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Jabil, Inc. (JBL)

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MANAGEMENT DISCUSSION SECTION

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Good afternoon, ladies and gentlemen, and thank you for joining us here for this afternoon session of day one of Citi's TMT West Conference in conjunction with the Consumer Electronics Show. For those of you in the room, my name is Jim Suva, and this is the Jabil fireside chat, ticker JBL for the equity. I want to point you to Jabil's website, where they do have several SEC documents, as well as Safe Harbor fair disclosure statements, as well as their earnings slides, which potentially may be referenced during this interactiveness.

We do note that the launch is just concluding right now, so I wouldn't be surprised if a few more people join us as they struggle in from that launch. I first of all want to introduce here on the front of the room, to your left is Adam Berry. He is in charge of Investor Relations, and he will also help out and assist as we have some business unit leaders, both Mike and Mike to your right here.

And so to begin and kick things off a little bit, since everybody knows what Adam does, since he's been very active Investor Relations, maybe I can ask both Mikes a little bit of an overview about their role of what they do at Jabil.

Michael Dastoor
Chief Financial Officer, Jabil, Inc.

So, hi. I'm Mike Dastoor. I'm the Chief Financial Officer, been with the company for about 19 years. Happy to be here.

Michael J. Loparco
Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

Good afternoon. My name is Mike Loparco and I'm responsible for Jabil's Engineered Solutions Group, which makes up about half of Jabil's EMS business. And I'm also responsible, at an enterprise level, for Jabil's global supply chain procurement and certain strategic investments and things, such as 3D print, additive manufacturing, our InControl suite of supply chain services and software, et cetera. Thank you.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

So the format of this is meant to be interactive. I'm going to start off with a handful of questions, and then I'll open it up to investors. We do ask that you please press your button and you'll notice that red light will come on similar to this here, so then those on the web conference can also hear you when you ask your question.

QUESTION AND ANSWER SECTION

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

So maybe, Mike, to kick things off with, you mentioned you're head of the ESG group. A lot of people in this room here are more finance people, and they're not overly familiar with the acronyms and what ESG exactly is. Maybe can you explain what industries and markets ESG covers and what's the vision for that segment that you oversee, Mike?

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

Sure, Jim. The Engineered Solutions Group, or ESG, is a division within Jabil that really represents a microcosm of broader Jabil. Our mission is really to lead with engineering, and we handle about 150 customers serving five major end markets. Those markets include automotive and transportation led by Chad Morley; our defense and aerospace business led by Ernie Sebak on the electronic side and Bill Frake on the machining side; energy, industrial, and building run by Scott Gebicke; print and retail led by Fred McCoy; and our smart home and appliances business led by Brent Tompkins.

The nice thing, Jim, about ESG is that we've got certain customers that have been with Jabil 10, 15, and even 20 years plus, names like John Deere, Valeo, GE, HP, Ingenico, Whirlpool, Raytheon, Schneider. But we've also got some of the most fast growing and progressive companies in these end markets, such as the Teslas of the world, or SolarEdge, an Israeli company that serves the inverter market; Aptiv, a recent spinoff from Delphi, which is really revolutionizing mobility and connectivity in the automotive space; or fantastic home automation companies, like Crestron and Vivint. So very broad portfolio of customers across these very well-established end markets. And our vision in each of these five sectors is really to lead with engineering and whether that's engineering upfront with ideation that we do through our creative arm called Radius, or engineering for automation, engineering for cost, architecting and engineering new supply chains. So, Jim, the vision for ESG is really about leading with engineering and that couples nicely into Jabil's aspiration to be the world's most technologically advanced manufacturing solutions company.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Mike, as a follow-up, the Consumer Electronic Show is typically in the past about wearable smartphones and gadgets people have. So, why is Jabil having a presence here? What are you here to kind of highlight to investors? Because most people think about the Consumer Electronic Show as very, very consumer on the shelf of an electronics retailer, but it seems like you're coming at this at a little bit different angle. And I believe you have a booth or a suite that later on we'll look at, that may be a little bit unique to what the traditional CES has been all about.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

