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JBL - Q1 2019 Jabil Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the Jabil First Quarter of Fiscal Year 2019 Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I'd now like to turn the conference over to your host, Adam Berry. Thank you. You may begin.

Adam Berry *- Jabil Inc. - Senior Director of IR*

Thank you, operator, and good afternoon, everyone. Welcome to Jabil's First Quarter of Fiscal 2019 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.

Before we begin, I would like to remind all listeners that during today's conference call, we will be making forward-looking statements, including, among other things, those regarding the anticipated outlook for our business, such as our currently expected second quarter and fiscal year 2019 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, 2018, 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. And lastly, as one final reminder, to follow along with the discussion and view the slides during our presentation, you will need to be logged into our webcast on jabil.com.

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

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

Thanks, Adam. Good afternoon. I appreciate everyone taking time to join our call today. I'll begin by offering our people all around the world a warm thanks for your hard work and never-ending dedication and commitment. I'm proud of the fact that you make safety your top priority each and every day, both within the 4 walls of our factories and across the entire Jabil enterprise. Thank you. And I wish each and every one of you a safe and peaceful holiday season.

Now let's take a look at our first quarter results. We had another excellent quarter as the team delivered core operating income of $254 million. On record revenues of $6.5 billion and core earnings per share of $0.90. This resulted in a core operating margin of 3.9% as expected. It's all wonderful news, especially when paired with our outlook for the balance of the year. During the quarter, we experienced stronger-than-expected revenue in our DMS segment. All of this in the face of softer demand in our mobility business. Our EMS segment also experienced strong revenues, driven largely by new business awards coming in harder and faster than we anticipated during the quarter. Our value proposition resonates with customers, as we continue to capture share across desired end markets. Lastly, we returned more than $200 million to shareholders during the quarter, while also accelerating investments in the areas of health care, automotive, 3D additive, cloud and 5G wireless. Overall, I'm pleased with our results and the strong start to the year. This quarter is yet another demonstration of how far we've come in reinforcing our financial stability through diversification. As is customary, Mike will provide more detail around the quarter and speak to our forward guidance during his prepared remarks.

I'd now like to talk about our priorities for the balance of the year. I've broken these down into 3 distinct areas. Areas that collectively represent the foundation for our strategy and Jabil's continued success. The first area is end market and product diversification. The second is the ramp of our new business awards. And the third is our financial performance, which includes free cash flow, margins and earnings for the year.

Next, and specific to our end-market diversification, I've outlined the construct of our revenues for fiscal '19. Today's outlook suggests better-than-expected revenue in health care and packaging, automotive, 5G wireless and cloud. All of which are clear target markets for Jabil. I believe the success we're having will result in ever improving stability of future cash flows and earnings.

As you move to Slide 7, you'll see a collation of our business sectors. Reflecting our enterprise portfolio based on the current outlook for the year. Each year gone by, the blend of our revenues become better balanced and less dependent on any single product or product family. This slide paints a terrific picture and underscores the effectiveness of the efforts being put forth by our team.

Next, I'd like to provide you an update on how our new business awards are stacking up for the year. Starting with the fact that our team remains highly confident in our ability to execute on all of these wonderful opportunities. In addition, and as I communicated during our September call, I believe these business awards, once ramped, will offer a rich blend of free cash flow and margins.

I'd now like to take a minute and update you on our collaboration with Johnson & Johnson as well as help you better understand the thesis behind our approach and solution set for the cloud computing space. So with that, I ask that you please refer to Slide 9. As I shared 90 days ago, we entered into a long-term extension of our partnership with Johnson & Johnson. Sitting here today, I'm happy to report that we're on schedule and to plan. Thanks to all involved. Jabil will support and protect the J&J brand in the areas of endosurgical, spine, trauma and instrumentation. This exciting new business award elevates our technical capabilities, further diversifies our health care business and expands our team with tremendous talent. Speaking of talent, I want to take a moment and welcome all of the wonderful people that will be joining Jabil as part of this fantastic collaboration. Their competency and expertise are fundamental to our future success in health care. Financially, we remain confident that annual revenues will approach the $1 billion range with accretion to both margins and cash flows in fiscal year '20. As for our rationale in pursuing new business in the cloud space, we've observed that the data center footprint is becoming more complex. This requires an enhanced supply chain sophistication and trusted partners that can scale in all geographies, while accommodating the need for speed around hardware configuration and product to market. Add to this, the manufacturing complexity as the technical challenges and technical possibilities are being stretched further and further. This evolution is good for Jabil. In terms of forward-looking financials in the cloud space, we believe our revenue run rate will be in the range of $250 million a quarter as we exit fiscal year '19. And with our asset-light business model, we believe free cash flow will be solid, along with margins that are well within line of our EMS segment.

