer - point in time and over time - for the three-month and nine-month periods ended December 31, 2018 (in thousands), respectively:

	Three-Month Period Ended December 31, 2018				
	HRS	CTG	IEI	CEC	Total
Timing of Transfer					
Point in time	$929,638	$1,235,712	$1,198,669	$1,663,262	$5,027,281
Over time	276,714	583,610	460,256	596,966	1,917,546
Total segment	$1,206,352	$1,819,322	$1,658,925	$2,260,228	$6,944,827

	Nine-Month Period Ended December 31, 2018				
	HRS	CTG	IEI	CEC	Total
Timing of Transfer					
Point in time	$2,827,959	$3,740,045	$3,351,886	$4,675,809	$14,595,699
Over time	801,790	1,683,094	1,319,302	1,679,502	5,483,688
Total segment	$3,629,749	$5,423,139	$4,671,188	$6,355,311	$20,079,387

4. SHARE-BASED COMPENSATION

The Company's primary plan used for granting equity compensation awards is the 2017 Equity Incentive Plan (the "2017 Plan").

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

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(In thousands)			
Cost of sales	$4,769	$ 5,358	$14,940	$ 13,662
Selling, general and administrative expenses	16,258	15,400	46,121	49,356
Total share-based compensation expense	$21,027	$ 20,758	$61,061	$ 63,018

Total unrecognized compensation expense related to share options under all plans was $3.1 million and will be recognized over a weighted-average remaining vesting period of 1.8 years. As of December 31, 2018, the number of options outstanding and exercisable under all plans was 1.0 million and 0.6 million, respectively, at a weighted-average exercise price of $3.67 per share and $4.69 per share, respectively.

During the nine-month period ended December 31, 2018, the Company granted 6.3 million unvested restricted share unit awards. Of this amount, approximately 4.6 million are plain-vanilla unvested restricted share unit awards with no performance or market conditions with an average grant date price of $13.53 per award and will vest over four years. Further, approximately 1.3 million unvested shares represent 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 $14.00 per award and was calculated using a Monte Carlo simulation. The number of shares contingent on market conditions that ultimately will vest will range from zero up to a maximum of 2.6 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, to the extent such market conditions have been met.

As of December 31, 2018, approximately 14.5 million unvested restricted share unit awards under all plans were outstanding, of which vesting for a targeted amount of 2.6 million is contingent primarily on meeting certain market conditions. The number of shares that will ultimately be issued can range from zero to 5.2 million based on the achievement levels of the respective conditions. During the nine-month period ended December 31, 2018, 0.6 million shares vested in connection with the restricted share unit awards with market conditions granted in fiscal year 2016.

As of December 31, 2018, total unrecognized compensation expense related to unvested restricted share unit awards under all plans was approximately $144.7 million, and will be recognized over a weighted-average remaining vesting period of 2.6 years.

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5. EARNINGS PER SHARE

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

	Three-Month Periods Ended		Nine-Month Periods Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(In thousands, except per share amounts)			
Basic earnings per share:				
Net income (loss)	$(45,169)	$118,333	$157,751	$448,129
Shares used in computation:				
Weighted-average ordinary shares outstanding	524,876	528,405	528,528	529,984
Basic earnings (losses) per share	(0.09)	0.22	0.30	0.85
Diluted earnings per share:				
Net income (loss)	$(45,169)	$118,333	$157,751	$448,129
Shares used in computation:				
Weighted-average ordinary shares outstanding	524,876	528,405	528,528	529,984
Weighted-average ordinary share equivalents from stock options and awards (1) (2)	—	5,947	3,780	5,988
Weighted-average ordinary shares and ordinary share equivalents outstanding	524,876	534,352	532,308	535,972
Diluted earnings (losses) per share	(0.09)	0.22	0.30	0.84

(1) An immaterial amount of options to purchase ordinary shares were excluded from the computation of diluted earnings per share during the three-month and nine-month periods ended December 31, 2018 and December 31, 2017, respectively, due to their anti-dilutive impact on the weighted-average ordinary share equivalents.

(2) Restricted share unit awards of 6.6 million for the nine-month period ended December 31, 2018, 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 restricted share unit awards was excluded for the three-month and nine-month periods ended December 31, 2017.

6. BANK BORROWINGS AND LONG-TERM DEBT

India Term Loan

In July 2018, a subsidiary of the Company entered into a $200 million term loan facility (the "Facility"), under which there was $52 million in borrowings outstanding as of December 31, 2018. The Facility will be used to fund capital expenditure to support the Company's expansion plan for India. The availability period during which drawdowns can be made will be from the date of the agreement to and including June 30, 2019. The maximum maturity of each drawdown will be 5 years from the funded Capex shipment date. As a result, the longest maturity date of any future drawdown under the Facility will be June 30, 2024. Borrowings under this term loan bear interest at LIBOR plus a margin of 1.15%. The Facility is unsecured, guaranteed by the Company, and contains customary restrictions on the ability of the Company and its subsidiaries to (i) incur certain debt, (ii) make certain investments, (iii) make certain acquisitions of other entities, (iv) incur liens, (v) dispose of assets, (vi) make non-cash distributions to shareholders, and (vii) engage in transactions with affiliates. These covenants are subject to certain exceptions and limitations. This Facility agreement also requires that the Company maintain a maximum ratio of total indebtedness to EBITDA (earnings before interest expense, taxes, depreciation and amortization), and a minimum interest coverage ratio, as defined therein, during its term. As of December 31, 2018, the Company was in compliance with the covenants under

this term loan agreement.