Yes. We've got an automotive booth here over in the Venetian, which I will invite investors and analysts to come visit, and you'll see how we invest in technology, Jim, be it in the consumer space or the automotive space or other end markets that we serve, and we leverage those capability and technology investments. One example would be in the space of optics, and we've done, historically, acquisitions in the optic space that first really served our handphoned industry. We've taken those learnings. We've taken and demonstrated the ability to miniaturize optics and camera modules and introduced them into things such as the automotive environment or even the consumer technology space. Connectivity would be another example that crosses the multiple end markets we serve. So that while we're here at the CES Show, it's really about demonstrating Jabil's aptitudes in different technologies and capabilities that span the diverse end markets that we serve.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

Switching over to Mike, CFO, you mentioned, I believe, you've been at Jabil for about 19 years. I've been at Citi for about 16 years, so you beat me on that front. 19 years is a long time. Can you give us some perspective about how the business is different today or maybe it's the same from the past?

Michael Dastoor

Chief Financial Officer, Jabil, Inc.

A

So, yeah. We've broken our business out into two segments, the DMS and the EMS side. Traditionally, our EMS business, which is where I grew up in the company, 19 years ago we only had EMS and that was our Electronics Manufacturing Services. It was a build-to-print type of business, where customers would come in and ask us to build PCBAs. It was mainly PCBAs at that time. What we've done over the last few years is offer a solution which is end-to-end. So, what do I mean by end-to-end solutions? It's NPI, it's prototyping, it's design, it's advanced logistics. It's, obviously, manufacturing on a global footprint. We're in about 100 sites in 30 countries, and BTO, CTO, configure-to-order, all of those.

So it's a complete end-to-end solution that Jabil provides, and we're no longer just an electronics manufacturing company. We're a manufacturing end-to-end solutions provider. And that's why our vision statement has changed a bit as well. It's a whole bunch of services that we're providing. That was on the EMS side. On the DMS side, it's more diversified. We're talking about more – it's different, completely different from a PCBA perspective. It's more in metals. It's more enclosures. It's medical. It's other pieces like packaging, et cetera. So, the two businesses have grown really well over the last few years.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

My last question, and then we'll open it up to investors in the room is politically there's been a lot of talk about tariffs. And if I were a customer of Jabil, I would probably be looking at how the EMS industry or Jabil can help me with these different tariffs. Are you having discussions with your customers? How are the tariffs impacting your relationships with them? And remind us again of your global footprint, which, I believe, is one of the highest global footprints around the world.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

Sure. Jim, our customers are absolutely asking for solutions and analysis and modeling during these times of uncertainty. And if you think about Jabil being really the only U.S.-based public company at scale that can handle global operations in this manner. We've got a global footprint that spans 30 countries on 4 continents. 29 of those

countries, of course, aren't China. But we've got a single instance of SAP that seamlessly ties together our factories and allows us to very efficiently and effectively move inventory as needed.

On top of that, our plants are run on one Jabil operating system. So, again, we can move operations. We can move people very efficiently and effectively. And behind all that, Jim, is we've got our InControl suite of supply chain service tools and analytics, where we model and help customers do contingency planning. So the irony is that with all the uncertainty from these trade wars, I suspect at some point we'll reach a harmony. But it's been quite a benefit to Jabil as we look at the optionality we're able to provide the customers.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

What I'd like to do is turn the time over to investors. If you have a question, please press the button and your light will light up to ask the question. Again, we have Mike, the head of ESG, as well as the Chief Financial Officer here, as well as head of Investor Relations. Any questions from those in the room, as well as you feel free to e-mail me if you're on the webcast. There's a question. Please press the button, so people can hear you.

Q

A quick follow-up on the tariffs impact. So customers are asking for it are moving production outside of China. What's the cost impact and then what's your reaction? Can you pass along those costs to your end customer? Thanks.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

Sure. Customers are certainly asking for us to model and plan in contingencies. We have not yet seen mass migrations out of China. I think customers are appropriately planning. And when they look at next-generation products, I think they're hedging bets and looking at alternative manufacturing sites, whether it be in sites like Penang, Malaysia or Ho Chi Minh City, Vietnam. But with the financial impact, I think there could certainly be some small margin compression associated with those particular programs that move.

