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JBL - Q3 2020 Jabil Inc Earnings Call

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OVERVIEW:

Co. reported 3Q20 net revenues of $6.3b, GAAP operating income of $59m and core operating income of $172m. And also reported 3Q20 GAAP diluted loss per share of $0.34 and 3Q20 core diluted EPS of $0.37. Expects FY20 revenues to be $26.2b, core operating income to be $805m and core EPS to be approx. $2.60. Also expects 4Q20 total revenues to be $5.8-6.6b, core operating income to be $145-245m, GAAP diluted EPS to be $0.04-0.50 and core diluted EPS to be $0.46-0.86.

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PRESENTATION

Operator

Greetings, and welcome to the Jabil's Third Quarter of Fiscal Year 2020 Earnings Conference. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Adam Berry, Investor Relations. Thank you. You may begin.

Adam Berry - *Jabil Inc. - VP of IR*

Good morning, and welcome to Jabil's Third Quarter Fiscal 2020 Earnings Call. Joining me on today's call are Chief Executive Officer, Mark Mondello; and Chief Financial Officer, Mike Dastoor. Please note that today's call is being webcast live, and during our prepared remarks, we will be referencing slides. To follow along with the discussion and view the slides, you will need to be logged into our webcast on jabil.com.

At the end of today's call, both the presentation and a replay of the call will be available on Jabil's Investor Relations website. During today's call, we will be making forward-looking statements, including, among other things, those regarding our outlook for our business and expected fourth quarter and fiscal '20 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, 2019, and other filings. 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.

With that, it's my pleasure to turn the call over to Mark Mondello.

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

Thanks, Adam. Good morning. I appreciate everyone taking time to join our call today. I'll begin by providing a brief business update before turning the call over to Mike, where he'll offer details on our Q3 performance and address our guidance for the balance of the year.

So before I get into the business at hand, I'd like to extend a warm thanks to our people here at Jabil for their hard work and commitment, especially during these trying times. I tend to think that successful and sustainable organizations are evaluated not only on their ability to deal with what they can control, but also on their ability to react and adapt to the environment, especially environments that shift suddenly and shift unexpectedly. For this, I give our team high marks. Their response to COVID-19 gives me confidence and demonstrates our resiliency.

At Jabil, we help design, develop and bring to life numerous products, products that the world depends on. In many ways, this pandemic has reinforced that Jabil itself is an essential business. If I may, I'll now take you back to our second fiscal quarter for proper context, specific to COVID. As our teams in China attempted to return from Chinese New Year in mid-February, they were faced with travel lockdowns, quarantines and the need for social distancing. Add to this, the fact that our sites in China were operating at less than 50% capacity. Given the ambiguity that was fast unfolding, we rescinded our financial outlook for the fiscal year. As we moved into the third quarter, COVID quickly spread impacting regions and countries that are home to our many factories. March quickly turned into April and April to May.

And while many of us were hunkered down following stay at home orders, transforming kitchens or bedrooms or garages into new found workspaces, our factories, by and large, continued to build and ship product. Most importantly, throughout it all, the global incident rate of confirmed COVID cases across Jabil remained remarkably low. I want to offer a special thanks to all of our frontline workers. Those of you that work so hard in keeping our people safe, while taking amazing care of our customers, directly from the factory floor. Your ability to execute and perform has been nothing short of spectacular.

And on top of it all, together, we created a COVID playbook that we use today across all sites. A playbook of protocols and best practices that we openly share with suppliers, customers, communities and competitors.

Moving on to the critical business catalyst for the quarter. We saw strong demand in health care and packaging, cloud, edge devices and mobility. In our health care sector, we joined the fight against COVID, as it was simply the right thing to do. Our teams quickly transformed manufacturing lines around the world, contributing to the production of critical products such as ventilators, specialized manifolds, 3D printed components, face shields, protected masks and test kits.

In terms of our packaging business, which serves many of the world's top consumer brands, demand was strong in areas like cleaners and disinfectants, touchless dispensers, antibacterial products and eat-at-home food products.

At the same time, Internet usage was exploding. Prompted by remote learning and video conferencing. Teams from our cloud sector, along with the teams from our mobility and edge device sectors were in full-blown customer care mode, as end users sought digital access to family, friends, business colleagues and patients. A trend likely to be part of the world's new normal.

During the quarter, these areas of strength were offset by weakness in our automotive and transport and print and retail sectors. Nonetheless, our well-diversified commercial portfolio allowed us to deliver $6.3 billion in revenue, in line with our expectation. To me, this is quite meaningful. With each passing year, the blend of our revenues become better balanced and far less dependent on any single product or product family. Quite simply, greater diversification increases the reliability of our revenue.

Having said this, and as we sit here today, the impact of COVID will cost us roughly $160 million to $170 million for fiscal year '20. Therefore, we're taking aggressive actions to reshape the organization and ready ourselves for fiscal '21. We'll reduce our workforce, and in return, lower our cost structure by roughly $50 million.

