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JBL - Q3 2017 Jabil Circuit Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Jabil third quarter earnings call. (Operator Instructions)

I would now like to turn today's call over to Adam Berry, Senior Director of Investor Relations. Please go ahead.

Adam Berry

Thank you, Jacob, and good afternoon, everyone. Welcome to our third quarter of fiscal 2017 earnings call. Joining me on the call today are Chief Executive Officer, Mark Mondello; and Chief Financial Officer, Forbes Alexander.

This call is being recorded and will be posted for audio playback on jabil.com in the Investors section. Our third quarter press release, slides and corresponding webcast are also available on our website. In these materials, you will find the financial information that we will cover during this conference call.

We ask that you now follow our presentation with slides on the website, beginning with Slide 2, our forward-looking statement. During this conference call, we will be making forward-looking statements including, among other things, those regarding the anticipated outlook for our business, such as our currently expected fourth quarter of fiscal 2017 net revenue and earnings. These statements are based on current expectations, forecasts and assumptions involving risks and uncertainties that could cause actual outcomes and results to differ materially. An extensive list of these risks and uncertainties are identified in our annual report on Form 10-K for the fiscal year ended August 31, 2016, and our other filings with the SEC. Jabil disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

On today's call, we'll begin with an update from Mark, followed by third quarter results and fourth quarter guidance from Forbes. Following our prepared comments, we'll open it up to your questions.

I'll now turn the call over to Mark.

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Thanks, Adam. Good afternoon. I appreciate everyone taking time to join our call today.

Before we get into prepared remarks, I thought it appropriate to let you know why Beth is not on the call today. So Beth is attending to her husband, Michael, who underwent some fairly complicated medical procedures over the past number of weeks. The best part in all of this news is, is I'm happy to report that the patient is now at home and resting comfortably, and nurse Beth is also getting some much-needed rest. So please keep Michael and Beth in your thoughts and prayers. And our extended best and wishes, if you're listening, Beth, to you, and Michael to make a full and complete recovery, and we miss you.

So now on to the prepared remarks. As always, I'll start with a big thanks to our people here at Jabil for their hard work and never-ending dedication and commitment. In addition, I want to recognize the team for their continued focus on always keeping our people safe. Safety is top of mind for all of us.

Now taking a look at our third quarter results. The team delivered approximately $114 million in core operating income on revenues of $4.49 billion, resulting in core earnings per share of $0.31. Core operating margin came in at 2.5%, as anticipated, during this heavy investment period, representing a 50 basis-point pickup over 3Q of last year.

I'd also like to note that our team continues to do a good job managing capital expenditures, setting us up for what I believe will be free cash flow for the year in the range of roughly $435 million, all good news especially when paired with our solid outlook.

So as customary, Forbes will provide detail around our results and speak to our forward guidance during his prepared remarks.

I'll now share thoughts, which underlie my confidence in the business. For starters, our Green Point team is currently doing a wonderful job managing complicated program ramps, which are most critical to our customers. This, all in the heels of a very demanding third quarter, a quarter characterized by precision engineering development, demonstrated proficiency in material sciences, notable execution and robust cost controls against complex road maps that exhibit significant scale. As we sit today, I'm pleased to report that all program ramps are on track, while product yields are going largely as planned.

Lastly, I'll reaffirm that our Green Point business continues to diversify within existing products as well as across new product platforms, a true testament to the value placed on our solutions.

Moving to our health care and packaging businesses. It's clear that demand for affordable and reliable health care services around the world is increasing. Today, pharma, medical device and consumer health care companies rely on partners like Jabil as their safe pair of hands to help them efficiently and reliably derive better solutions through the use of technology and digital innovation.

Digital solutions enable caregivers to become more productive, more cost effective and certainly more impactful. Embedded technologies like electronic sensors, for example, combined with cloud-based data analytics, allow for terrific improvements for patient monitoring and patient interactions. These continued paradigm shifts play directly to Jabil's strengths.

Similarly, our packaging team is busy working side by side with the leading consumer brands creating innovative packaging solutions, digitally driven solutions that fit perfectly with the disruption taking place in the packaging arena. Together, Jabil health care and packaging are advancing beautifully, all while our touch points move closer and closer to the direct consumer and the direct patients.

In closing, I believe these businesses collectively will maintain their trajectory, tracking to core earnings growth of 20% or greater from fiscal year '16 to fiscal year '19.

Now I'll turn to our $11 billion EMS segment. Our EMS team serves many brands that lead various end markets, end markets such as automotive, energy, industrial, retail and print, networking, telecom, cloud computing and capital equipment, a clear and definitive illustration of the broad diversification within this EMS segment. This business has scale, proven operational excellence and required domain expertise to maximize opportunities and continue to drive growth.