But financing the transfer is typically not something that Jabil undertakes. We're relatively neutral and agnostic to this. We run our businesses through a single point of contact and each of those business leaders is agnostic to any particular region. So, it's kind of a clean model for our customers. We've got the footprint, the capacity, and ability to execute. But we have not seen mass migrations to-date to answer your question.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Mike. Any additional questions in the room? Mike, when we think about ESG and what you're doing, say, in automotives, can you help investors understand what exactly are you doing? Are you doing like dashboards or a whole car assembly, or what are you doing exactly in automobiles? Because most people think about a car as you start on one end of the line with steel and out it rolls with four tires and everything put together.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

Jim, so we started in the automotive industry really 50 years ago doing electronics. I think our first customer was ACDelco. And since that time, we've come up the learning curve doing simple electronics to PCBA to electronic

assembly, subassemblies. And today when you look at our offering, it's really a good story. Not only do we have automotive manufacturing in our DNA, such that if you look at our factories around the world, we employ things such as visual management and we deploy traceability capabilities into our factories.

We've got the ability to do advanced quality planning and [ph] P pass (00:13:02). So very well suited to serve the automotive industry. And with the changes that have taken place with the onset of connectivity and the entire interior experience and the cabin changing, the human/machine interface that the next-generation of automotive consumers requires, and the electrification of vehicles, Jabil's able to take investments we've made in different capabilities in different parts of our business, for example, power conversion that has served our energy and industrial business, and we're able to now answer problems that are facing the automotive industry.

We're able to serve as a partner not just to Tier 1s, as we have traditionally done, but now directly with OEMs. Tesla being the first real OEM we have engaged with seven or eight years ago, obviously, a pioneer in electrification, and that's dovetailed into other opportunities, but in very particular and intentional areas of investment, where we think, Jim, that we've got a competitive advantage, a technology advantage, and can provide real value, be it to a Tier 1 or the OEM directly.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Mike. Additional questions from the room? I've got a couple on e-mail, but I want to give people live here a chance to ask a question first. The big question is talk about the elephant in the room or not in the room, and that is Apple. So, I don't know, publicly I believe you don't want to talk about specific customers, but I believe legally under SEC rules you have to disclose your largest customer that is above 10%, which is Apple, and I think is around 28%. So, I don't know if, Mike, CFO, or Adam want to address that, just talk about Apple.

Michael Dastoor

Chief Financial Officer, Jabil, Inc.

A

Talk about Apple. Okay.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Well, I think also relevant to last [indiscernible] (00:14:55).

Michael Dastoor

Chief Financial Officer, Jabil, Inc.

A

That's a really nice company. Yeah, great products, built by great manufacturing, of course. So, I can't talk specifically about Apple, but what I will talk about is our diversification strategy. I think you're right that our largest customer is Apple. That is printed in our Ks, and everyone is aware of that. What have we been trying to do in terms of diversification over the last few years? We're aware of the concentration of – we're trying to target specific areas of growth, areas where margins are higher, cash flows are higher, the long product lifecycles, the volatility is low. And overall, it's more sticky business for a much, much longer period.

So what are the pieces that we're going to have to sell? It's almost like a triple strategy on diversification. One is diversification within our largest customer. I think if you go back a few years, casings was almost all of our business with the largest customer. Today it's less than one-third of our business with the largest customer. Overall, casings accounts for less than 8% of our total revenue. I think that's one of the key areas that I would like to highlight. I think people when they think of Jabil and the largest customer, they go straight to iPhone casings.

Yes, we do iPhone casings, but it's nowhere near materiality or the level and volume that – the impact that it used to have on Jabil.

If you actually go into the largest customer store, I can say with certainty that Jabil makes a component or a part on almost each and every product. Just think about that for a minute, each and every product. That's a big statement to make. That's a big change for us. It shows how good our relationship is, how good the partnership is with our largest customer. So number one was diversification within our largest customer.

Second is diversification outside of our largest customer in DMS. What do I mean by that? It's medical, packaging. It's other pieces like lifestyle, edge devices. These are all non-large customer products. What is exciting about medical? Medical lifecycles are extremely long. One of the things we just talked about, I think, in September, and we reiterated on the last call, is our strategic collaboration with Johnson & Johnson Medical Devices. Largest medical device company in the world trusts us to take on a whole bunch of medical products. The contract as well double digits. The income stream is sustainable. It's predictable. It's regulated by the FDA. It is a product that is being made today. It's not a concept. The product exists today. The manufacturing exists today.