I'll now take a minute and express my appreciation for those impacted by this difficult decision, yet a decision that's correct for the business. In taking this decision, we've done our very best to ensure that everyone is treated with complete respect, care and dignity. As we make our way through the summer months, there's considerable work ahead as we prepare to host a call with investors this coming September. For lack of a better description, we look at this call as having a conversation with investors, a conversation about how Jabil management is thinking about fiscal '21 during these uncertain times.

It's important to note that throughout this macro uncertainty, we remain steadfast in prioritizing free cash flow and expanding core operating margins. In closing, you can be assured that we're navigating today's issues while being thoughtful about tomorrow's challenges.

Looking ahead, I believe our business landscape and how we choose to conduct our business may look and feel a bit different. It will possibly be more efficient. It will possibly be more optimized. I think this could have real benefits as long as we don't lose a single ounce of our customer intimacy, or customer care. Also, I believe key secular trends will remain and remain in our favor.

Lastly, plenty of stuff will still need to be built. And building stuff is exactly what we do. Thank you. I'll now hand the call over to Mike.

Michael Dastoor - *Jabil Inc. - CFO*

Thanks, Mark. Good morning, everyone. Thank you for joining us today. Before I cover our Q3 financial results, I thought it would be helpful to provide a brief update on how COVID-19 has impacted our business and the end markets we serve since we last spoke on March 13.

Following our call in March, COVID-19 quickly spread across the globe. However, as Mark indicated, for most of the quarter, our operations managed to remain largely open. Our teams worked with local authorities, and a large majority of our factories were deemed essential so that we continue to build and ship products throughout Q3. In fact, since the end of March, we have largely been operating at 95% capacity despite a handful of 1-2 week closures in areas like Malaysia, India and California.

Putting it all together at an enterprise level, demand largely held in Q3. However, the makeup of this demand varied extensively by end market and region as the COVID-19 outbreak and stay-at-home orders around the world impacted each in a unique way.

Let me walk you through what we're seeing in the different end markets today. Within mobility, the out of season launch, which began in February, is going extremely well. In tandem with this, the team has also started working on the launch for our upcoming seasonal next-gen mobility products, and this, too, is on track.

Moving to edge devices and lifestyles. As more people work and learn from home, we're seeing good demand for certain products, such as tablets, headphones and smart watches. In health care, we're experiencing strong demand in the markets, most critical in the fight against COVID-19. Ventilators and ventilators splitters, oxygen and temperature sensing equipment diagnostic systems, including analyzers and test kits, and masks ranging from protective face masks to reusable N95 mask. This trend is being offset by reduced demand for trauma and elective surgery products.

Moving to Packaging. As a reminder, our packaging business is a supplier of the world's leading consumer packaged goods companies. COVID-19 is exerting enormous pressure on our customers to ship unprecedented levels of cleaning and food products. Because of this, we're seeing increasing demand in packaging for laundry products, hard surface cleaners, touchless dispensers and antibacterial wipes.

In addition, we're also seeing good demand for food packaging, spurred on by more people dining at home.

Moving to EMS. Within automotive, our near-term results and outlook have been diminished due to lower forecasted worldwide unit sales and OEM factory closures. However, looking forward, we expect weakness in the traditional automotive markets to be partly offset by additional growth in electrification, which continues to gain overall share of this market.

In semi-cap, we're seeing solid demand driven by the ongoing recovery in this end market as infrastructure spending continues. New fab plant investments are multiyear investments. And so far, customers are marching ahead with their 2020 and 2021 road maps. In wireless and 5G, consistent with prior quarters, we continue to see growth in 5G that is being offset by 4G, as the market transitions to newer technology. In the near term, we expect 5G infrastructure rollouts to continue as network operators upgrade their services.

In cloud, our teams are seeing an increased demand for cloud infrastructure created by stay-at-home orders around the world, which is translating to higher growth. Moving to print and retail, we expect continued pressure in these end markets in the near term, driven mainly by office closures and stay-at-home orders.

Turning now to Industrial and Energy. Demand has been relatively consistent today. But moving forward, we are seeing signs of new building starts being delayed. This could have an impact on future demand.

And then finally, within the enterprise end markets, we are seeing increased demand for networking products due to work from home dynamics, offset by cautious overall enterprise spend. We anticipate this demand dynamic to continue over the next few quarters.

From a cost perspective, during Q3, we incurred approximately $60 million in direct and indirect costs associated with the COVID-19 outbreak. The makeup of these costs consisted mainly of lower factory utilization due to lockdown restrictions, supply chain inefficiencies and PP&E costs to keep our people safe.

Turning now to our Q3 financial results. The combination of our ability to largely remain open, efficiently navigates for factory shutdowns, and the diverse nature of our end markets allowed us to deliver $6.3 billion in net revenue during the quarter, in line with internal forecasts. To me, this is a meaningful and further illustration that our diversification strategy is working.

