

CLS *Celestica Inc.*

● Buy — Accumulate on Weakness

INVESTMENT MEMORANDUM | JULY 11, 2026

CONVICTION	CURRENT PRICE	PRICE TARGET	HORIZON
7/10 ■■■■■□□□	\$359.85 <i>as of July 10, 2026 close</i>	Bear \$270 · Base \$400 · Bull \$490	3–5 years

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PRICE TARGET RANGE



◆ AI-assisted. Human editorial review is required before publication. See disclaimer below.

Thesis

Celestica has crossed from commodity contract manufacturer to a hardware engineering partner sitting directly under the AI datacenter buildout, and the market has only recently woken up to it. It builds the switches, compute, and rack-scale systems the hyperscalers cannot build fast enough themselves, and it does so at margins no other large EMS player can match. The thesis is not whether the trend is real. It is whether the price already pays for it, and where a long-duration buyer should step in.

Celestica spans two layers of the buildout. Its differentiation and highest-value programs sit in connectivity, the 1.6T switching and co-packaged optics that move data across the AI datacenter, which is why we categorize it there. It also captures rack-scale compute demand through the AMD Helios

collaboration, so a position in CLS is exposure to both the networking and compute layers in a single name. That breadth is part of the case, and part of why it concentrates AI-buildout exposure rather than diversifying it.

The Debate

▲ BULL CASE

Structural Demand

The demand is structural, not cyclical.

Hyperscalers are spending because falling behind on AI is an existential risk, not a discretionary IT upgrade, and that spend flows straight into Celestica's Connectivity and Cloud Solutions segment. CCS grew 76% year over year in Q1 2026 and now drives roughly 80% of revenue.

Management raised full-year 2026 guidance to about \$19 billion, up from a \$12.4 billion base in 2025, and said the 2027 outlook strengthened over the prior 90 days. The company is supply-constrained, not demand-constrained, which is the signature of an early-to-mid capital cycle rather than a top.

Margin Proof

The margin story is the proof the transformation is real. Adjusted operating margin has roughly doubled since 2021, from 4.2% to 8.0% in Q1 2026, the company's stated profitability milestone, while GAAP operating margin reached 6.7%, up from 4.9% a year earlier. Adjusted gross margin ran 11.3% in Q1 2026 (10.8% GAAP), a step up from the high-single-digit levels of the early 2020s and a premium to commodity EMS peers. This is not labor arbitrage. The AMD Helios rack-scale collaboration, the 1.6T co-packaged optics switch award, and multiple 1.6T networking programs show Celestica winning at the engineering

▼ BEAR CASE

Priced For Perfection

The price now pays for perfection. At roughly 3.0x sales versus a decade-long range near 0.25x, and 30x EV/EBITDA against an EMS history closer to 10x, the multiple is borrowed from a platform business Celestica is not. Gross margin is roughly 11% (10.8% GAAP, 11.3% adjusted) and free-cash-flow margin is under 4%. Those are good manufacturing economics, not software economics, and the re-rating assumes the AI premium is permanent rather than cyclical.

Concentration And In-Housing

The structural risk is customer concentration layered on hyperscaler in-housing. The three largest customers were roughly 35%, 15%, and 15% of Q1 revenue. The same hyperscalers designing their own silicon (Google TPU, Amazon Trainium, Microsoft Maia) have the capability and the incentive to route production to ODMs or bring it in-house once volume justifies it. EMS history is a graveyard of this exact pattern: Jabil and Apple, Flex and Motorola, and Celestica's own 95% collapse when the telecom capex cycle broke in 2001. A single top-three customer cutting capex or re-sourcing a program would compress both the estimate and the multiple at once, and at this valuation the downside on a 20-30% growth miss is 40-60%, far larger than the roughly 23% upside to consensus targets.

frontier, embedded in customer roadmaps years ahead of volume.

Fortress And Footprint

Switching costs are high, the balance sheet is near-unlevered at roughly 0.3x net-debt-to-EBITDA, and capital allocation is clean: buybacks, no dividend, no value-destroying M&A. The footprint outside China (Thailand, Malaysia, Canada, Mexico, Romania) turns US-China decoupling into a demand tailwind competitors with heavy PRC exposure cannot match.

CIO Judgment

The Business Holds

The bull case wins on the thesis and loses on the entry. On the questions that decide whether this is a durable franchise, the read is firmly bullish, and it holds up: the demand is structural, the margin expansion proves differentiation, and the balance sheet and footprint are assets, not liabilities.

