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JBL - Jabil Inc at JPMorgan Global Technology, Media and Communications Conference

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PRESENTATION

Paul Coster *- JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Great. Thanks. Good morning, everyone. My name is Paul Coster. I cover 2 sectors for the firm, alternative energy, but today, I'm here with my IT hardware hat on and welcome Mark Mondello, the CEO of Jabil, which is an overweight rated stock. Its market cap's $4.7 billion. Mark, welcome to the 46th JPMorgan TMC Conference.

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

Thank you.

QUESTIONS AND ANSWERS

Paul Coster *- JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

It's good to have you here. Can you, for the uninitiated, provide an overview of Jabil?

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

Sure. So Jabil is probably the largest U.S. domiciled manufacturing company. We're pacing at about $22 billion in revenue. We've got an employee headcount of around 180,000 employees, about 45 million square feet of manufacturing space all around the world, so we're kind of a little bit of everywhere as we say. And when we talk about the fact that we build just about everything, Paul, we really do. We serve 12 or 13 different end markets. Every single day, we ship $70 million, $75 million of hardware out of the company, and no 2 days are the same, so great diversification and along with kind of a mantra, we build stuff. We also do a significant amount of design work and then also supply chain management, distribution of the products as well.

Paul Coster *- JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

All right. So people will sort of categorize you automatically as part of the sort of contract manufacturing and EMS space. Why are they wrong?

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

Well, I think, in some ways, they're right. If you look at some of our business today, it's what you'd kind of categorize, Paul, as legacy EMS. So some of our infrastructure business, some of our enterprise business is what we think of as kind of old-school EMS. And I think when I travel around EMS, that older business might have a little bit of a negative connotation to it, but we love that business. It's great business. It's how the company grew up. We grew up in that space in automotive and networking and through the PC era, network and telecom. So that's $4 billion, $5 billion, $6 billion of our business today, and it's very, very good business. But over the years, what we've thought about is, is how do we expand what we do. And our philosophy is one of let's look at markets and figure out can we provide value. If we can't provide value, let's not play there. I was just in a breakfast meeting this morning talking about, I think, where so many companies get themselves in trouble is they get too far away from what they're really good at. And so we give a lot of thought to what we're good at, which is, again, the manufacturing, the engineering, the innovation, the technology and the supply chain. And if you think about how big the world is today, there's less and less companies out there that want to build stuff because it's hard. The barrier to entry to what we do is really, really high. And so we've been very fortunate in the last 10 years to expand and have engineering services, engineering capabilities and then manufacturing, again, across a huge portfolio that's very well diversified.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

And if we compare you to your peers in the EMS space in apostrophes, how are you different?

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

Well, I think we compete with some of the smaller folks. But day in and day out, Flextronics is probably our biggest competitor, and I have a ton of respect for Mike and his team. How we think we're different though is just we invest in some different areas than some of our competitors, areas like we're heavy in material sciences, additive in 3D print, robotics, automation, smart factory. One of the things that we talk about a lot, Paul, as a leadership team is if we're going to be leading, if we're going to be fortunate enough to steward 45 million square feet of manufacturing space, we better be really good at running factories. So smart factories, when we think about where artificial intelligence is going, when we think about robotics, when we think about automation, I think we've got a leg up there. So I'm really proud of the factories. And then I think the word digital maybe even at a conference like this is overused at times, but what we mean when we talk about digital is having connectivity of our factories. So another thing that we find inside of our own company, which I think is a bit differentiated is, with all of our factory sites, call it, 70, 75, 80 sites that comprise the 40-plus million square feet, they're all connected on a single ERP system. So in terms of being agile, in terms of being flexible, in terms of being able to move inventory around and satisfy customers in different geos, that's a huge differentiator as well.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

I mean, you are, to some extent, an expression of these new technologies, the IoT, digital manufacturing, 3D printing, whatever, technologies that are being brought into the manufacturing scene. Is that kind of really an important part? Or is it just sort of peripheral to what you're doing?