So, all in all, the J&J collaboration is a game-changer for us. In FY 2019, we expect revenues to be about \$150 million. In FY 2020, we expect that to go up to the [ph] \$800 billion (18:56) level. And FY 2021, it's closer to the \$1.3 billion, \$1.5 billion number. So that's an annualized run rate going forward. Margins are decent at 5% to 6%. So overall, medical, big, big potential.

Packaging is another one, albeit from a smaller base. We talk about injection molding, rigid packaging, in-mold labeling. It's barrier technology. I think that's a big one going forward. Most packaging needs to be environmentally friendly. There's very few people who can do that, and Jabil is one of them. The other piece on packaging is embedding electronics. We're uniquely positioned. We feel we're the only company in the world that can actually do that. We have a robust packaging operation, and we do electronics. When we combine the two and put electronics in packaging for order replenishment, once the – let's say, it's a detergent and goes to a particular level, the sensor will reorder automatically. So it's things like that where I think that's the future of packaging. Retail stores, when you walk in, your app's going to be able to talk to the packaging as well. So overall great, great potential in packaging as well. So this was number two, diversification in DMS outside of the large customer.

The third one is diversification in EMS. We've got a whole bunch of diversification outside. In EMS, I think cloud is particularly exciting for us. 5G wireless, that's something that's coming. Automotive, Mike talked about, some of these things we can do for automotive is about electrification. It's not about the old traditional automotive market. It's about the new automotive, which is almost like a consumer product. It's got millions of codes in it. When you sit in a car like Tesla, you feel like you have an iPad in front of you, et cetera. So it's all right up our alley.

So overall, I feel really good that, yes, we have some level of concentration with that large customer and we're very proud of that actually. And I think what we've done over time is to increase other parts of our business to reduce some of that concentration. So going forward, when the medical numbers start coming through, some of the other pieces that we're working on cloud, 5G, all of that starts coming through, that number will start shrinking, not because we're shrinking business with the largest customer. It's mainly because we're building the rest – or growing the rest of the business.

Jim Suva
Analyst, Citigroup Global Markets, Inc.



Additional questions from anyone in the room? Mike, you mentioned the Johnson & Johnson medical relationship. Can you, maybe without the details of the contract, compare and contrast that to, say, Phillips or in the past the EM industry has made decisions to buy assets or plants that maybe an OEM didn't want, which turned into a lot of restructuring and cash outflows? Is this similar? Is this different? How should we think about this?

Michael Dastoor

Chief Financial Officer, Jabil, Inc.

A

It's completely different. It's almost the opposite of a Phillips type of transaction. Phillips, it was in TVs, products that got commoditized. You're talking medical devices here. You're talking of endosurgical equipment. You're talking about knees, hips, et cetera, on ortho. These are not going away. They're not getting commoditized. Once a surgeon gets used to a particular tool for his surgery, he will use it for years to come and he wants the same product to be renewed every time.

I think the product lifecycles are well into double digits. As I mentioned before, it's FDA controlled. It's not easy to move out. Once it's in, it's there for a very, very long time. So completely different from Phillips. Phillips, like I said, was commoditized and we went through the pains there. Here where I think we have adequate coverage from a restructuring standpoint, one we're not taking over any buildings or we're not buying any buildings, we're not buying any equipment. So overall, I think I feel really, really good about this collaboration.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Mike, you're in charge of the cash of the company, and I'm sure you're very – different business leaders ESG versus DMS are asking for money to invest. You have shareholders out here in this room who – some like the dividend. You actually do have a dividend. A lot of the other EMS companies don't. You also have a stock buyback. How should we think about your prioritization and maybe quantify what the needs are for CapEx and how people can think about your cash flow constraints?

Michael Dastoor

Chief Financial Officer, Jabil, Inc.

A

So our capital allocation policy has been quite consistent. One of the things we, obviously, try to do first and foremost is to invest back into the business. That's something I feel has to be done. I think the question is at what level and what amount. Obviously, we have maintenance CapEx on an annualized basis. Don't forget, we're in 100 sites in 30 countries. That does require a little bit of maintenance CapEx to go through. So CapEx or investing back into the business is probably number one. Share buybacks, number two. Probably, dividend is number three. We look at other pieces where does it make sense to deleverage once we start generating free cash flows which are acceptable to us. We'll start looking at that as well.