We're undoubtedly more unique and more relevant with our service offerings as the world has, to a great extent, drifted away from build-to-print requests and moved the conversation to comprehensive build-to-function content. I'll pause there just for a second. We do have a -- quite a thunderstorm in the background. So if you hear some thunder, that's exactly what it is.

So at the same time, within our EMS business, there is intense focus on hardware performance relative to cost and size, which also squarely in Jabil's sweet spot. In simple terms, Jabil's EMS 2.0 strategy is firmly afoot.

In wrapping up my commentary on our EMS segment, it's important to know that the team has done a brilliant job performing to plan and increasing core operating margins, margins that we believe are sustainable for fiscal year '18.

Let me now take a minute and address the company in its entirety. Our guidance suggests that we'll deliver the best fourth quarter in Jabil's history, a favorable segue into what's typically our strongest quarter of the year, and in this particular case, Q1 of fiscal year '18.

That then leads me to ask, how might we be thinking about the business as we exit the year? First, I believe our EMS business will increase roughly 3% fiscal '17 to fiscal '18. Secondly, the health care and packaging businesses continue to show great promise within our DMS segment. With that said, please keep in mind, the majority of our DMS business remains highly dependent on overall product demand and market acceptance in the mobility space.

So what might all of this mean? I believe what it means is the following: We're remaining true to what Forbes communicated back in September during our Investor Day. We've also given reasonable consideration and judgment to our current business plans and customer forecasts. The result, I believe, is fiscal year '18 will sum to core earnings in the neighborhood of $2.60 a share, this on our way to $3 a share in fiscal year '19.

As for how the income might layer in quarter-to-quarter, we simply don't know at this point. There's just too many moving parts and too many puts and takes. Although I do believe our DMS business will once again be front-half loaded for the fiscal year, fiscal year '18, while the shape of our EMS business should look quite similar to fiscal year '17.

Before I hand the call over to Forbes, a few parting comments. You should know that our shareholders remain at the forefront of all of our actions. We're agile, decisive and the most cost-effective operator of our business. There's clear evidence that our diversified portfolio strategy has taken hold, and our productive market-facing divisional structure is working and working really well. Our leadership team remains confident in our path forward as we integrate a digital mindset across the enterprise.

We're constructing a fabulous company, where I believe the whole is materially more valuable than the proverbial sum of the parts. And we're making a real difference by helping make the world better, cleaner, healthier and safer.

Thank you. And with that, I'll now hand the call over to Forbes.

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Thank you, Mark. Good afternoon, everyone. I'd like to ask you to turn to Slide 3, where I will review our third quarter of fiscal year 2017 results.

Net revenue for the quarter was $4.49 billion, growth of 1% on a year-over-year basis. GAAP operating income was $43 million, with a GAAP net loss of $25 million. GAAP net diluted loss per share was $0.14 for the quarter.

Core operating income, excluding amortization of intangibles, stock-based compensation, restructuring and related charges, was $114 million and represented 2.5% of revenue. Core diluted earnings per share were $0.31.

On Slide 4, I'll discuss our third quarter segment discussion. Revenue for our Diversified Manufacturing Services segment was $1.67 billion, an increase of 14% on a year-over-year basis and represented 37% of total company revenue. Operating income for the quarter was 0.2%. Performance in this segment exceeded our previous guidance as we continue to see strong year-over-year performance from within our mobility, health care and packaging sectors.

Our Electronics Manufacturing Services segment revenue was $2.82 billion for the quarter, a decrease of 1% on a year-over-year basis, and this represented 63% of total company revenue. Operating income for this segment was 3.9%, an improvement of 40 basis points on a year-over-year basis and 20 basis points sequentially.

We ended our fiscal quarter with cash balances of $744 million. Net capital expenditures for the third fiscal quarter totaled $138 million, while capital expenditures on a year-to-date basis totaled $439 million. For the full fiscal year, net capital expenditures are estimated to be $600 million as we position ourselves for growth in the fourth fiscal quarter and through fiscal 2018.

Cash flows from operations in the quarter totaled $187 million with year-to-date cash flows being $533 million. The fourth fiscal quarter is historically characterized by very strong cash flows. The upcoming quarter is expected to be no different. And as such, we expect to deliver at least $1 billion of cash flows from operations in the full fiscal year.

As I've previously noted, our capital return framework remains a key focus as we move through this and next fiscal year. Our plans to return 40% of cash flows from operations via dividend and share repurchases through fiscal 2018 and up to a maximum of $1 billion remains very well positioned. To date, we have returned some $390 million in dividends and share repurchases under this framework. With our current authorization to repurchase $400 million worth of shares, we have utilized approximately $330 million as of the end of the third quarter, repurchasing some 14.8 million shares at an average price of $22.34.