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

I think it's huge. One of the advantages we have as a company is we -- our customer count is, I don't know, 330, 340 customers so fairly concentrated relative to maybe some B2C businesses but yet broad enough where, every single day, we could kind of step back, and we see the product road maps and the technologies used by all these great brands in the world. And whether it's in the automotive transport space or the health care space or cloud computing or networking or consumer packaging, mobility or IoT or in-home or whatever it might be, Paul, we get to sit back, look at those road maps, and then we get to kind of sew together how all these different technologies overlap and connect on different products. And so when we look forward, we're pretty bullish on some disruptive activities going on. We see a lot of disruption going on in health care today. That's really good for our health care business. We see a lot of change going on in the automotive space, so you see what's going on with companies like a Tesla and others. You read all of the articles on autonomous driving, smart vehicles. That, again, leans right into our sweet spot. And when we think about how the home is interconnected and then another big one that's coming down the road rapidly or not so rapidly will be the deployment of the 5G network. And you take -- if you think about the power of what's going to happen, we've been involved with 2G going to 3G to LTE to 4G, but I think the 5G network will be quite transformational. I think about our activities there, and then you combine that with the change going on with cloud computing and then edge computing. So you take a wireless infrastructure like 5G and the speed. You take -- combine that with what's going on with cloud data, cloud storage, code computing and the intelligence there, and then everything that's being connected has massive computing power. So I -- you take that, and you sprinkle that across 12, 13 different end markets, there's lots for us to do.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Right. A little bit more pedestrian for a moment, but your business splits into 2 segments at the moment: EMS, which is 54%; and DMS, the diversified manufacturing, which is the rest. They have -- at your Analyst Day, which was 2 years ago now possibly.

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

That's right. It was in fall of '16.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

You were calling for a 5% growth in DMS, 3% in EMS. You seem to be crushing those numbers as we speak. But talk to us about why at least you see different growth rates for those segments.

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

Well, crushing the numbers is a good thing, I guess, in the short term, but we don't -- I don't get too caught up in it. I think we're just -- we're really fortunate to be in a really sweet spot of time for the company today. I think -- I don't remember the exact numbers, Paul, but I think our DMS growth rate year-on-year this year will be 13%, 14%. Our EMS growth rate, we thought at the beginning of the year would be 3.5%, 4%, 4.5%. It's more like 8%. So yes, I guess, those are good numbers, and it's a good problem to have. I think that's partly because of what I was describing in terms of opportunities driven by technology. But the other thing we're finding is, is with our execution, with the trust our customers have in us, we're picking up a decent amount of market share as well. So again, good times at the moment but we just continue to keep our head down and work hard.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Why the difference between the growth rates regardless of whether it's 3% to 5% or 8% to 12% (inaudible)?

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

If I reflect back to what Forbes and I talked about at the analyst meeting you're referring to, it was really about a static point in time where we sat back and said, okay, let's take a look at what we think will happen in the next 3, 4 years. And it was really about shaking all that up and coming up with the growth rate. So it wasn't a forced number in either way. But what we thought of is, is we thought that with our DMS business, and those are capturing markets like health care, packaging, mobility, some of the edge devices, we just felt like both picking up share of wallet. And then the disruption that could occur in those different markets, we felt like the growth rate of that part of our business would be a little bit healthier than, say, our EMS business.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

The operating margins, similar 3%, 3.3%, 3.4%. Is there a reason why they might diverge over time? And where are they headed anyway? I mean, we are hoping that given all of this expertise that you're bringing in future generation manufacturing techniques that we're going to see some margin expansion.

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

Yes, you and I both. So I think thinking about running the company at $22 billion, $24 billion, $26 billion op margins around the 4% range I think makes sense. I think the charm in our business and financially, margins aside, which are important, is the ROIC. You think about either our weighted average cost of capital or the rate at which we borrow money. We're very, very disciplined in terms of how we manage our working capital and then our fixed assets. So it's a good ROIC business. In terms of where I see margins going, I think, over time, I think the -- as we describe it today, Paul, the margins on the DMS side will be greater than the margins on the EMS side, but we'll see. The leadership we've had on the EMS side of the business has done an unbelievable job in the last 3, 3.5, 4 years, where they've expanded their margins from -- were 2%, 2.2% this year bumping up against the high 3s or 4%. So kudos to them. And then our DMS team is working really hard, too, on margin expansion. So -- but if I were to think about the next 3 to 5 years, I think our DMS margins would be a bit healthier than our EMS margins.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

I think most of the clients I talk to are very respectful of the way the industry is actually managing itself at the moment in terms of ROIC and capital allocation and so on. There's no mad rush of M&A. In fact, I think that's kind of stalled, which is a good thing. But they're really focused on the margin expansion, and you're a very high throughput business, a small expansion in the margin and it has a tremendous impact on everything, really. So what are you doing as a company to try and manage those margins north?