Don't forget, we've grown \$6 billion in the last two years. That's \$3 billion in 2018 and we're talking of \$3 billion in 2019. That has put some pressure on our cash flows, because we're funding some of the working capital. We're funding some of the CapEx. We're going through some of that ramp process, et cetera. Once this growth attenuates, the cash flows will start coming in. That's going to open up completely. Our operating margins are going to get much, much better. So overall, the capital allocation and the policy that I described, we'd probably consistently apply that.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

And with the Johnson & Johnson relationship, you mentioned you're not buying buildings and equipment. Does that mean that you put your employees in their buildings to help operate it? Does that mean that you need to – we should model in some CapEx in the future years out for some new medical equipment that typically you don't currently have in your assembly lines?

Michael Dastoor

Chief Financial Officer, Jabil, Inc.

A

I think there will be some level of CapEx every year. I think we have the base. So we'll have the base for that \$1.5 billion of revenue. That capital equipment will already be in the factories. Going forward, there will be about \$50 million to \$100 million of maintenance CapEx, maybe for some growth in there as well. But overall, I don't expect it to be more than \$100 million at this stage. And that's factored into – by the way, that is factored into our guidance of \$800 million for FY 2019.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

I got a question e-mailed in for Mike, head of ESG. I think it was Mike earlier who made the comment about 3D printing. The investor on the webcast wanted to ask, 3D printing, is that something you're using in your assembly plants today or are you building 3D printers for the 3D print companies? They weren't sure about that comment on 3D printing.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

It's both, Jim. So if you look at our relationship with 3D printing, additive manufacturing/3D print is something we've done in our factories for the last 10 or 12 years with respect to design, prototyping, fixtures, jigs, et cetera. We've really gotten heavily invested in additive and 3D printing over the past four to five years. As has been publicly mentioned, Jabil was chosen as a foundational partner with HP in their Multi Jet Fusion go-to-market strategies. But we've really got three swim lanes when it comes to 3D printing.

One is more of a traditional EMS type of business, where we are engaged with 3D print companies in building complex 3D print machines in both the polymers and the metal space. Two, we've got a parts business, where we are actually providing parts today to customers, and we're doing this really in targeted markets that we think are most receptive and can benefit most from 3D printing. Those would often be highly regulated markets like automotive, like aerospace and defense, like healthcare. And then third, really leveraging a lot of capabilities that we developed in Jabil Green Point and our materials sciences capabilities. We've got a processes business, in which we are actually developing polymers and materials that can be put into the stream of commerce in the 3D and additive space.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

So really using it in the manufacturing, as well as you're actually building the 3D printers themselves for the world leaders [ph] presumably (00:29:00)?

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

That's correct. Really three different business models that we have in additive materials.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Okay, great. Last chance or opportunity from those in the room for any questions for Jabil before then we wrap it up with a couple of questions about why they're so excited in their roles currently at Jabil. So, yes?

Q

Component shortage, is it getting better or worse or stable? And then what's your strategy for the current component environment? Thanks.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

The last 12 to 15 months have certainly been challenging with respect to the components market. Jabil's fared pretty well. If you look at the fact that we've been doing electronics for 50 years, we've got pretty good relationships, we've got very good systems. This may sound mundane, but we have consolidated procurement and purchasing out of single sites that has helped with the credibility of our demand signals into the market. And we've got some of the best commodity managers in the world.

So, we've had difficulties during the past 12 to 15 months. I don't think that they've had a materially adverse impact on our financials. And as we look out over the next 6 to 8 to 10, 12 months, supply and demand will likely start realigning. I think it's obvious we're seeing some slowdowns in certain parts of the world, whether that be in China, in certain industries. That will free up some materials. We still are seeing long lead times. Challenged components have been in areas of MLCCs or resistors, even capacitors and diodes and transistors. But we think probably mid-calendar 2019 we'll start to see more relief and more pull-through of our products through our factories.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Q

Well, as we conclude now, I'd like to first like to ask Mike, the head of ESG, what he's so excited for about working there, and then Mike, the CFO, and then round it out with Adam Berry, a separate different question about what are the top two or three questions he is asked the most of that he thinks investors can better understand to have a more accurate perception of Jabil before they leave the room this afternoon. Mike, please go ahead.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

A

Sure, Jim. I'm really most excited about three things. First, Jabil's a service company, so there's nothing more important than our people. And when I look at our teams across the world and the extended management team, I just couldn't be happier. I mean, the level of collaboration and cooperation that takes place is incredible. We've got great people. We've got a great culture that prides itself on providing people autonomy, empowering them, and then holding them accountable. And we've got great customers, great customers in really well-established end markets, where we've pivoted to those areas that are most attractive for growth.