In closing, I'm satisfied and spirited when I consider our total body of work. Revenues for the year are up roughly $500 million and core operating income has increased to $865 million. Both are strong endorsements for our approach with customers. And all of this, while we remain committed to delivering free cash flow in the range of $350 million for the year and maintaining a healthy core operating margin of 3.5%.

Again, confirmation of our team's ability to execute on our core business, while at the same time ramping and integrating our new business awards. At Jabil, we have the infrastructure, scale and talent to one day become the most technologically advanced manufacturing solutions company in the world and one that's sustainable for years to come.

With that, I'd like to wrap up my prepared remarks by wishing everyone on the call a safe and peaceful holiday. I'll now turn the call over to Mike.

Michael Dastoor - *Jabil Inc. - Executive VP & CFO*

Thank you, Mark, and good afternoon, everyone. Q1 was an excellent quarter in many ways. We saw good diversification and strong performances by both segments. Net revenue for the first quarter was $6.5 billion, an increase of 16% year-over-year, led by strength in both segments. GAAP operating income was $217 million and our GAAP diluted earnings per share was $0.76. Core operating income during the quarter was $254 million, an increase of 12% year-over-year, representing a core operating margin of 3.9%. Net interest expense during the quarter was $53 million ahead of expectations, driven mainly by higher levels of intra-quarter borrowing to fund opportunistic share repurchases. As a result, we repurchased nearly 8 million shares during the quarter.

As we move towards the end of the year, we expect our interest expense to moderate, as the U.S. tax act, which we highlighted in September, will allow us to more effectively return cash to the United States. Our core tax rate for the quarter was 27%, core diluted earnings per share was $0.90, a 13% improvement over the prior year quarter. There were 2 items, which impacted our GAAP results during the quarter. First, we recorded an income tax benefit of $13 million associated with the U.S. tax act, mainly related to the onetime transition tax to adjust amounts recorded in FY '18. Second, as expected, we recorded approximately $9 million of acquisition and integration-related expenses associated with our strategic collaboration with Johnson & Johnson Medical Devices Companies.

Now turning to our first quarter segment results. Revenue for our DMS segment was $3 billion, an increase of 10% on a year-over-year basis. Core margins for this segment improved 40 basis points year-over-year to 5.6%. Despite a weaker-than-expected mobility market, our DMS segment performed very well, driven by strength in several key end markets, including health care, edge devices and accessories and lifestyle. DMS represented 46% of total company revenue in the quarter. Revenue for our EMS segment increased by 22% year-over-year to $3.5 billion. As Mark indicated during the quarter, our teams did a good job ramping new wins, which contributed to a strong year-over-year sales growth. From an end-market perspective, print and retail, Industrial & Energy and 5G and cloud all performed well in the quarter, offset by weakness in capital equipment. Core margins for the segment declined 60 basis points year-over-year to 2.4%, driven mainly by 2 factors. First, softness in the capital equipment space; and second, the cost associated with our ramping new business awards. EMS represented 54% of total company revenue in the quarter.