GAAP operating income was $59 million and GAAP diluted loss per share was $0.34. Core operating income during the quarter was $172 million. Net interest expense during the quarter came in better-than-expected at $49 million due to better working capital efficiency and lower interest rates.

Our core tax rate for the quarter was 53.7%. At the end of April, a non-U.S. entities tax incentive was extended by the government for an additional 10 years, which resulted in a revaluation of certain of those entities deferred tax assets.

While this resulted in a onetime charge of $21 million in Q3, moving forward, we -- this tax incentive extension will continue to benefit our effective tax rate for another 10 years.

Core diluted earnings per share were $0.37. It's worth noting that the revaluation of deferred tax assets negatively impacted our core diluted earnings per share by approximately $0.14.

Next, I'd like to call your attention to an item which impacted our GAAP results during the quarter. Over the past 3 years, we've experienced tremendous growth adding in excess of $7 billion of revenue to our results. Importantly, the growth has been intentional and targeted at end markets that offer accretive margin and cash flow profiles.

With the success in diversifying the business, we feel it is an appropriate time, especially amidst the current economic landscape, to take steps to proactively optimize our cost structure and improve operational efficiencies. Therefore, during Q3, we've taken steps to reduce our worldwide workforce.

For Q3, we incurred approximately $50 million related to this, inclusive of severance costs and extended health care benefits to those impacted. We anticipate these costs will result in a net benefit to core operating income of $40 million to $50 million in FY '21. This is in addition to the anticipated savings associated with the 2020 restructuring plan we announced last September.

Now turning to our third quarter segment results. Revenue for our DMS segment was $2.4 billion, up 13% year-over-year, while core operating income for the segment increased 27% year-over-year. This resulted in core margins expanding 30 basis points to 2.9%.

Moving to EMS. Revenue for our EMS segment was $3.9 billion, down 2% year-over-year. From an end market perspective, we saw year-over-year strength in the cloud and semi-cap space, offset by declines in automotive, print and retail. Core margins for the segment came in at 2.6%.

Turning now to our cash flows and balance sheet. As anticipated in Q3, inventory levels contracted sequentially with our days in inventory coming in at 67 days, a decline of 3 days quarter-over-quarter. Cash flows provided by operations were $487 million in Q3 and net capital expenditures totaled $143 million. As a result of the strong third quarter performance in cash flow generation, adjusted free cash flow for Q3 came in stronger-than-expected at approximately $344 million. It's worth noting, while we recorded approximately $50 million of expenses in Q3 associated with the aforementioned work force reductions, the associated cash outflow will largely be in Q4.

We exited the quarter with total debt to core EBITDA levels of approximately 1.6x and cash balances of $763 million. During Q3, we took steps to bolster our balance sheet, adding over $625 million in liquidity, bringing our available committed capacity under the global credit facilities to $3.7 billion. With this additional capacity, along with our quarter end cash balance, Jabil ended Q3 with access to more than $4.5 billion of available liquidity, which we believe provides us ample flexibility to navigate the current market environment, all while maintaining our investment-grade rating.

We repurchased approximately 800,000 shares for $21 million in Q3, bringing our total year-to-date repurchases to $190 million. Turning now to our fourth quarter guidance that includes approximately $45 million to $55 million in COVID-19 related costs.

DMS segment revenue is expected to increase 1% on a year-over-year basis to $2.5 billion, while the EMS segment revenue is expected to decrease 8% on a year-over-year basis to $3.8 billion. We expect total company revenue in the fourth quarter of fiscal 2020 to be in the range of $5.8 billion to $6.6 billion for a decrease of 5% at the midpoint of the range.

Core operating income is estimated to be in the range of $145 million to $245 million. Core diluted earnings per share is estimated to be in the range of $0.46 to $0.86. GAAP diluted earnings per share is expected to be in the range of $0.04 to $0.50.

Next, I'd like to outline our updated expectations for revenue in FY '20 by end market. Within DMS, today's revenue outlook is largely unchanged. Our diversification within DMS continues to pay dividends even in the current environment. We expect core margins for DMS to be 3.8% for the fiscal year on revenue of approximately $10.3 billion.

Turning now to EMS. Within EMS, we've reduced our revenue outlook for FY '20, driven by automotive, Industrial and energy and print and retail, which has been partly offset by continued strength in cloud. We expect margins for EMS to be 2.6% on the year on revenue of approximately $15.9 billion.

Putting it all together for the year, we now anticipate revenues will be $26.2 billion and core operating income to be $805 million. This outlook translates to core earnings per share of approximately $2.60 for the year. We also expect to deliver free cash flows in the range of $400 million to $450 million for the fiscal year.