I'd like just to update you with regards to our restructuring plan. Actions that we are taking to enhance organizational efficiency and effectiveness remain very much on track. Specifically, headcount reductions across our SG&A cost base are complete, and capacity realignment activity in high-cost locations has now been announced and is expected to occur in the first half of fiscal 2018. As such, we accrued charges associated with this plan of approximately $31 million in the third quarter, bringing year-to-date charges to approximately $110 million.

Total charges for the full fiscal year are estimated to be in the range of $130 million to $155 million, of which $20 million is estimated to be cash. This will result in some $25 million of savings in our fiscal year 2017. Based upon our current estimates of the timing of the capacity realignment actions, full savings of $70 million to $90 million remain on track to be fully realized commencing in fiscal year 2019.

On Slide 5, I'll review our fourth fiscal quarter outlook. The Diversified Manufacturing Services segment is expected to increase 26% on a year-over-year basis to approximately $2.05 billion, while the Electronics Manufacturing Services segment is expected to increase 2% on a year-over-year basis to revenues of $2.85 billion. We expect total company revenue in the fourth quarter to be in the range of $4.7 billion to $5.1 billion or an increase of almost 11% at the midpoint of the range on a year-over-year basis.

Core operating income is estimated to be in the range of $165 million to $215 million, with a core operating margin in the range of 3.5% to 4.2%. Core earnings per share are estimated to be in the range of $0.50 to $0.74 per diluted share and GAAP earnings per share expected to be in the range of $0.13 to $0.48 per diluted share. Tax rate on core earnings in the fourth fiscal quarter and full fiscal year is estimated to be approximately 27% based on our current levels of forecasted income.

In closing, we're pleased with the third quarter. Our fourth quarter expectations are essentially unchanged from 90 days ago. This fiscal year will see us deliver on our goals that I outlined at the beginning of the year: core earnings per share growth of 13%; cash flows from operations of at least $1 billion; capital expenditures of $600 million or less; while we're returning some $370 million to shareholders via dividends and stock repurchases. As Mark noted, we see this positive momentum continuing into fiscal 2018.

I'd now like to hand the call back over to Adam.

Adam Berry

Thank you, Forbes. Before we begin the question-and-answer session, I'd like to remind our call participants that in customary fashion, we will not be addressing customer or product-specific questions. Thank you for your cooperation. Jacob, we are now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And your first question comes from the line of Ruplu Bhattacharya with Bank of America Merrill Lynch.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

The first one for Mark. I think 90 days ago, you had indicated that EMS margins would be strong going into the fourth quarter. And it looks like they will be. So going into next year, can you give us some guidance? Do you think the 4% level is now a sustainable 4%-plus level going into next fiscal year?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

I'll address that in 2 parts. One is I do believe that fourth quarter -- I don't remember exactly what I said, but I think I said something around the fact that fourth quarter would be EMS margins of 4.2%. I think we've got a really good chance to getting there in the fourth quarter. In terms of next year, I think I would -- in my preparatory comments today, I said something about EMS growing 3%. If you take the top line from this year and call that, I don't know, $417 million, $420 million at the midpoint of our guide, take that up 3%, I'd keep a margin profile very similar to FY '17 both in terms of by quarter and for the whole fiscal year.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Okay. That's very helpful. And maybe one for Forbes. So last couple of years, you've invested a lot in the Green Point business. You've specified, I think, $600-something million for CapEx for next year. Can you talk a little bit about where that spend is happening? And is it mostly on the EMS side? Or can you give us a split of how the CapEx is being spent?

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Yes, Ruplu. So yes, we'll spend roughly about $600 million this fiscal year. I characterize that -- maintenance is a big organization. Our maintenance level's probably 50% of that. So -- and that's spread broadly across the whole enterprise. The balance, we are -- we did talk about earlier in the year making investments in Indonesia, as we're bringing up a site there to support our aircraft machining business. So that's probably $40 million or $50 million of that $300 million. There's clearly some additional investments going into the Green Point business, but those are not a large dynamic in this year's spend. So it's broadly spent. I think one of the largest areas is that new site, as I say, in the Southeast Asia as we support new program ramps there.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Great. And real quick, the last one for me. So based on the CapEx spend that you're doing this year, how much revenue can that totally support, like in total?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Boy, that's a tough one. It depends on where it comes from. But I would say, as we close out '17, again, there's always going to be some level of modest maintenance CapEx. But our footprint today, if it's sorted out right, probably can support anywhere from $19.5 billion to $22 billion depending on how it lays in.

