Flextronics's Sales Spike on Solectron Buy

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SAN JOSE – Flextronics's third-quarter adjusted net income rose 84% over last year to $250 million on net sales of $9.07 billion. The company's December quarter sales were boosted 67%, thanks to its acquisition of rival **Solectron Corp**.

For the quarter, Flextronics saw computing revenues rise 168% year-over-year and infrastructure spike 155%. Adjusted gross margins improved 50 basis points to 5.9%.
Flextronics took $270 million in pretax restructuring, integration and other charges, primarily related to the Solectron acquisition, and $61 million in other pretax charges related to impairment and charges for certain non-core investments.
Return on invested capital improved 70 basis points sequentially to a record 11.9%. Cash conversion cycle was 21 days, while inventory turns were 7.8 times. Flextronics generated $534 million in cash flow from operations and free cash flow of $470 million after capital expenditures of $64 million. The EMS firm ended the quarter with $1.8 billion in cash and $3.1 billion in debt, with a debt-to-capital ratio of 27%.
The computing and mobile segments performed better than expected, while no end-product segment fell short of targets.
The company is ahead of plan on integrating Solectron, and could see additional synergies above the original $200 million a year estimate," wrote analyst Sherri Scribner of **Deutsche Bank Equity Research**
in a research note. "We believe this quarter's results show the benefit of Solectron and we expect new notebook business to benefit results in the second half of calendar 2008."

The company has either finished closing, or expects to finish closing, almost all the previously announced 19 manufacturing and service facility closures by March 31. That will mark the end of the restructuring brought on by the Solectron acquisition.
For the March quarter, Flextronics guided for revenues between $7.5 billion and $7.9 billion. Its acquisition of **Arima** is expected to close around April 1, and could provide additional growth in computing revenues in the second half of 2008. Executives declined comment on fiscal 2009.

On a conference call with analysts, chief executive Mike McNamara said, "We are not totally immune from the cyclicality of technology or economic slowdowns and things can certainly change in the future. But given our diversification, we are not seeing any overall weakness in our customer forecast."
"At the end of the previous quarter, what we said was that there had been a little slowdown in the industrial segment and telecoms, and that slowdown I would say has stabilized," Chief Financial Officer Thomas Smach told Reuters in an interview.
"Consumer is probably the only market segment we see continued slowing in."
McNamara dismissed queries over China's new labor contract law, saying that roughly 35% or 40% of its cumulative business comes from the nation, and the company expects no impact.

CFO Tom Smach acknowledged that the firm's outward push on days payable may have reached the tipping point at 70 last year, as the number dropped to 62 in the past quarter. "I think when we were at … 70 days payable, it was just a little too much. I think we were exploiting the supply base a little too aggressively. It's doubtful we will get back at that level. I think maybe there is a little bit of room to go above 62 days. But 70 days is just not sustainable."