Considering this outlook, to me, it's clear that our diversification strategy continues to work and has positioned us well to navigate an incredibly challenging market environment.

In closing, I'm very proud of our Jabil team and their collective efforts over the past several months. Our early and focused efforts are working to protect the health and safety of our employees and we continue to be vigilant in increasing our efforts in this area.

I'm also very proud of the innovative ways in which Jabil's teams have collaborated to join the global fight against COVID-19. I'll now turn the call over to Adam.

Adam Berry - *Jabil Inc. - VP of IR*

Thanks, Mike. As we begin the Q&A session, I'd like to remind our call participants that per our customer agreements, we cannot address the customer's product-specific questions. We appreciate your cooperation. Operator, we are now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Ruplu Bhattacharya of Bank of America.

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

Congrats on the strong quarter and guidance. Mark, for my first question, I want to ask you about your thoughts on DMS segment seasonality. In a typical year, your November quarter or fiscal 1Q is a strong quarter for the mobility segment, given the new phone launches that happen. But if the world moves to a scenario where every year we have 2 main phone launches, maybe one in the May quarter or fiscal 3Q, then how should we think about the impact to DMS segment seasonality? And also -- you also have a health care segment that is having strong revenues. So at a high level, can you just help investors understand how you think about DMS revenue and margin seasonality?

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

Sure, Ruplu. I think what I prefer to do is get into some of that detail during our discussion in September. I mentioned on the prepared remarks, even in this crazy environment, we're going to do our best to get together with all investors in September and at least just let you know how we're thinking about everything for fiscal '21. On the surface today, I'd be careful not -- and I know you didn't mean this, but for the group, right, I'd be careful not to interchange DMS with JGP. Our DMS business, again, is got a number of components to it. I would -- if I had to think about what we may say in September is with the shape of our Green Point business, with the shape of mobility with our significant diversification inside of JGP, and then you add to it the tremendous growth we've had in the health care packaging side. I would say, overtime, that maybe some of the cyclicality you saw in the business specific to DMS 2, 3 years ago will flatten out a bit.

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

Okay. That makes sense. And then just for my last question, if you can talk about any component shortages that you're still seeing? Are you being impacted in terms of being able to ship any revenues because of component shortages?

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

I'd characterize it this way, just so you have some relativity. If, let's say, pre-COVID, let's say, the supply chain activity behavior pre-COVID, December, January time frame was at 10, I think we hit our biggest divot probably in the March, April time frame, I'd call that maybe a 5 to 6. I'd say today, we're back to an 8 or 9 and I think it stays there until we get to the backside of COVID whenever that is.

Operator

Our next question is coming from Adam Tindle of Raymond James.

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

Mark, before the pandemic, you were thinking about just under $1 billion of non-GAAP operating income. And the new guidance looks like you'd end up just under $800 million at the midpoint. Vast majority seems like it's related to COVID costs, and I wanted to dig into this. I think you mentioned $160 million to $170 million of COVID related costs expected for fiscal '20, so if you could just touch on maybe some of the nature of the cost and really how permanent these costs are? I'd imagine there's at least a portion of that that is nonrecurring and should not impact fiscal '21. So any sort of breakdown between what recurs and what is more of a permanent increase to the cost structure.

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

All right, Adam, I'll take a shot at it. If I don't get it right, come back at me. So I think pre-COVID, so let's take -- let's go all the way back to September. In September, I think we said for FY '20, we do $960 million in core op income. Then I think in the December call, we took that up to $980 million, if I remember correctly. And today, we're sitting with the model. If you take midpoint of Q4, we're about $805 million, something like that, give or take. So if I go back -- let's not go back all the way to September. I don't think that's fair because we took the numbers up in December. So if we go to the December number, call it, $980 million today, we're at $805 million. The delta is $175 million. And I think in my prepared remarks, I said that COVID related costs would be -- for the year would be $160 million to $170 million. So the gap between December and now $175 million COVID-related, call it, $160 million to $170 million. The rest of it is almost immaterial and a bunch of puts and takes in noise. In terms of the COVID expense specifically, we talked a little bit about this in March when we talked about a $53 million charge in February alone. I think the nice thing that is happening here is the March call we did, we had a $53 million charge to COVID, largely -- in partial February. So on a monthly basis, we were -- COVID was costing us $60 million, $65 million a month. Then we moved to April, May, June time frame. I think Mike alluded to it. In Q3 COVID was about $60 million, give or take. And then I think Mike in his prepared remarks, were suggesting that COVID for Q4 would be $50 million. So the nice thing is, touch wood today, trends coming down a bit. I think that has to do with the fact that we're becoming more optimized in our process and protocols, getting people in and out of factories. By the way, with our number one objective is and all of our factories keeping them safe. And then how those costs breakout, Adam, is we have direct cost, which is largely around our protocols, temperature testing, PPE around all of our factories, very consistent to our COVID playbook. Again, protocols, processes. Then we've had some disruptions in 3Q in terms of either government shutting down factories, states shutting down factories, where we've had some confirmed covid cases, we close our factories until we can get testing completed through all that. We're paying the idle labor. I think that's the right thing to do in this time and place. And then also, we're -- just the general pockets of disruption. So today, our entire factory networks running at, call it, 90%, 95%, I think revenue reflects that. But that could lead to the question of, geez, factory networks seem to be running at a normalized pace, why still the COVID cost? And the truth is 3Q, and we anticipate in 4Q, we'll still have some one-off pockets of disruption, and we've kind of tried to handicap that as best we could for the fourth quarter.