Operator

And your next question comes from the line of Steven Fox with Cross Research.

Steven Bryant Fox - *Cross Research LLC - MD*

A couple questions for me. First of all, on the cash flows, if you guys do hit the cash flow from operations of $1 billion and given sort of the rough cut on next year's earnings, how should we think about cash flow from operations growth? Can it grow in line with earnings? Or would we expect some working capital drags, et cetera? Can you give us a little color on that, Forbes? And then I had a follow-up.

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Yes, there's a lot of moving parts for next year. But if I take everyone back to our Analyst Day last year, our expectations of cash flows were, what, $3.5 billion over a 3-year period, '17 being the first year of that. So yes, you should start to see some growth. I think it's reasonable to expect it to grow in line with our earnings growth. We're not seeing any incredible dislocation in terms of our working capital metrics. So we'll see some growth, like, next year. Got a lot to shake out in terms of the quarterly profile, just given the dynamics around some major product ramps that we've got going on as we move into the first quarter. But certainly, we should see some growth. Give you a lot more color on that as we come into our September call.

Steven Bryant Fox - *Cross Research LLC - MD*

That's helpful. And then, Mark, just talking about the EMS business a little bit more in detail. So it sounds like you're making progress. You said you were making progress on EMS 2.0. I was wondering if you can give some examples of maybe some commercialization that happened in the quarter or is going to happen this quarter. And then it seems like -- just around the EMS story given what you've talked about for next year, there must be some drags from what you're seeing in the marketplace this quarter into next fiscal year. Can you talk about maybe some of the headwinds you're facing overall with EMS?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Yes. Certainly, Steve. That was a lot. Let me try to remember all that. The -- so there's drags in big chunks of the market, and there's great outlooks in good chunks of the market. You shake all that up, and you get the 3% growth. And when I think about the fact that EMS is going to end this year at -- if we hit midpoint of guidance in 4Q, you're talking about a business a little over $11 billion. So 3 points of growth on that is, I think, very good in this market and fairly significant in absolute dollars. I would say, when I refer to EMS 2.0, it's -- there's a multitude of things starting with our structure. So we restructured the company about 3.5, 4 years ago. One of the things, Steve, that we're just doing differently in the last 24 months, and it's making a big difference, is we don't go out and talk to the market or talk to customers about building rectangular circuit boards or electronics. We really are taking an approach where we're going out and bringing some really cool solutions to the marketplace. And sometimes that has electronics in it. Sometimes it doesn't. So that's one. Number two is, as I tried to illustrate in my prepared remarks, the EMS business today is just -- it's just massively broad. I mean, it's -- that business in and of itself is probably approaching, I don't know, 180 customers, maybe more. So I think it has to do with our approach to the market, not bringing preconceived notions to what they may want around key electronics and really kind of respectfully listening and then bringing forward solutions. And I also talked in the prepared remarks around, I would say, in the last 18 months, and I see this accelerating maybe parabolically in the next 2 to 3 years. We've really got a pretty cool digital flair around the business in terms of how to help people solution things from a data analytics and supply chain perspective. So it's a little bit of contribution from a lot of parts. And I feel good about what the team's done in the last 18 months, and I feel really, really good about how things look for fiscal year '18. I think as we maybe get into the September call, we've got quite a bit of cool things in the pipeline. Our pedigree and personality is not to talk about a lot of that stuff until it starts to become material, right or wrong. So I think as we get into the September call and maybe the December call, you'll start hearing some more cool things we're doing on the EMS space.

Steven Bryant Fox - *Cross Research LLC - MD*

And just any market headwinds that you're up against also?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Yes, and we'll talk about them in September and December.

Operator

And your next question comes from the line of Mark Delaney with Goldman Sachs.

Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Two questions for me. First question is on the DMS segment in terms of the revenue guidance for the August quarter. The implied sequential pickup in August versus May is at the higher end -- or above the high end of what the company has done in the past and coming off of a pretty healthy May quarter base. So trying to understand, is that pull-forward of some of the seasonality that the company normally sees in the November quarter? Or is the stronger August guidance more a function of some of the new platforms that you mentioned?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

So Mark, you're talking -- just so I understand, you're talking about DMS?

Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Correct.

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Okay. So I think that -- I think the -- on a sequential basis -- actually, if you look at it on a sequential basis or a year-on-year basis, I think the guide for Q4 is quite good. And I think that's a testament of, a, we've been tapping the drum a bit on health care and packaging. And then also we've got a lot going on in our Green Point business, as maybe you can imagine. And again, I know sometimes you guys get frustrated, but we just can't add a lot of color to that at this point.