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

Yes. I kind of one on -- I think we do a really nice job on capital management and capital allocation. You mentioned M&A. We've slowed down M&A a lot just because, at this point, our point of view is there's a lot of things we'd like to go acquire that make good financial sense at the moment. In terms of coming back to the margin discussion, I think that the more engineering intensive, the more that we're involved in the designs, the more that we're involved in the core innovation and technology of products, the better the margins are for us. In addition, I think that there are some product lines where the product life cycles are a little bit longer. The volatility of the volumes are -- the beta's not so high. And so again, we've got to focus on some of that business as well. But those type of businesses and products tend to carry a little healthier margin for us.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

So I guess, what I'm trying to get to is are you picking off industry verticals in DMS, where you think the margins are systematically higher for you. Are you -- one of the things we're seeing with many of your peers, I think with you as well, is trying to get much closer to the client as well in terms of the innovation cycle, the actual prototyping phase upfront. Is that also true for Jabil?

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

I think us being closer to the end market and the end consumer through the brands we serve is always great because we kind of get a first row seat of the use of the products, how the product's consumed. So that's always a good thing. Again, I don't think we make a super concerted effort to go and just obsess around areas where margins might be a little richer. We're very, very disciplined on the ROIC. And here's why I think that's healthy for us. When you get to a point of view where you're as big and broad and global as Jabil is, you get to see a lot of things. And what we're seeing in the last 3 years and what we think we'll see even more so in the next 3 to 5 years, Paul, is the rate of change is unlike we've ever seen before in terms of markets, disruptions, technologies. And what we've concluded as a management team is I don't think we're smart enough to make all the right bets on where everything is going to go, and there's such a great chance now for new technologies to come in and be overly disruptive. And so one big thesis for our strategy is continuing to be more and more diversified and not so diversified that we get away from what we're good at, which is building stuff and supply chain management and technology, but it's really about, for us, if we can do lots of different things, then we're not -- we don't expose our shareholders to any one market, any one product risk and things like that. So I think, for us, diversification is a big deal. It's why we want to build so many different things. The other part of that is that adds complexity to the business. And on one hand, that can be challenging. On the other hand, I think that's really good because complexity for me tends to increase barrier to entry even more so.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

I think, the audience and I appreciate the fact you're circumspect about the growth rate, but maybe we're in an elevated economic kind of environment at the moment. That said, can you just give us your sense of where we are in the business cycle and what you've seen so far of the tax reform and its subsequent repercussion through your customer base?

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

So I'll take the tax reform first. We haven't seen much impact from tax reform. Certainly -- and my CFO's in the audience. And the one nice thing about the tax reform is it gives us a bit more flexibility in terms of liquidity and capital. So that'll be good for us. In terms of running the business today, we haven't seen any Big Bang types of things around tax. There's been a lot of discussion around potential protectionism in tariffs. I'm not a big believer that protectionism works really well, and we'll see how that all settles out in D.C. If protectionism in tariffs end up maybe becoming greater, if you will, we're really well positioned because we know how to navigate North America and the U.S. very well. And again, I mentioned earlier, we're U.S. domiciled. So in terms of the kind of the more macro, Paul, and what we're seeing in the business environment, things feel pretty good right now. And I don't know how sustainable that is, but we'll take it why we see it. But overall, I'd say 8 out of our 10 or 12 different end markets are feeling pretty good at the moment in terms of economics.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

I'm fairly new to the stock, so forgive me for a couple of naive questions there. But you do a lot of business with Apple, and it's through the Green Point entity, which is part of your DMS business. Can you explain what it is -- what is it that Green Point does? I think it's -- that would be helpful. And then what is it that you do for that customer to extent you're able to share with us there?