Turning now to the balance sheet. As a reminder, in Q1 we adopted the new accounting standard ASU 2016-15. The new standard impacts the classification of certain cash receipts associated with our deferred purchase price note receivables on our asset-backed securitization programs. As I highlighted on our previous call, the effects of this change have been applied retrospectively and are not the result of any fundamental change in our underlying business. Adjusting for the new standard, adjusted cash flows provided by operations was $5 million in Q1 compared to a usage of $54 million in the prior year quarter. As we implemented the new standard during the quarter, we amended our existing securitization programs to better optimize their efficiency. As a result, you will note higher accounts receivables. Our working capital fundamentals, however, remained unchanged. When adjusting the prior quarter for this optimization of our programs, we estimate sales days increased approximately 1 day sequentially on a like-for-like basis.

Net capital expenditure for the first quarter was $221 million and for the full fiscal year are still expected to be $800 million. Core return on invested capital for Q1 was 23.1%, an increase of 210 basis points on a year-over-year basis. We exited the quarter with total debt-to-EBITDA levels of approximately 2x and cash balances of $804 million.

Turning now to our capital return framework. As previously mentioned, during Q1 we repurchased approximately 8 million shares for $205 million. For the year, we intend to fully utilize the current repurchase authorization of $350 million, as we remain committed to returning capital to shareholders. Since the inception of our capital return framework in June of 2016, we have repurchased 41 million shares, bringing our total returns to shareholders, including repurchases and dividends to approximately $1.2 billion.

Turning now to our second quarter guidance. DMS segment revenue is expected to increase 6% on a year-over-year basis to $2.6 billion, while the EMS segment revenue is expected to increase 23% on a year-over-year basis to $3.5 billion. We expect total company revenue in the second quarter of fiscal 2019 to be in the range of $5.8 billion to $6.4 billion for an increase of 15% at the midpoint of the range.

Core operating income is estimated to be in the range of $165 million to $205 million, with core operating margin in the range of 2.8% to 3.2%. Core diluted earnings per share is estimated to be in the range of $0.51 to $0.71. GAAP diluted earnings per share is expected to be in the range of $0.20 to $0.48. The tax rate on core earnings in the second quarter is estimated to be 27%.

In closing, I'm quite pleased with the momentum underway within our business in terms of both diversification and new business awards. We remain focused on delivering $3 in core EPS on $25 billion in revenue with adjusted free cash flows in the range of $350 million for the year. Over the longer term, we remain focused on delivering shareholder value through strong margins, free cash flow and earnings growth.

I'll now turn the call over to Adam to begin Q&A.

Adam Berry - *Jabil Inc. - Senior Director 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 will not address any customer or 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 from Jim Suva from Citi.

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

When we think about your operating margin flow through, you upsided materially on sales, but the flow through to earnings maybe wasn't as strong as typical flow through. Can you help us maybe bridge the difference there? Is it ramping cost? Is it new business wins? If you could help us bridge that, that'd be great.

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

Jim, I'll start and maybe Michael will pop in. So I'm not sure I understand completely your question. If you're talking about Q1, in general...

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

Yes, the sales was up a lot, much better than your range and everything like that. But the earnings wasn't as materially upsided as...

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

Okay, I understand. Okay, I got you. So on the margin themselves, I'm -- boy, I'm really, really happy with the margins we printed, actually in both segments, and let me explain because they're a bit different optically. So our DMS segment printed, we went into the quarter thinking DMS would print maybe 5.3%, 5.4%, it ended up printing 5.6%, and again that was with some headwinds in mobility. So again, I just think a great illustration of what we're up to in terms of diversification. On the EMS side, that came in probably 10, 20 basis points lower than we thought. But again, we had anticipated on the EMS side, the cost associated with the new wins. If you remember back in September, we talked about new wins being about $2 billion for the year. Those new wins, actually as we sit today, are probably closer to $2.1 billion, $2.15 billion, of which, about $1.5 billion, $1.6 billion of that are in the EMS segment. So again, when I look at our core business, great job by the team, really good results, no surprises at all on the margin line. In terms of going back to your question around revenue being a bit frothy. We had thought that the revenue would come in around $6.1 billion, $6.2 billion, it came in around $6.5 billion. We actually ended up -- call revenue overshoot $350 million, $400 million, we did get decent leverage on that. We got leverage at about 3.5%. We had thought the midpoint for the quarter would be around $240 million in op income, and it was closer to $254 million. So I don't know what the math on that is, again, two fourth -- about 3.5% leverage on the $400 million. When we consider the core business and then the cost associated with the integration and the ramps, I think it was a great quarter.