Mark Trevor Delaney - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And then for a second question, this is about the company's results in totality, in terms of kind of how the May quarter and the August quarter for fiscal '17. It came in pretty good and pretty consistent with what you talked about on the last earnings call. A couple of your larger customers have talked about actually seeing some near-term weakness. So just wondering, given that Jabil is still able to hit numbers or even come in a little bit better, were there areas that surprised you to the upside in the second half of fiscal '17 and maybe made up for some of those other shortfalls? Or was there just some conservatism that was baked into your initial view of second half fiscal '17?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Well, the nice thing is I do think we're doing what we said we're going to do, which feels pretty good. I think there's also a level of conservatism in anything we come out with on earnings calls when we're talking to you guys. So I think it's a combination of that. And then maybe remember that we get a pretty good advanced look at product road maps and whatnot of our customers that might be a couple of quarters ahead or at least a quarter ahead of when stuff ends up getting communicated or hitting The Street. So again, I think you shake all that stuff up, and we're kind of spot on of where we thought we'd be.

Operator

Your next question comes from the line of Sean Hannan with Needham & Company.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Manufacturing Services, IT Components and Electronic Components*

First one, I'm going to see if I can ask this in a broad sense, can be relevant to either DMS or the EMS side. Just trying to get a sense of whether you folks have observed any issues that are out there in the supply chain in terms of either what you're assembling for customers or what might be going on in other areas of the food chain that perhaps could be restricting the timing or the degree of product launches that you're involved with, i.e. is there some upside that perhaps has been tempered, governed? Anything that you're seeing on that front on the supply chain?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Well, that was a pretty opaque question. I think that we always see things in the supply chain that ebb and flow, Sean. I'd say that, on the silicon side, we're seeing pockets are tightening. With our scale and how long we've been in this business, we typically are pretty good at being able to solution tight pockets on the silicon side. So today, the constraints there are minimal. And to the extent that we're feeling any near-term pockets of friction, we've considered that in our numbers. In terms of maybe technologies, new technologies or things like that in other markets, there's a lot of rumors out in the marketplace about this, that and the other, and I just prefer not to comment on all that. I believe that we're sitting in the middle of -- we serve 12 or 13 different end markets, and we're kind of sitting right in the middle of the stew all the time. So anything that's out there today, we have good visibility of, or any of that friction points that we feel, those have been considered both in our guide for Q4 and the discussion points about '18.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Manufacturing Services, IT Components and Electronic Components*

Touché on the opaqueness on the other technologies. Okay. All right. Second question here, so Nypro, health care, packaging, it's great to hear we're exhibiting double-digit growth there. Is there a way -- if you can give us a little bit of color in terms of the degree that this level of year-on-year

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growth and particularly the trajectory, if that is sustainable. Or instead, is this more of a step function at the moment or the next few quarters? How do you feel about the ability for this to continue to move up?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

I think if you go back to what I said earlier in the call today and you go back to what I said in the call in March and you go back to what I said in the call December, we've been pretty consistent with health care and packaging combined. That business would grow strong double digits. I think in today's prepared remarks, I talked about 20%. And I caveated that saying the 20% would be kind of an annual CAGR between fiscal year '16 and fiscal year '19. So I don't see it as a step function. Is it sustainable beyond '19? I don't know. It depends. All businesses start to plateau a little bit when they get to some scale. But as we sit today, I stand behind the 20% growth from here forward at least through fiscal year '19.

Operator

Your next question comes from the line of Steve Milunovich with UBS.

Steven Mark Milunovich - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Just to follow on that. So you're looking for 20% operating income growth as a CAGR for health care and consumer packaging. I'm assuming revenue's not growing at that rate. So are you seeing operating margin expansion in those areas? And roughly, where are those margins? And where are they going?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Good question. I -- Steve, I'd characterize it this way: I would say, in the 20% CAGR -- and I can't comment on the back half of, say, fiscal year '16 to '19. But as we sit today, certainly, through fiscal year '18 and maybe into '19, I would say that -- I'd say there's a 50-50, 60-40 split between margin expansion and revenue growth, maybe 70-30. And that really has to do with -- maybe 70% margin expansion, 30% top line growth, 60-40, somewhere in there. Let me explain just for a minute. We did the Nypro acquisition. I think we closed that kind of around July of '13. And a lot of integration, a lot of moving parts, trying to figure out what we wanted to do with it, combining it with electronics, combining it with sensors, trying to make a really good, holistic, cool play for the health care space and out pops this real kind of interesting consumer packaging business. And all of a sudden, our engineers and our commercial people grab a hold of that, and they're like, wow, there's something here that we can take to the market if you just give us a little time to figure out how to craft solutions around that. So there's probably an 18- to 24-month time frame that we've been investing heavily in people. We've invested some capital. We've invested in a lot of cool solutions. So that's never done. Again, I'll go back to I think that there's a digital component to both our health care approach and our packaging approach, which is upon us right now. But as we look forward, again, I like what I see, hence the communication and discussion around the 20%. So I would think that we're coming out of some pretty heavy investment period in both of those areas, and we'll start to hopefully -- knock on wood, we'll start to see kind of the fruits of that labor.