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

Okay. That's helpful. And it sounds like, generally, to summarize, kind of, on track versus your initial plan at the Analyst Day, if you were to exclude the COVID cost. And I don't want to get too far ahead. But as we think about the fiscal '21 plan that you laid out that had that $4 EPS number, if I think about what's going on today, you've got an incremental $50 million cost optimization on top of it. Seems like DMS ramp is well on track. What would be maybe the headwinds today versus that initial $4 EPS number plan?

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

Let's talk about that in September. And I say that not -- I don't want to be evasive, okay? But man, our team is a bit tired, but boy -- and I talked about it in my prepared remarks intentionally. Our front-line workers are the folks at the factories. I'm always proud of our folks. The folks we have on the factory floor today dealing with this stuff every hour, every day and what they've done and given us the ability to -- at the beginning of the year, Adam, we talked about revenue being $26 billion. In December, we took that up to like $26.5 billion, $26.7 billion. And if we're fortunate enough that the world doesn't go completely haywire in the next 60 to 75 days and we're close to the midpoint of guidance for 4Q, we'll do over $26 billion this year. I think the numbers are coming in around $26.2 billion. That's all our people at factories who are just amazing to me, especially through all this because they are exhausted. I think what we'll try to do our best is in September. And a reframed or stayed away from -- in my prepared remarks, I forget exactly what I said, but I didn't really call it a formal Investor Day because I just don't know what the world is going to look like, neither is Mike or Adam. But we felt like it's important in September to go beyond a normal earnings call and try to lay out, for you, in a very descriptive way how we see the world and we'll provide you a fairly comprehensive assumption set. Man, I think -- and I say this all the time. And I said it for the 4 or 5 year journey we've been on, the company's so diversified and our diversification in terms of our top line, it's somewhat kind of the main deal here in allowing us to hold revenue at what I think is a very, very solid level, all things considered. And again, in the most simplistic terms, and you alluded to this with the opening of your question, which is, if you -- if COVID would have never occurred, I think sitting here as a leadership team, we feel very good that we would have delivered the $980 million.

Operator

Our next question is coming from Jim Suva of Citigroup.

Jim Suva - *Citigroup Inc, Research Division - MD & Research Analyst*

Congratulations on all the agility and hard work for your teams. Maybe a bigger strategic question. As you look at the world getting back post coronavirus, are there changes for more localized manufacturing just from customers wanting to mitigate risk, meaning not be so concentrated in certain regions? And if so, I assume you probably have to talk about profitability because putting together something and St. Petersburg may have a different cost profile than putting it together in a different country and then shipping it from the lowest cost may be a little more expensive. But can you kind of talk about are you seeing that and having discussions? And does that really impact your profitability?

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

Maybe -- could you clarify for me? Sir, are you asking, are we seeing -- specifically you saying, are we seeing people -- are they moving business around? Are they moving business out of China? Or is business moving back to the U.S.? Are you asking all of those or one of the 3?

Jim Suva - *Citigroup Inc, Research Division - MD & Research Analyst*

Yes. Kind of just in general, are those discussions happening? And are they material? Or are they just kind of -- because we read about the political trade wars, then we layer on a pandemic of health care on top of it, I'm just wondering if this is facilitating less of a concentrated footprint. And Jabil has a very strong worldwide footprint. And if so, I assume that you have to have some discussions about costs, just kind of overall the topic, that's all.

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

Okay. So I'll give it my best. I think -- I don't recall, I think it was the September call where we were in this trade tariff deal that was kind of the headlines of the day and then COVID took over and trade tariffs has kind of taken a back seat, at least in terms of headlines. I believe what we said is, there would be some cost -- our budgeting, if you will, for FY '20, had suggested that the first half of '20, there was cost in there around trade tariffs as some customers were looking to hedge China. Not a lot of customers were leaving China. In fact, as we sit today, not a lot of customers have left China. We've had a number of customers that have hedged China on new products. And that's played out largely as we thought, give or take. So then COVID hits. And I would say everything's been in a little bit of a lockup in terms of conversations with customers strategically because customers are just trying to figure out which weighs out as are we. So I -- if I had to think about maybe the discussion in September, that's a little bit more strategic, I would say not a lot has changed since what we said September of 2019 at the beginning of this year. I think people will be a little bit more cautious in terms of having their product built at a single site. That could be trade tariff. That could be just because. That could be because of mother nature concerns, I don't know how much of that links to COVID. The good news in all that, Jim, is boy o boy, I'm a real believer that there's a lot of stuff that will need to be built. The few of us on the planet today that have lots of scale, have a huge advantage. I put our footprint in that for sure. Mike talked about our balance sheet and the liquidity we have in terms of continuing to invest and then just overall leveraging the supply chain. So as these dynamics ebb and flow as they change, I think we're in a reasonably good position.