Operator

Our next question is from Ruplu Bhattacharya from Bank of America Merrill Lynch.

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

I'm wondering if you can give us any guidance on how we should think about seasonality going from your fiscal 2Q to 3Q? Typically, 3Q is an investment quarter for your mobility segment. But given all the ramps that are happening and the new wins that you're getting in, is it possible that this year earnings in the third quarter can be higher than the second quarter?

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

Ruplu, it's Mark. Boy, there's a lot of moving parts, it's really hard to shape that out, if I had to take a stab at it, I think about it this way. So we gave you guys a good guide, good midpoint for Q2, so that's pretty self-explanatory on what we think is going to happen. In terms of the back half of the year, I would think about the overall corporate margins in the back half of the year. And for that matter in Q4, I would think both corporate margins and core EPS in Q4 to be very similar to Q1. So we just printed Q1, we kind of gave you a good guide for Q2. I think 4Q will look a lot like Q1 in '19, both in corporate margins and core EPS, so you can kind of back into Q3. Q3 will again be an investment quarter for us. I do think if -- and I don't remember the exact numbers, but 3Q of '18, I think we printed $0.46, something like that. I do think that the third quarter this year will be up from the third quarter of '18, again, with the overall strength in EMS. So I hope that helps.

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

Yes, that's actually very helpful, thanks for all the details on that. Just for my follow up, you had expected like an operating margin of about 1% on the new wins. The new wins that you're getting in, you're getting some more wins in cloud and health care. Is the margin expectation still 1% for the new wins this year?

Michael Dastoor - *Jabil Inc. - Executive VP & CFO*

Ruplu, it's Mike. Yes, the margin expectation is still 1%, but that's over the whole year. Don't forget in our September call I had mentioned that we have pre-ramp sort of cost that come ahead of revenue, so expect -- some of that came through in Q1, expect some of that to come through in Q2. All those pre-ramp revenue cost disappear in Q3, Q4 and that converts to a positive number then. But yes, the pre-ramp cost are going to hit us right now.

Operator

Our next question is from Steven Fox from Cross Research.

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Steven Bryant Fox - *Cross Research LLC - MD*

Two questions, please. First off, Mark, you mentioned how you've accelerated investments in health care, auto, 3D printing, cloud and 5G. And then you also mentioned that many of those markets had better sales in the quarter. So I'm just trying to get a sense for where some of this was better demand versus just revenues from ramping quicker by those markets? And then I have a follow-up.

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

Yes. Boy, I'd look at the -- for the quarter, I'd look at the $400 million, I'd say, roughly $200 million, $250 million of that is off of our base business and maybe $150 million to $200 million is off of the new wins. And if you kind of shake that all up in puts and takes, I think that's why the margin profile looked the way it did, both for DMS and EMS. One thing, Steve, I'd like to kind of comment on something that Mike was responding to with Ruplu's question. The optics this year for the whole year, the shape will be somewhat similar to last year, but I think the first half to second half, especially even around EMS will be more distinct, first half to second half, with second half being stronger. With these -- the new businesses that we're bringing into the company, if you think about the first half of the year being an investment year for those new wins, and then the income coming through in the back half, you're actually getting kind of a negative return in the first half turning to a positive. So the delta first half to second half is, again, optically a bit greater. So on the EMS side of our business, we're probably going to do somewhere around 2.5% for the first year -- excuse me, first half of the year with a very strong second half.

Steven Bryant Fox - *Cross Research LLC - MD*

That's all helpful. And then just as a follow-up on the cloud segment in particular, I know there's a lot of different types of productization and services you're providing in there. Can you just give us some quick highlights to the extent you can in terms of what's driving your success in terms of Jabil's own capabilities?