Steven Mark Milunovich - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

I got you. And then, Forbes, could you remind us how much stock or the commitment in dollars to buy back over the 2-year period and where you are in that? And if the fact the stock has moved up quite a bit since your Analyst Day, if that gives you any hesitation or you feel like it's still undervalued and you're going to complete what you said you're going to do.

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Yes. So our commitment was to return up to $1 billion or 40% of cash flow from operations in fiscal '17 and '18. So the way that works out -- that includes the dividend as well. So if I just strip the dividend out, let's call that, what, $60 million a year, so $120 million. So the balance of that $1 billion would be stock repurchase. To date, we've bought back $330 million of that commitment, averaging about $22.34 through the May period. So yes, we're still on track. We are committed to returning those capitals. As you say, the stock's moved up nicely since we launched this program. But we still think there's a ways to go here. We're driving towards $3 of earnings per share in fiscal '19. The commentary we're giving today, again, around '18 gives us comfort that we're well on track to do that. So yes, we are still committed to returning that $1 billion.

Operator

Your next question comes from the line of Amit Daryanani with RBC Capital Markets.

Amit Jawaharlaz Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

I guess, a couple of questions for me. When you talk of the $2.60 EPS for next year, I think you parceled the EMS side rather nicely for us, is the implication then that the DMS business should grow high single digit in fiscal '18, assuming margins stay relatively flat in DMS? Is that the way to model this? Or do you see better margin expansion, less revenue growth out of DMS in '18?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Amit, I think I gave you all we're going to give you. And I don't mean to be coy or evasive, but I tried to throw some words down in my prepared comments. There's a lot of moving parts. I think we were really to script on EMS. So based on some questions early on in the Q&A as well as prepared comments, you guys should be able to dial in the EMS model right and tight. You guys can make some pretty good assumptions around the packaging and health care. And with the DMS -- balance of DMS, I'd rather just hold on that and really not get into any more discussion until we get to the September call, other than to say you round out the EMS models, you make some assumptions around packaging and health care and we feel pretty good about the $2.60 that we put out there. And I think the other thing I said in my prepared remarks is I think it's -- whatever you come up with for DMS in total, I think that -- I forget the words I used. But I think the DMS business will be kind of front-half loaded, and there's obvious reasons why that might be.

Amit Jawaharlaz Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

Yes. No, that's fair. I guess, just on the front-half loaded dynamic that you mentioned. Historically, August and November quarters seem to be the strong ones for the DMS business for the mobility ramps, right? Is this 26% growth you're seeing in DMS right now sustainable? Or is it a little bit of maybe things that you're involved with are happening nice and strong in August and the things you may not be involved with happen more deferred, so the November quarter your growth may not be as robust as 26% in DMS?

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

So you're talking on a year-over-year basis, Amit? This is Forbes.

Amit Jawaharlaz Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

Yes.

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Yes. Much is going to depend on what we see going on broadly through our fourth quarter, okay? Q1 of '17, what, in our DMS business is, what, $2.4 billion, something of that nature. So we'll just have -- that's a tough compare, but we'll just have to wait and see how that plays out. Certainly, I think there's opportunity to go north of that, but there's a lot of pieces to shake out yet as we sit here 90 days away from the call in September.

But we certainly feel that the first half of next year within our DMS segment, our mobility segment, our Green Point organization will be strong. But as I said and as Mark said in the prepared comments, a lot of pieces to shake out yet.

Amit Jawaharlaz Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

Got it. I guess, Forbes, just kind of sneaking a quick one, initial CapEx thoughts for fiscal '18. Should it be around the $600 million run rate or you see an uptick next year?

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Again, early. What we talked about in the Analyst Day was the goal to keep it around that $600 million level. We talked about that last September. As we sit today, I think that, that's reasonable, as I sit today. But we're in heavy planning phases, as you might imagine, moving into our September time frame. We'll see where that goes. If there's opportunities that make sense to us to really grow that top line, then we'll look at those investments. But we really have scale within our Green Point operations that we're very, very comfortable with, I think that can meet pretty much anything that's thrown at us. So it would be perhaps opportunities in the health care area, packaging area and more broadly rounding out some EMS capabilities. But certainly, as we sit today, hold on to that $600 million number for modeling purposes.