Operator

Our next question is coming from Paul Coster of JP Morgan.

Paul Chung - *JP Morgan Chase & Co, Research Division - VP & IT Hardware Analyst*

This is Paul Chung on for Coster. So first, just on DMS. Can you give us a sense for the relative strength between health care, packaging and mobility. From your prepared remarks, the strength seems quite broad. But judging by your unchanged fiscal year guide for these segments, assume health care was the largest driver, which obviously makes sense. But could you please comment there and how these trends extend into 4Q? And then I have a follow-up.

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

Okay. I would -- so I think what you asked is, is kind of a breakdown to DMS strengths, weaknesses. I would say, tactically and maybe strategically, depending on how the whole new world order is post-COVID, both Mike and I spoke in our prepared remarks on, I think companies are going to do things a bit differently going forward. I've had the good fortune to talk to lots of our customers and their CEOs. And lots of conversation around, geez, are you going to travel as much? Are you going to conduct business the same? I think our new normal as a proxy is -- I don't want to give up one inkling of, as I said in my prepared remarks, care intimacy for customers. So I think that's where we'll spend our travel dollars. I think net-net, our travel dollars, on an annual basis, will come down. I think we'll use more digital tools. I bring all that up because I think when it comes to our mobility business and our edge device business and people using digital tools and working remotely for an extended period of time, I think that business will be in relatively good shape. And then health care and packaging, both with our strategic plan around health care and then with doing some PPE, I think we're getting a little bit of an extra boost there. I don't remember the exact numbers, but if you -- on the -- for lack of better word, on the chart that we provided in September, the Blue Green Chart. I think we had health care packaging for FY '19 at just a little over $3 billion. And now the health care packaging is a little over $4 billion. And I would say if things continue to go well for us, I see health care and packaging at a number greater than the $4 billion, $4.2 billion that you might see on the charts today.

Paul Chung - *JP Morgan Chase & Co, Research Division - VP & IT Hardware Analyst*

Got you. And then just a quick follow-up on healthcare, specifically about elective surgeries and other products of that nature that aren't kind of related to COVID spurred demand. How did those products do in the quarter? And do you see ramps from, maybe, pent-up demand possibly in the coming quarters?

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

Yes. I would say from our observations, so don't take this as, again, a data point for the industry. But from our vantage point, elective surgery demand was down. I don't think that's any secret. I think that -- but yet, on a net-net basis, we saw strength in health care. So what you could surmise from that is there was a strong offset to our health care business. So elective surgery demand down, both PPE and other areas of our health care were actually greater than the downtick we saw on elective surgeries on a net-net basis for 3Q. Here's what's interesting. I think an observation might be, geez, overtime, maybe the PPE starts to fall off a little bit. How does that impact health care? Again, we'll talk about that in September. But I also believe that there's going to be a significant pent-up demand for elective surgeries because a lot of these elective surgeries don't go away. Just logistically, people can't get them done in the middle of COVID. So the puts and takes on that are, if you look at our health care packaging business for fiscal '18, then you move to '19, then you move to '20, '21 and '22, I think that sector of our business is on a really good trajectory.

Operator

Our next question is coming from Steven Fox of Fox Advisers.

Steven Bryant Fox - *Fox Advisors LLC - Founder & CEO*

Just following up on some of those comments, Mark. Can you maybe step back and talk about the progress you've made during this period in improving the margins on some of the health care programs and maybe broadly as well? And then just as a follow-up, could you talk about some of the consumer packaging trends? You mentioned a pickup in that. I know you were, sort of, improving, sort of, the operations of that business going into the COVID pandemic. And so is this -- is there a longer-term adjustment we should think about with that business going forward?

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

Okay. So in terms of margins in health care, I think we talked about that in September. We talked about the addition -- the wonderful strategic addition of JJMD. We gave you guys some color around that. If you go back and look at our comments in September, I think those still hold. So we talked about a multiyear transition with JJMD, both with top line, bottom line margins. I think that is in tracking likely expected in September. And I envisioned that tracking on that same path as we move to fiscal '21 and '22. So net-net, I think that's positive.