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

The best part about it is it's right in the middle of our core. So it's not a stretch, it's not a stretch, it's not like we're trying to step 2 or 3 degrees away from our core and do something that we're not well versed to do. I kind of said -- alluded to some of this in my prepared remarks. I think with how the data center geometry, both in North America and globally is playing out, with the sophistication in terms of the hardware design and then with the flexibility, agility and the complexity of the hardware manufacturing, it just -- it fits squarely into what we know how to do really well. So again, we're trying to be very communicative as we step through it. Again, pretty excited because it's right in the center of what we know how to do very well.

Operator

Our next question is from Adam Tindle from Raymond James.

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

Just wanted to start on competitive environment. There's obviously been a lot of changes since you last spoke after the August quarter, your primary competitor is struggling, pruning its portfolio. Is that creating any opportunity for you? Growth has been very strong during this time and just any kind of broader, competitive environment comments. And then I have a follow-up, please.

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

Yes, Adam, I don't want to comment on Flex. I've got respect for Mike and the team, and I see everything going on there and I wish them all the best. You're seeing our growth rates, and I said in the September call, I think, we're not driving growth for the sake of growth. I may even have said something around the fact that I don't sit in any sales meetings. So it's really about our 5 divisions going out with solutions and approaches, along with our organizational structure, and again, it's resonating a bit. So again, I hope Flex does well. But right now, we're kind of focused inwardly and want to digest the growth that we have and drive our financials.

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

Got it. And then maybe just to -- kind of building off some of the previous questions, I think what a lot of us are trying to get at is the contribution margin question. Revenue growth has been very strong. One of the aspects to moving the company towards the 4% margin that you've talked about was that this incremental revenue is going to be coming in at higher margins. I understand that there's been ramps, but I'm adding back the ramp cost and your first half of fiscal '19 revenue is coming in with the contribution margin in the low 3% range based on guidance and you're growing mid-teens, so I'd have to think utilization is strong, you're going higher margin areas like health care, packaging, and auto like you mentioned. So maybe just help me understand why the incremental profit dollars doesn't seem to be coming in to the higher margin and why that changes to get you to the 4-plus percent margin going forward.

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

Okay. I got Mike looking at me, so I think he might have a comment on this, but let me take a shot. So let me confirm that what we said in September is when we digest and get through the ramp on this new business, we feel like collectively as a $2-plus billion portfolio, this new business will have margins in 4% range, that still holds today. In terms of the near term, which is the here and the now, there's a few things playing. Number one is, as Mike said in September and reconfirmed in his prepared remarks today, we've got some cost associated with it, of which a good amount of those costs will be digested in 1Q and 2Q of this year. Number two is, we've seen some softness in semi cap. Number three is, we've seen some softness in mobility. So I think all of that is playing into -- again, I would split the company a little bit -- boy am I really happy with our DMS business. Again, a year ago, 1Q of '18, I think our DMS business did 5.2% or 40 basis points up year-on-year. We think 2Q will be up again relative to last year, again, speaking to DMS. And on the EMS, I addressed that. I think during Ruplu's comments or Steve's question, and again, that's largely due to some softness in semi-cap and the cost associated with some of the ramps. But we think EMS will normalize for the year and we're still looking at EMS margins for the year to be in the 3.5% range.

Michael Dastoor - *Jabil Inc. - Executive VP & CFO*

And if I could just add. We expect the softness in capital equipment to last for the first half of our fiscal year. We do expect it to come back slowly in Q3 and Q4 and that's where we see positive momentum, particularly as it relates to DRAM memory chips.

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

Okay, that's helpful. Just to clarify, are the cost still $15 million to $20 million, that's still -- did I hear that correctly or have -- are those higher on the $2 billion new win?

Michael Dastoor - *Jabil Inc. - Executive VP & CFO*

No, that's correct. Don't forget the softness in capital equipment, that can amount to a bit.

Operator

Our next question is from Paul Coster from JPMorgan.

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

First off, can you share with us what percentage of the DMS business is now mobility or how much is shifted intra quarter?

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

Paul, you broke up a little bit. Could you ask that again, please?

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

Yes, what percentage of your DMS business is attributable to mobility? Well, how does it change year-on-year or quarter-on-quarter?

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

Yes. We don't break that out.