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

Yes. So I'll speak pretty freely about what we do in Green Point because we serve multiple customers. I won't speak at all about Apple just because out of respect to Apple and their management and our partnership. Our Green Point business is fantastic. It's got some of the best material sciences, I think, in the world, whether it's things around metals, assembly of different metals, characteristics of metals when they're put together. So the material science side of that business is wonderful, and we leverage that across the entire company. The intricacy of assembly, so fine, fine assembly at high volumes, we do a lot of that. In terms of machining, so fine machining, intricate machining of all different types of metals, we've got a leg up there in terms of not only the machining itself but then taking all the different metals, all the material sciences, all the different automated intricate assemblies and then weaving that all into some wonderful products. So that's what our Green Point business is up to.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

And just a little bit on the history of Green Point. It was an acquisition, right?

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

It was an acquisition back about 10 years ago.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

All right. One thing, which you mentioned in a recent conference call, and I think this isn't common -- this is not unique to you, but even though smartphone industry is mature, there's dramatic swings in business volumes for the supply chain, yourself included. We get a sense though that you and others are starting to come to terms with this and make it a little bit more predictable. How is that?

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

Well, speaking about the mobility market in general, yes, it comes with a high beta. We've been in it a long time, and I think we do a reasonably good job of managing the fixed assets and the volatility of that business is good as anyone. But by nature, it comes with short product life cycles. You need lots of agility. You need to be able to react quickly, and I think we do that quite well.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Is there something changing though? Because I think it was called out in the last conference call that you felt that you're able to better manage the fixed asset, the utilization rate moving forward.

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

Yes. I think what I said in the -- I think it was back in the March call, Paul. I talked about the fact that there's the product composition across some of our product lines in that area. The material content is going up. So there's more and more technology in certain products. And what I was talking about is, on a product-by-product basis, our product-by-product margins might contract a bit because the material content of what we're assembling is quite high, and all that material content goes through our revenue line. But because of the greater and greater diversification we're having across all Green Point, when I step back and look at it on a more annualized basis, our fixed asset utilization will be greater. So I think it's -- even though on some product-by-product basis, which is coming with the diversification, we might see a product-by-product margin contraction. Overall, if I look at it on an annual basis, running up the business, the asset utilizations will be higher, and it'll be, overall, a better business for our shareholders.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Last couple of quarters, there's been -- one of the narratives that's coming through is that you're onboarding new business. Can you just give us some sense of is it new logos? And is it -- what kind of business it? And is it material?

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

So we've got a -- getting back to your question on how the economy looks. We got a pretty robust pipeline right now and touch wood, hopefully, it stays. I think what I said or Forbes said in the March call was we had 2 material wins that are opportunities both with new logos or new brands. One was in the area of consumer goods, and I think one, I mentioned, was in the area of virtual and augmented reality. I -- if things hold, I think both of those opportunities will be fairly significant in the next 12, 18 months.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

And what happens to your margins during the onboarding process? Are they weighed down for a period? Or...

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

Yes, they're -- anytime we're ramping new relationships, the margins around those relationships are weighed down.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Are they so material, these ones, that they're actually going to weigh on the overall result on that period?

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

At a corporate level, not so much. At a DMS level, could be 10, 20 basis points, something like that but not super material. And they're certainly temporary.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Just want to go back to some of the big themes for a moment. You talked earlier on about -- also, so I think we will get much more electronic content per vehicle and electric vehicles themselves of course. And 5G, I think, we will get and smart home and connected devices. Health care, though, is a little opaque for me anyway. Can you just describe what's happening there? And the growth rate there, you're looking for 20% CAGR within that [segment].