In terms of our consumer packaging business. Brenda, who runs that for us has just a ton of experience. And although that business historically in the big picture of Jabil, hasn't been overly material. I think it will be not just thinking about top line, but bottom line I think that's a -- I think that has potential to be a margin-rich environment for us. And with Brenda and her team, the things they're looking at is the stickiness and/or how to lead with technology and engineering in a market that, in many ways, is just simplistic molding. That's not the area we're playing in. So if I think about the trajectory of that business, I'm every bit as bullish on that, if not more, than my bullishness around health care.

And then, Steve, in terms of margins in general, obviously, margins this year have been handicapped by COVID. But I think it was Adam who was asking the questions and prompting the discussion around, geez, top line is holding pretty good, again, proxy for our diversification. If you can kind of handicap for the COVID costs, I think margins this year, I think at the beginning of the year, we said that last year -- last couple of years, margins have been 3.4%, 3.5%. I think net-net of COVID this year, if you adjust, I think this year, we would have done, again, the 3.6%, 3.7% and we'll talk in September about how we're thinking about the margins for '21. And I do recognize that we have a guidepost out there of the $4 a share and 4%, but we'll address that in another couple of months.

Operator

Our next question is coming from Shannon Cross of Cross Research.

Shannon Siemsen Cross - *Cross Research LLC - Co-Founder, Principal & Analyst*

And you may want to address, I'm sure some of this in September, but I'm curious when you look at the revenue that was generated even beyond health care, because you've talked about it significantly, during the quarter from increased demand for COVID. So whether it was some of the work in land from home or some of the packaging in that. I guess what I'm trying to understand is what's -- like the underlying businesses, were there are some pockets of strength that surprised you even beyond what you saw the, I don't want to say the one timers, but obviously, there's been sort of a shift in where production has been. So I'm curious in 5G or some of the other areas, are you seeing incremental strength that's, sort of, driving the fundamentals even beyond the upside that you saw from COVID?

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

Areas I was surprised in, I would say that the uptick we had around COVID directly for health care was probably stronger than we anticipated. If we go back to the March call. Is that sustainable? I think it's going to be sustainable for a while. At some point, that runs its course, starts to fall off. But then my comment about elective surgeries and things that are pent-up, I think, fill a little bit of that divot. So maybe that was a little bit of a surprise. Our cloud business was kind of as expected. We saw good continued strength there, but that was more on the expected side. I would say the other area of surprise for us or at least speaking for me, I don't want to speak to the whole management team is, I think maybe we underestimated how broad based this digital learning, digital schools and video conferencing would be, especially when you consider COVID. You just grossly underestimate the impact of the whole world and I don't think that's going to be so temporary. So I mentioned it at one of the responses earlier. So in terms of our edge device business, things that -- anything to do with people communicating differently, I think as human beings connection is really, really important. So people are going to want to, whether it's augmented reality, Webex, Microsoft Teams, Zoom, whatever tools people are using, they're going to want to have tools that continue to advance and allow them to have a level of really good human connection. So any device that has to do with that being maybe part of the new normal, I think we saw some upside in that in 3Q. I think we'll continue to see some strength in that in the fourth quarter. And my guess is that strength will carry on through '21 and beyond.

Shannon Siemsen Cross - *Cross Research LLC - Co-Founder, Principal & Analyst*

And I was just curious on 3D Printing technology in terms of manufacturing, are you seeing more interest in that? Or was it sort of a nice to have because of the need for some of the PPE and that they generated? Because I know you've been one of the leaders in manufacturing with 3D.

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

I would never, as we sit today, never characterize 3D as a nice to have. I think 3D additive is finally that technology -- forget about COVID. I think that technology is a secular trend in certain areas, and I think we're going to be leaning hard into that, especially in areas of health care, defense and aerospace and automotive to start.

Operator

Our next question is coming from Matt Sheerin of Stifel.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

My question, Mark, regarding the $50 million in incremental cost cutting moves that you mentioned this morning. Could you talk again about, sort of, the reasoning for that? Are there certain end markets within EMS or DMS that you expect just a slower growth rate and you're adjusting? Or are there some mix issues as well?