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

Yes. I think you talked about 15% year-on-year growth in the aggregate level for the next quarter. What percent -- can you kind of break that down between base business and ramping business that you had -- didn't have this time last year?

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

Yes. Yes I would say, for 2Q I think you're talking about the second quarter of '19 being up about 15% year-on-year. I would say the vast majority of the new business, still in the second quarter, will be in EMS. And then we'll start seeing the Johnson & Johnson revenue come through on the DMS side in the third and fourth quarters. In terms of the EMS business, I think, year-on-year, again it's really another very strong quarter. EMS will be up 2Q of '19 to 2Q of '18 over 20%. I would say, rough guess, 6% -- I don't know, 5% to 10% of the growth will be core and the balance will be new business. But again, in the second quarter, if you look at it at an enterprise level, I think we guided the midpoint at 6.1%. The vast majority of the new business will be in EMS, again, with the health care wins being more impactful in Q3 and Q4.

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

Okay. One last question. The diversification is working really well, is there a point though, which it kind of backfires a little bit that you start losing some kind of scale advantage across like businesses because everything is so unlike.

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

I don't think so at all. In fact just to the contrary. When we talk about diversification, Paul, we're very, very select and very, very careful to be sure everything ties back to manufacturing, engineering, technology, supply chain. So someone can look at our business from the outside and go, geez, Mark, you got all these disparate businesses. No, we don't. The business ties together beautifully. And again, it all has a common denominator, manufacturing, engineering, supply chain, precision assembly, mechanics. And in fact the thing I love about it is, is you take the precision mechanics we do in our Green Point business, you take the stuff that Mike and his team do in ESG or the enterprise business or 5G or the things we're doing in health care, it's all so very well intertwined in terms of sharing the technology and capability. So I think there's a long way to go before we -- before it starts working against us in terms of diversification.

Operator

Our next question is from Matt Sheerin from Stifel.

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

You talked about growth in 5G wireless. Could you be more specific about areas -- product areas are you in, in terms of base stations, geographic regions and that sort of thing.

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

I don't want to get into the products because the products -- just out of respect to the customers that we serve, the products are in development right now, as you'd imagine with 5G. But I will tell you that most of our efforts around 5G are Europe and the U.S. And yes, I think it's a good estimate that we're playing largely on the infrastructure side of that.

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

Okay, that's helpful. And then following up on Steve's question on cloud. Seems like a really great opportunity, and as you said sort of right in your sweet spot. How concentrated is the customer base there because they are obviously very big hyperscale players, where there seems to be some share opportunities, but then there's obviously emerging players in the OEMs themselves. So could you just talk about the customer base, broadly speaking, if you can.

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

Well, we're just getting started, so I would tell you that in the next 2 to 3 years, I think our revenues will be split, both between the smaller folks and the hyperscale folks. We'll start to provide more transparency around that as that gets ramped and it becomes more material to revenue and earnings.

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

Okay, great. And just lastly regarding tariffs, no questions there yet. Any news in terms of what you're seeing? And are you seeing customers continue to look into moving manufacturing, and is that happening in any big way yet?

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

Well, we're waiting as is everybody else. And it's a big deal in terms of the macro, we'll see what happens over the next 60, 90 days, as I said in September. If -- I'd characterize it this way, if the tariff and trade issues get resolved, that's great. If the trade and tariff issues create some choppy seas and a storm here and there, that's also really good for us. Because -- again when I look at our IT systems, when I look at the connectivity inside of Jabil, when I look at how our divisions and our factories are networked, there's nobody that has our scale that can move product around with the agility and the flexibly that we can, and in fact we do that all the time. So as stuff needs to move, we're a really, really good solution and if the trade tariff issues become some nasty hurricane, I think it's going to be bad for all.

Operator

Thank you. This concludes the question-and-answer session. I'd like to turn the floor back to management for any closing comments.

Adam Berry - *Jabil Inc. - Senior Director of IR*

Thank you for joining our call. This now concludes our event. Thank you, again, for your interest in Jabil.

Operator

Once again, this concludes today's teleconference. You may disconnect your lines at this time.