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

So what we've said and what we've been delivering to, Paul, is from roughly, call it, fiscal year '16 through fiscal year '19 and just for the audience, our fiscal year runs September 1 through August. So we're coming up on our 4Q already, which is hard to believe, so we'll start our fiscal year '19 September 1. What I said on the last maybe 1.5, 2 years, Forbes and I have been talking about our health care and packaging business combined are going to grow at roughly 20% from fiscal '19 -- or, excuse me, fiscal '16 to fiscal '19. And I think a big part of that is twofold. On the health care side, the industry itself is going through a number of disruptions, and those disruptions are good for us. Number two is there's different technologies coming into the health care market. That's good for us as well. So our health care packaging business look quite good.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Packaging, I was actually on the road with Hewlett-Packard Inc. -- HP Inc. rather a couple of months ago, and they were commenting upon your innovative use of textile printing technologies and so on. They're very favorably disposed towards Jabil. What is that you do though? I mean, this is counterintuitive to me, but I understand that some of the stuff I see in the supermarket on the shelves is actually made using Jabil. So explain.

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

Yes, it is. I think, on the surface, maybe it's a big counterintuitive, so that's another market that we think is going to go through some level of disruption, Paul. When you think about, historically, we would go to the store and we would consume most of our groceries and a lot of our goods by driving our vehicles, going to a retail center, going to a grocery store, shopping, putting it in a bag, driving it home and then step and repeat every week, every month, whatever it may take. I think, going forward, a lot of those goods will end up being delivered, whether it's through an Amazon or another delivery service. So that transformation, Paul, is transforming the needs of the consumer packaging industry. One example would be if a vast majority of certain commodities and/or products are going to be now transported to the home and they're transported to the home in -- different than when they arrived to the store. So the makeup of the cases that show up on your doorstep, maybe it's more of a product of 1 or 2 versus 30 or 40 on a pallet. There's different challenges in how that gets shipped, and there's different challenges with liquids leaking. There's challenges with, if that product goes through a couple of thermal cycles in the winter, the expansion and contraction of the different polymers and materials. The other thing that my kids who are in their 20s and the millennial generation kind of demand is better sensitivity around our environment. And so another transformation going on in the packaging world today is eco-friendly packaging so that everything doesn't end up in the bottom of the ocean. And so take those things, which lean right into our material science. Add to it the ability to do things like additive manufacturing in 3D print, which our friends at HP were talking about. So thanks for the nice shout out from HP. And then add to that packaging becoming more intelligent, so intelligent packaging. And that is -- leans right into our ability with miniaturization in electronics. So we kind of look at all that landscape, and we feel pretty bullish about that market as we look forward.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Right. Let's talk about the balance sheet for a moment and cash flow, your, what's it, $20 billion plus of revenue. What's free cash flow that you project?

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

Well, last year, free cash flow was quite healthy. This year, we look at cash flow from operations. So this year revenue will be -- right now projected to be right around $21 billion. Our cash flow from ops will be $1 billion plus, and then depending on what our CapEx is, we'll net out the free cash flow for the year.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

And CapEx seems to be declining a little bit year-on-year. Is that...

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

Yes. We went through -- so fiscal, I don't know, '14, '15, '16, we put up a brand-new significant campus in Asia. That consumed a good portion of our CapEx. So our CapEx was a little bit bloated fiscal '13, '14, '15, part of '16. We brought it back down in '17, and we're managing to a CapEx number this year of about $700 million.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

And you repurchased just under $100 million in shares in fiscal year '16, $300 million in fiscal year '17, somewhere in the region of $450 million in '18. How much capacity have you got left to do buybacks? And is this something we should expect as a constant of Jabil?

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

Okay. So there's a mix to your questions there. Let me start with we put a -- our capital return framework in place during our June of 2016 call, and what we said at the time was -- is based on the outlook for our cash flows, our anticipated strength of cash flows, we were going to effort to return $1 billion to shareholders from that June of '16 time frame through the end of this fiscal year, which now will be in a few months end of August. We're on track to return $1 billion just as we committed, and that's dividends and share buybacks. So we're really proud of the fact that we took a look at the strength of the business and made a call back in -- 2 years ago, and we followed through on that. In terms of having capacity to do more share buybacks beyond August, we absolutely do. In terms of any commitment to that, we'll talk more about that as we get closer to the end of the fiscal year.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Right. We have about 5 minutes left. I've got a couple more questions, but I thought I'd open to the floor at this point in time. People with more experience with Jabil than me perhaps would like to chip in. Any questions? Whilst we wait for the questions, I just would -- oh, okay.