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

It's got nothing to do with any of that. It -- so throughout my long time at Jabil, we go through different pockets in the company where growth rates change, they're up, they're down. We've went through a significant growth spurt, nearly doubling the size of the company over a fairly short period of time. I think every 4, 5 years, I think, it's important for leadership teams to really reflect on what's worked well, what hasn't worked well, what we can do better. Said differently, being adaptable and flexible to change. I think our org structure that we had in place the last 4, 5, 6 years, it served us really well. Hence, the tremendous growth. And so we actually started talking in our strategic discussions in the fall about, okay, what's next in terms of the next 3, 4 years in the company? We've done a wonderful job diversifying our top line. We've made it clear to investors that our focus -- we're going to take a little bit of a slight pause, a deep breath and focus hard on the cash flows and the margins. As such, pre-COVID, we were having lots of discussions about how to optimize the structure. How to remove any friction points in a company this size. How to be sure that everybody has access seamlessly and quickly to all of our capabilities? So this was underway through the fall and into the winter. And then COVID hit and added to our thinking around maybe taking some cost out of the business. So it's not really a reaction. I think Mike and I both said in our prepared remarks, 3Q provided us some pockets of strength. That was offset in a few pockets of weakness. This action had nothing to do with any of that. It just had to do -- it's more structural in nature. It's more permanent. I could suggest to you, these costs aren't going to come back when COVID is over and I really like how it positions the company for '21, '22 and beyond. The decision point we had to make as a leadership team is with everybody working remotely, did we think this would be a good time to go do this because things like this are not easy, and we made a decision to do it because if we can do it properly, and get to the other side of this with the new structure as COVID starts to clear up, I think it gives us a really, really nice foundation to run the company.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Great. That was very helpful. And just as my follow-up, Mike, regarding the balance sheet. It looks like your inventory days were down sequentially, which is a credible certainly taking into account the supply constraints that you and your customers saw. You're still up year-over-year. In terms of where you think that inventory is pointed directionally, do you expect to stay somewhat elevated as customers look to keep some buffer stocks? Are there still supply constraints? Or do you see that coming down over time?

Michael Dastoor - *Jabil Inc. - CFO*

So in Q2, Matt, the inventory shot up to 70 days. I think we had some issues in China. There wasn't anything being shipped out. So the 70 days was unnaturally high. We've come down to 67 this quarter. So progress, but not as much as I would have liked to see. So my target right now is, let's get to that 60 in the medium to long term. We need to be in the mid- to low or mid- to high 50s. So that's the eventual target. Will we get there right away next quarter? The answer is no. But over time, I feel good that we will get there.

Operator

Our next question is coming from Mark Delaney of Goldman Sachs.

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

First, I was hoping to better understand if Jabil was able to pass on maybe extra costs from COVID mitigation to customers on your existing projects? And are these costs related to COVID mitigation factored into the pricing discussions you're having for new business?

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

Mark, the $160 million to $170 million for the year, I spoke to is a net cost. So those conversations are going on all the time. Of our 400-plus relationships, 80%, 90% of those are highly strategic long term. And those conversations, they have endless dimensions to them. So let's just say that we've got a business to run. Our customers understand. We have a business to run. We also want to be very, very thoughtful to all of our customers because they're going through tough times as well. But be rest assured that I think those discussions, for the most part, that have taken place through the third quarter and will continue through 4Q and into '21, I would characterize as being very fair conversations.

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

Okay. That's helpful. For my second question, on the last earnings report, the company didn't have enough visibility to provide guidance and there was uncertainties at that time related to both production and customer demand. On this call, you have has already spoken at length about how the production side has improved in terms of component availability and factory utilization. I was hoping to better understand the demand side of the equation. And not so much in terms of different end markets and what you're seeing, but just the visibility that you have into customer demand and ordering and how much visibility has improved and how that may be led to your comfort in being able to provide guidance as we sit today for this call?

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

So let me try this way. The processes and the tools and the analytics we use for understanding demand haven't changed at all. And in fact, I really -- I'm glad we have the tools and the analytics we have because they're helpful when the horizon gets a bit foggy. Those tools are helpful. I would say that -- so net-net, the visibility we have is unchanged. The issue is how much our data analytics and our resources align or misalign with some customers' outlook. And I think that's where the tools are most beneficial because if there's a disconnect from what we're seeing or we believe we should be seeing versus the feeds that we're getting, the demand feeds, it's driving lots of really constructive conversations. I think that there's still going to be quite a bit of choppiness in the business through the fourth quarter and into early FY '21. I think that to have this feeling like COVID is behind us, the stock market is doing great, the world is getting back on its feet. I don't think that's the case. With that said, the reason we decided to give guidance for the fourth quarter is we've tried our best to handicap multiple scenarios. We've kind of taken an average of, say, a dozen or so different scenarios. And I think we have a degree of confidence that justifies the guidance for the fourth quarter.

Operator

Our next question is coming from Robert Muller of RBC Capital Markets.

Robert Muller - *RBC Capital Markets, Research Division - AVP & Equity Analyst*

Can you just talk a little bit about your share repurchase and capital allocation plans? Do you plan on resuming the pace that you expected pre-COVID? And if so, by what time frame? And are there any rough targets for when you'd like to exhaust your authorization?

Michael Dastoor - *Jabil Inc. - CFO*

So we do have a $600 million authorization out there. We've done about $190 million of that already. We're going to continue to be sort of thoughtful on our capital allocation, be opportunistic. I do want to balance buybacks with cash and make sure that our balance sheet is in a very strong position, which it is today. So the answer is we will be looking at it opportunistically for sure.

Operator

At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Adam Berry - *Jabil Inc. - VP of IR*

Thank you for joining us. Please reach out to us with any questions. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast at this time, and have a wonderful day.