Operator

Your next question comes from Adam Tindle with Raymond James.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Mark, maybe just talk about the decision and your level of confidence to come out and guide fiscal '18. I know we've been through this before in fiscal '16, where you're expecting at least 20% EPS growth at the same time of the year. And some unforeseen circumstances led to a decline that year. Is there perhaps something different about fiscal '18 where you have more visibility that gives you comfort to come out and guide at this point?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Yes. Adam, I think that's a great question. So we sat here for a couple of days and debated, do we see anything about '18 or not? I just feel like there's somebody that understands our business better than the management team. And having sell side and buy side try to kind of navigate through what things are going to look like, it's just -- it's a tough go. So we decided to run a bunch of different sensitivity models and a bunch of analyses and give you a number that we believe in. So what's changed? I think our EMS business is more stable than ever. And that's a business that -- if you just run the math on it, that's now going to be approaching $11.5 billion. Our packaging and health care business have long, sticky life cycles to them. And you heard what I said on a couple other questions in regards to packaging and health care. We've got a couple other things in the company going on that we'll see how they turn out. And then the wildcard really is around what we do with the mobility space in DMS. And we've made some assumption sets around that. We've stared at forecasts and business plans and everything else, and we feel okay with the $2.60.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay, fair enough. And just to follow up on the restructuring program. Looks like you're over halfway done with $195 million. The majority, based on your filings, has been targeted towards DMS. I'm confused at this, just trying to understand the mix here, given it would seem as if we're getting ready to enter into a significant volume cycle on that side of the business based on your commentary, yet the cost cuts seem to be concentrated here. Could you just maybe comment on that dislocation, please?

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Yes. Adam, it's Forbes. Yes. So what I'd ask you to follow is the cash number rather than the GAAP numbers. So in terms of DMS, we -- there's been some asset write-downs, some accruals made in that regard. We've also made some accruals around announcement we made to take some high-cost capacity out in Western Europe. That's actually a health care and packaging base facility. So that's driving that number in DMS that you're seeing there. So what I'd ask people to do is follow the cash. Plus we've, I think, year-to-date recorded about $110 million in restructuring charges. The cash on that is probably $15 million or so. There's another $5 million -- $5 million or $10 million to come in Q4. So once you see that cash come out, that's essentially, unfortunately, employees leaving the company or leases being concluded or suchlike, and then you see the income being laid in. So a lot of the SG&A cuts we made earlier in the fiscal year were folks here in the corporate group. And based on our corporate allocation methodology, 65% to 70% of that cost [lay in] falls into our EMS segment, the balance into DMS. So hence, my previous comments around where the focus of this is. Overall, $25 million this year. We'll see something in a similar nature next year and probably about $80 million as we move into '19 overall coming out the cost base.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. Just one last quick clarification from Mark. I think your fiscal '18 guide still implies DMS operating margin start with the 3%. On the last call, you made a comment about potentially being able to reach the 5% to 7% target level. Can you just talk about what that would take?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

I'll comment on the first half and not the second half, again, because there's so many moving parts. I think that it's fair to think that in the first half of fiscal year '18, we'll be in the 5% to 7% range, and we'll see what happens in the second half.

Operator

Your next question comes from the line of Jim Suva with Citi.

Jim Suva - *Citigroup Inc, Research Division - Director*

I have 2 questions, and I'll ask them at the same time. The first one is the new site that you're putting up, I believe the location is Southeast Asia or maybe I'm wrong with that, if you can correct me. And in that site, is it focused on DMS or across all your business lines or EMS? Or how should we think about the focus point of that new site going up? Because a lot of EMS over the past few years has not been putting up a lot of sites. They've actually been consolidating sites. Then my second question is I think I saw in the footnotes that there was a distressed customer of about a write-off of about $10 million. Did I read that correctly? And if so, what segment was it? Can you just maybe (inaudible), are you still doing business with them? Are you making them do a pay as you go? Or how should we see if this is a 1 quarter resolution or going to continue?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

So Jim, the site, I think, you're referring to is our new site in Indonesia. And what we've took a hard look at about 3 years ago, 3.5 years ago was -- is we've developed, as you know, better than anybody, we've developed an amazing capability on the machining side of our business. And it's material science. It's intricate precision engineering. And we gave a lot of thought to where else we might be able to apply that type of talent. And one thing that was quite obvious to us was aerospace and defense. So we had a lot of internal conversations, and we're making what I think is a good, strategic yet relatively modest bet in Indonesia. And if we get it right, we think it'll be transformational for the aerospace business. So I think it'll be a state-of-the-art machining center that is incredibly cost-sensitive yet hugely capable. And I think it could be disruptive. So we'll see. It's early days. We haven't spent a lot of time talking about it only because, again, the facility is up and we're starting to launch product there. But let's see what happens through fiscal year '18 as we start to get to critical mass, and we're pretty excited about it. Your second question, we had -- you can imagine a company approaching $20 billion in size, we don't always get everything right. And we had a -- largely a single customer issue in the energy space. And it wouldn't be a brand that you probably would know. So it was a small customer, non-U. S., and we decided to disengage with the customer.