The Entry Doesn't

The Skeptic's strongest point is not that the thesis is wrong but that the price leaves no cushion, and the Technician independently confirms it: the stock sits in no-man's-land below its 50-day moving average on declining volume, with the highest-probability long-term entry 10-18% lower at the \$321 and \$295-302 support zones. That is the tension, and it resolves cleanly. This is a name to own for years, bought with discipline rather than chased at a level the chart and the multiple both flag as premature. Conviction is a 7: high on the business, tempered by an entry that rewards patience and a concentration risk that is real even if not imminent.

Key Metrics

Metric	Value	Note
Price (Jul 10, 2026 close)	\$359.85	Settled NYSE close
Market Cap	~\$41.3B	115M shares out

Metric	Value	Note
Revenue (TTM)	\$13.79B	+36.7% YoY
FY2026E Revenue (guidance)	\$19.0B	+53% YoY, from \$12.4B FY2025
EPS (TTM, GAAP diluted)	\$8.27	+131% YoY
FY2026E EPS (adj)	\$10.15	2026 guidance
Gross Margin (Q1'26)	10.8% GAAP / 11.3% adj	premium to commodity EMS peers
Operating Margin (Q1'26)	6.7% GAAP / 8.0% adj	up from 4.9% / 7.1% in Q1'25
CCS Segment Margin (Q1'26)	8.6%	segment margin, up from 8.0%; not company op margin
ATS Segment Margin (Q1'26)	6.0%	segment margin
FCF Margin (TTM)	3.6%	Capex-compressed
Rule of 40	~45 (growth + op margin)	Pass
Net Debt	~\$394M	~0.3x net debt/EBITDA
Interest Coverage	~21.6x	Fortress
P/E (TTM)	~43.6x	vs EMS history ~13-16x
P/S (TTM)	3.0x	vs own 10yr avg ~0.25x
EV/EBITDA	30.7x	vs EMS history ~8-12x
Beta (5Y)	1.52	High
Short Interest	3.3% float	Benign
200-day MA	\$321	+12% below price
Drawdown from ATH	-23.8%	ATH \$472.40 (Jun 2, 2026)

Position Sizing

Position sizes are illustrative only and are for general guidance purposes, not investment advice. Please determine appropriate position sizes based on your own financial circumstances, risk tolerance and investment objectives.

4-6%
RECOMMENDED

6%
HARD CAP

\$82-100
WORST-CASE ZONE

Build the position through DCA rather than a single entry, anchoring adds to the \$321 (200-day MA) and \$295-302 (year-open) support zones the Technician identifies. Cap at 6% because CLS does not diversify AI-buildout exposure, it concentrates it: it moves with NVDA, AVGO, SMCI, and the hyperscaler capex cycle as one correlated cluster. If a direct hardware/EMS peer is already held in size, CLS should replace rather than add to that sleeve. The worst-case zone assumes a reversion toward commodity-EMS multiples if the AI premium fully deflates.

Analyst Scorecard

4 Bull · 4 Neutral

Visionary	BULLISH	Direct, liquid infrastructure play on a structural AI capex supercycle in early-to-mid innings.
Operator	BULLISH	CCS moat widening on segment-margin expansion and co-design lock-in; concentration is the watch item.
Skeptic	NEUTRAL	Real business, real trend, but priced for perfection; a single in-housing decision reprices it 40-60%.
Quant	BULLISH	Peer-leading margins; expensive on P/S and P/FCF, base case \$400 on a Q2 beat-and-raise.
Macro Man	BULLISH	Supply-constrained not demand-constrained; non-China footprint is a structural decoupling tailwind.
Insider	NEUTRAL	All selling is 10b5-1/GRAT and tax withholding; CEO holds \$360M+ direct; benign short interest.
Risk Manager	NEUTRAL	High-quality compounder but high cluster beta; size-gated with three hard stops.

Thesis Break Triggers

1. CCS segment revenue growth falls below 15% YoY for two consecutive quarters.
2. A top-three hyperscaler customer announces a capex cut of 15%+ citing networking/switch spend, or cancels a Celestica-manufactured program.
3. Gross margin prints below 10.5% in any reported quarter.

Catalyst

Q2 2026 earnings after close Monday, July 27, 2026. First full quarter testing the acceleration priced into the \$19.0B full-year guidance. A beat-and-raise likely resolves the consolidation upward; a guide-down confirms the Skeptic's asymmetry.

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