Unidentified Analyst

Just a quick question on the Green Point business. How quickly do you think you can try to diversify it away from the smartphone cyclicality? And can you talk a little bit about -- a lot of the Asian companies have also been expanding capacity on the casing side of things. What are the competitive dynamics there given many of the supply chain companies have been struggling in terms of filling up their own casing capacity?

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

I won't talk a lot about the casing business. The -- we've been diversifying that business for some time. So it's not some type of sudden reaction. It's not some sudden action. Again, if I think about the theme I was talking to Paul about earlier, being well diversified and having well-diversified cash flows has been a thesis for our strategy for the last 4 or 5 years. And that holds true for both our DMS business, our EMS business as well as our Green Point business. So it's been something we've been up to for a number of years, and again, touch wood, we've been quite successful. The -- your comment around other Asian suppliers, I think we believe that you can put a couple of machines on a factory floor and operate a business successfully with the technology, the innovation and just the overall know-how and scale is a little bit of a misnomer. It's really hard. And I think our capabilities in Green Point, our capabilities cutting across all of DMS are quite good and feel good about the outlook the next couple of years.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Yes, sir?

Unidentified Analyst

Touched on a couple of industries where you're seeing quite a bit of disruption, and you've got your hands in a lot of different businesses. Could you maybe highlight 2 or 3 more where you see over the next 3 to 5 years just a significant amount of disruption coming out?

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

Yes. So I think I mentioned a little bit about automotive, not so much disruption but just changes in how the automotive industry will start to, I think, advance forward both under the hood and in vehicle. We talked a bit about health care. We talked about consumer packaging. Instead of maybe picking through industry by industry, I'll go back to something I said to Paul early on. I think the overall wireless infrastructure change combined with what's going on with cloud infrastructure and then the computing power of everything on the edge, I think those 3 things combined are going to be very disruptive through many different industries. And I think that'll be good for us because not only do we build those technologies, but our engineers understand them very well. And I think we've got a pretty good understanding of how so many different devices across so many different industries are going to play together. But we'll see.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

So I have one last question. You mentioned M&A. And I -- one of the things which I found intriguing on being new to this space is that, actually, most M&A doesn't make any sense at all in the EMS space because you're just going to upset your customers who sometimes seek multisourcing. You do a merger, and next thing you know, they're taking business away from you and so on. So I think that's kind of a useful disincentive. It's one of the reasons I think the industry's shown such good capital allocation discipline over the last few years, and yet, you are interested in M&As. So talk us through what kind of M&A you have in mind.

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

Yes. So we have largely been -- for the 20-plus years I've been with the company, we had almost all of our growth be organic. Even the acquisitions we've done, we do them when they're small, and then we expand them based on leveraging their capabilities, Paul. In terms of -- sitting here today in terms of rolling up the EMS industry, not at the top of our list for, one, what you talked about, but the other part is with the respect I have for some of the smaller EMS folks, we just wouldn't acquire many new capabilities. So it'd just be kind of more of the same, and the whole effort would be around cost synergies. There wouldn't be a lot of growth synergies, I don't believe. So if you -- if M&A, like you said, fails most of the time in a lot of different industries, I don't know that the original thesis, if you go back to it, trying to accomplish that. And that's if you have cost synergies and growth synergies. If you're trying to look at deals where there's not a lot of growth synergies and you're trying to do a deal and just on cost synergies, that becomes difficult. So I think our willingness to go and roll up and do EMS type of acquisitions will probably be quite low. Where we're really focused on is, again, going back to this catbird seat we have of different product road maps, these great brands that we serve. And then we do kind of a simple buy-sell analysis, Paul, the capabilities that we think we're going to need for the next 4, 5, 6, 7 years. Is it better for us to grow those from the ground up, hire new engineers and let the seedlings kind of grow? Or should we go acquire the capabilities? So what I think you'll see from us is most of our acquisitions would be around what we think are very valid technical capabilities.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Yes, yes, makes sense. With which, I'll call this particular session to a halt. Thank you very much, Mark. That was a pleasure.

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

Thanks, Paul.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Welcome. Thank you, everyone, for coming.