Operator

Your next question comes from Matt Sheerin with Stifel.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Just another question regarding the EMS segment and your 3% growth target. That really marked the first year in about 4 years that you're growing that business. If you look at the subsegments that you used to report out, Enterprise & Infrastructure, High Velocity, which includes consumer technology and then the industrial and clean tech, what are some of the growth drivers and assumptions for growth for each of those subsegments?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

I won't get into that detail, but I like the question. I think it -- I think your question kind of illustrates, again, what I was trying to say earlier in the prepared remarks. We're seeing it across the board. And I would say, areas that we're driving -- so even in end markets that might be declining a bit, we're picking up share. So I don't know how sustainable that is. But it's happening, so I'll take it. In areas that I think are more sustainable in the EMS space, automotive is quite interesting to us. Energy is quite interesting to us. What's we're doing on some industrial areas is pretty interesting to us. We've -- we're doing a lot in kind of security and digital home. We're doing some really cool stuff in kind of, what I would call, hypercloud type of things. And our telco business is strong. And then I think I also mentioned in my prepared remarks kind of capital -- semi cap equipment and what's going on in the world of silicon right now, and we're playing in that space. And I would also say our FY '18 numbers with the growth probably include 3 or 4 other markets that we'll tend to talk about more in September or December when they become a little bit more relevant.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay, that's helpful. And just a follow-up. Forbes, in terms of that $2.60 EPS target for next year, what is -- is there a share count assumption there or is the assumption on just sort of a steady progression in terms of buybacks to help you get to that number in addition to the margin expansion?

Forbes I. J. Alexander - *Jabil Circuit, Inc. - CFO*

Yes, I do a steady progression on buybacks. I assume something similar to this year. I assume those cash flows will be there, which I believe, and we'll fulfill the -- close to $1 billion. Yes.

Operator

Your next question comes from the line of Sherri Scribner with Deutsche Bank.

Sherri Ann Scribner - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Thinking about the $2.60 for fiscal '18, and Mark, thanks for the detail on the 70-30 split. But it seems like -- depending on your revenue growth assumption, it probably suggests an operating margin somewhere in the 4% range. You guys have been able to hit 4% in the past, but you haven't historically been able to stay at those levels. So how sustainable do you think that level of operating margin will be for you as we move beyond fiscal '18 and into '19 and '20?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

I don't know. I mean, I -- we're efforting like crazy to get there, kind of reset the company. How sustainable it is after that, I think if we get there, it's sustainable. But we've got a lot of work to do, and I think your math is correct. I think that as a corporation -- if we hit the midpoint of our guidance in 4Q of this year, I think our corporate margins for the year will be around 3.5%. If we can pick up 20, 30 basis points year-on-year, that's good. If we can pick up a full 50 basis points of margin in '18, I think that's really good. So again, when I think about cash flows, when I think about management of CapEx, when I think about our guide forward, when I think about a lot of the stuff we've talked about on the call, when I think about all the different aspects of the business, we're sitting in a pocket right now where, a, we're doing what we're saying we're doing and a lot of good things are happening. So I'd like to see us get to the 4% before I think about how sustainable it is, and we're working hard to get there.

Sherri Ann Scribner - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Okay. And then just to follow up on the DMS segment. I assume most of the seasonality that we're seeing in August is related to mobility, but can you remind us what type of seasonality you typically see in the nonmobility segment of the business in DMS?

Mark T. Mondello - *Jabil Circuit, Inc. - CEO & Director*

Yes. I'd say there's not a lot of seasonality in the nonmobility DMS. If anything, you could -- you maybe think about it, if we're talking strictly about health care and packaging, just because of how that business runs, I might give that a 40-60 or 45-55 split, with the back half being a little bit stronger. But there's not a ton of seasonality to that, Sherri.

Operator

And we have reached our allotted time for the question-and-answer session. I would now like to turn the call back over to Adam Berry for any closing remarks.

Adam Berry

Thank you, everyone, for joining our call today. We'll certainly be here this evening for any follow-up calls you may have. And thank you again for your interest in Jabil. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. Please disconnect your lines at this time, and have a wonderful day.