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7. INTEREST AND OTHER, NET

During the three and nine-month periods ended December 31, 2018, the Company recognized interest expense of $38.8 million and $107.5 million, respectively, on its debt obligations outstanding during the periods. During the three and nine-month periods ended December 31, 2017, the Company recognized interest expense of $32.1 million and $90.7 million, respectively, on its debt obligations outstanding during the periods.

8. OTHER CHARGES (INCOME), NET

During the three-month period ended December 31, 2018, the Company recognized other charges of $71.9 million, primarily driven by a $70.1 million charge related to the impairment of a certain investment in an unrelated third-party venture backed company. Refer to note 2 for further details on the investment impairment. During the nine-month period ended December 31, 2018, the Company recognized other income of $8.5 million, primarily driven by an $87.3 million gain on the deconsolidation of Bright Machines, offset by the $70.1 million impairment charge discussed above. Refer to note 2 for further details of the deconsolidation.

During the nine-month period ended December 31, 2017, the Company deconsolidated Elementum SCM (Cayman) Ltd and recognized a gain on deconsolidation of approximately $151.6 million with no related tax impact, coupled with a $39 million gain recognized for the disposition of Wink, which are both included in other charges (income), net on the condensed consolidated statement of operations.

9. FINANCIAL INSTRUMENTS

Foreign Currency Contracts

The Company enters into short-term foreign currency derivatives contracts, including forward, swap, and options contracts to hedge only those currency exposures associated with certain assets and liabilities, primarily accounts receivable and accounts payable, and cash flows denominated in non-functional currencies. Gains and losses on the Company's derivative contracts are designed to offset losses and gains on the assets, liabilities and transactions hedged, and accordingly, generally do not subject the Company to risk of significant accounting losses. The Company hedges committed exposures and does not engage in speculative transactions. The credit risk of these derivative contracts is minimized since the contracts are with large financial institutions and accordingly, fair value adjustments related to the credit risk of the counterparty financial institution were not material.

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As of December 31, 2018, the aggregate notional amount of the Company’s outstanding foreign currency derivative contracts was $9.7 billion as summarized below:

	Foreign Currency Amount		Notional Contract Value in USD	
Currency	Buy	Sell	Buy	Sell
	(In thousands)			
Cash Flow Hedges				
CNY	2,195,500	—	$ 319,564	$ —
EUR	57,903	12,413	66,456	14,384
HUF	26,817,000	—	95,318	—
ILS	180,000	2,625	47,738	696
MXN	3,907,000	—	198,453	—
MYR	288,800	51,100	69,010	12,211
RON	171,000	—	41,884	—
SGD	47,100	—	34,353	—
Other	N/A	N/A	32,692	—
			905,468	27,291
Other Foreign Currency Contracts				
CAD	413,508	446,691	303,203	327,534
CNY	3,569,739	1,097,810	517,310	160,000
EUR	1,943,263	2,058,119	2,215,448	2,346,054
GBP	72,112	65,663	91,160	83,067
HUF	135,200,211	130,812,582	480,555	464,960
ILS	238,075	121,000	63,140	32,090
INR	6,147,046	19,872,836	87,298	281,278
MXN	3,332,861	2,727,145	169,290	138,523
MYR	933,930	647,400	223,167	154,699
SEK	552,834	637,284	61,263	70,646
SGD	91,830	50,580	66,978	36,891
Other	N/A	N/A	119,052	317,735
			4,397,864	4,413,477
Total Notional Contract Value in USD			$ 5,303,332	$ 4,440,768

As of December 31, 2018, the fair value of the Company’s short-term foreign currency contracts was included in other current assets or other current liabilities, as applicable, in the condensed consolidated balance sheets. Certain of these contracts are designed to economically hedge the Company’s exposure to monetary assets and liabilities denominated in a non-functional currency and are not accounted for as hedges under the accounting standards. Accordingly, changes in the fair value of these instruments are recognized in earnings during the period of change as a component of interest and other, net in the condensed consolidated statements of operations. As of December 31, 2018, and March 31, 2018, 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. Deferred losses were $7.4 million as of December 31, 2018, 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.

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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		
		Fair Value			Fair Value	
	Balance Sheet Location	December 31, 2018	March 31, 2018	Balance Sheet Location	December 31, 2018	March 31, 2018
	(In thousands)					
Derivatives designated as hedging instruments						
Foreign currency contracts	Other current assets	$7,049	$ 19,422	Other current liabilities	$14,377	$ 7,065
Derivatives not designated as hedging instruments						