Secondly, when I think of careers in Jabil and the war for talent, if you will, Jabil does an incredible job of recruiting, attracting, and training talent. And if you think about the opportunity that Jabil offers, really you can live around the world and have an international assignment. You can come in and have three or four different careers

at Jabil, working with different end markets and different customers, and really the world's best global brands, and Jabil encourages cross-pollination and training of our talent. So when I look at the career aspirations for the next generation of leaders, I think it's fairly promising.

And then third, the offerings, Jim, that we provide customers today. If you think historically about EMS, the legacy business was really largely build-to-print, and we've moved to build-to-spec and build-to-function, whereas today we actually have full platform offerings. I'll give you a quick example on this in the retail space. Today, Jabil has a fully developed automated retail solution and a robot. It's called Badger. You can go online. We've contracted with hundreds of stores around the country. And this automated retail robot will go into a retail environment, utilizes five different cameras, utilizes electromechanics that we've developed in our automotive space, and it will do everything from planogram compliance, to pricing integrity, to analyzing stock-outs on shelves, to doing clean sweeps through a retail environment.

The nice thing about that business, when you think about Jabil and the offering, is that not only are we fully developing the solutions, but we're owning the platform, so we're creating recurring revenue business models and we're doing data analytics. That is going to provide us predictable and stable income for years to come.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Mike. And, Mike, for you as CFO, what gets you so excited?

Michael Dastoor
Chief Financial Officer, Jabil, Inc.

A

Well, let me start by saying, when I joined the company, the company was \$3 billion in revenue. Today it's \$25 billion revenue. It was 10,000 people when I joined. There's now 225,000 people. I think we were in six or seven countries when I joined. We're now in 30 countries. We were looking at maybe a couple of end markets at that time. We now have 20 end markets that we serve. So walking around CES, for instance, is, oh, that's our customer; oh, that's our customer. We like walk around and it will feel really at home, because there's a huge bunch of our customers here at CES.

The diversification piece that I talked about, I'm extremely passionate about that. I think that's something we're trying to do for the last few years. Our Q1 result was the perfect, perfect proof point that our diversification strategy is working in spite of the weakness in mobility. There is weakness in mobility. And in semi cap equipment, we still manage to beat by a hefty margin both on revenue, income, and EPS as well.

So overall, I feel that diversification strategy is coming through, getting more and more excited about what's going on. The opportunity we have today is once we've grown this notch over the last couple years, \$6 billion in two years, as I mentioned before, we can now sit back a little bit and start looking at real value, trying to get our operating margins up and get the free cash flow moving up, and be a value company, as people expect us to be.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

And, Adam, as Investor Relations, your phone rings off the hook, lots of e-mails. What are the couple questions you get asked the most, especially maybe the challenging ones that people have a misperception that maybe they can leave this room a lot more educated about the accuracy?

Adam Berry

Vice President-Investor Relations, Jabil, Inc.

A

Sure, Jim. We're pursuing a diversification strategy. And as part of that, I often get the question, why did your largest customer as a percentage of revenue grow last year? And the simple fact of the matter is that we are focused on diversifying at the product level. And I think we've had great success there over the last couple of years. So, as Mike Dastoor mentioned previously, we're focused on not only diversifying within mobility and within our largest customer, but also across the business.

One of the most underappreciated elements of Jabil, I believe, is our balanced approach to capital allocation. Over the last couple of years, as Mike also mentioned, we've returned in excess of \$1 billion via the dividend, the share repurchases. We've also made very thoughtful investments that I think we're starting to see the proof of those investments as the growth in the business both in DMS and EMS continues to be above market. And we've made great acquisitions. They're smaller tuck-in acquisitions, bolt-on capability building acquisitions. But I think we've had a really balanced approach to capital allocation.

Jim Suva

Analyst, Citigroup Global Markets, Inc.

Ladies and gentlemen, thank you so much for joining us here. And personally I'd like to thank both Mikes and Adam for joining us here at CES. Thank you.

Michael J. Loparco

Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil, Inc.

Thanks, Jim.

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