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Jabil, Inc. (JBL)

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

...is Mark Delaney, and I cover the IT supply chain sector at Goldman Sachs. And I am very pleased to be hosting Mark Mondello, the CEO of Jabil. Thanks for being here.

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

You're welcome. Glad to be here.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

As I'm sure most investors in the audience and on the webcast know Jabil is a leading provider of electronics manufacturing services and solutions with approximately $22 billion in annual revenue as of its last fiscal year. About 45% of revenue is in the Diversified Manufacturing or DMS segment and about 55% of revenue is in the Electronics Manufacturing Solutions (sic) [Electronics Manufacturing Services] (00:00:26) or EMS segment.

With that, we'll just jump right into Q&A.

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

Great.

QUESTION AND ANSWER SECTION

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

So over the last four quarters, Jabil has been able to post revenue above consensus despite macro headwinds in China. Broadly there's been component shortages and also weakness in the global smartphone market. What would you say has led to Jabil's strong revenue performance and what differentiates the company from its peers?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Well, Mark, like you said, I think we largely focus the company on engineering technology manufacturing. I think some differentiation is our scale, our geographic reach. And then about 6, 7 years ago, we flattened out the organization and we really have different business sectors, both from a technical perspective and engineering perspective, focused on definitive sectors, whether that be automotive, healthcare, enterprise, infrastructure, wireless, consumer packaging, healthcare, etcetera.

And as I've observed the last 3 to 4 years, we haven't been pounding the table hard on going out and sell, sell, sell, it's really been about taking thoughtful approaches out into the marketplace, and it's working.

One of our strategies has been to continue to diversify the company. And last year, we did about $22 billion in revenue. This year, our numbers are suggesting somewhere in the neighborhood of $25 billion. And really what we're driving to is, I'd like to see the company get to a point where we're generating about $2 billion of EBITDA and we think we're on our way there. And I don't really want any product or product family to be more than 5% of the company. And if we get to that level of diversification, I think it's great for shareholders, great for investors.

And as I look, I think about why might we be in a position where we've picked up a good amount of top line, if you look at the last number of years, we've grown the company from about $13 billion to $25 billion, about $6 billion of that has come in the last 24 to 30 months. And again, I think it's our structure. I think it's our approach and the solutions we're taking out in the marketplace that seems to be working.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Great. Why don't you just talk a little bit about the 2019 outlook in a bit more depth? Guidance is I think for about $25 billion of revenue, about $3 of core earnings. Can you help us understand what sort of macro trends the company is seeing from either an end market or a geographic perspective that's enabling the growth that you're looking for this year?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

So what we talked about in our December call was, on a more macro basis, Mark, we're seeing some softness across about half a dozen business sectors, more than average softness in semi-cap equipment at the moment, and mobility. We think that we'll see recovery in the semi-cap as we get to the back-half of 2019. And then the other periodic softness that we're seeing in a couple of other sectors, we think that normalizes summer to back-half of 2019. That's all anticipated in our numbers.

In terms of what I'd characterize as more positive macro, healthcare continues to go through a level of disruption, which has been really good for us. I think 5G, so wireless has always been an important and strategic part of our business, and we're heavily involved in kind of 5G infrastructure, as well as kind of the conversion of what I would characterize as Edge devices to connect to 5G networks. That's an important area for us, Mark, on the macro cloud computing.

So, overall, approach with cloud computing, technology, supply chain, flexibility, lead time in terms of serving the cloud-based hyperscale as well as some of the small folks, they've been receptive to some of our solutions. And then automotive, I think electrification of vehicles and content of vehicles.

And then lastly, I would say some of this is top line for us, Mark, and some of it's our own factories. We're spending an awful lot of time driving what we characterize as factory of the future. So machine learning, automation, artificial intelligence. And we think that's going to be transformational to our business, both top line and how we run our factories.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. And I know we're only a handful of days removed from Lunar New Year, but has Jabil seen any changes in business trends, positives or negatives, that's different than the normal post-holiday?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

No, what's been really good about this year and I think part of it is our team. Part of it's also, again, the diversification of the business has taken out some of the volatility. The business, as we've talked through it for July, August going into our September call, Mark, and then into our December call, as we sit today, the business looks largely like we thought it would. So, so far, touch wood, that's a good sign.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's great to hear. One of the things that the investors have talked about recently is about – there's been a lot of revenue upside than certainly more than I had been modeling. The earnings have been more in line with what the company had guided to, and so there's been some investments that the company has been making. So maybe you can talk a little bit about the leverage and some of those investments and how we should think about that on a go-forward basis?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Sure. Sure. So, I'm really happy with the $4 billion, $5 billion, $6 billion of additional growth and the ability of the team to digest it and execute to it. What doesn't do us any good at all is we're a service business, Mark. So to push hard on the top line and then not be able to serve our customers appropriately, not be able to execute, that's pretty damning for our brands. So we obsess about execution. We obsess about quality. We obsess about employee safety.

If I look across the board and all of those areas, I give ourselves a very, very solid grade. So, people are asking, geez, shouldn't we see more leverage on margin with some of the additional growth? We are seeing leverage on margin. We've taken our EMS segment, which I think you said at the opening is north of 50% of our business.

That business used to run at about 2%, 2.2% margins on an operating line. That business now operates at about 3.5% margins.

This year on that core business, that business will expand another 20, 30 basis points. Externally for the company, we'll do about 3.5% margin overall again. And again, there's a little bit of an impact with the $2 billion or $3 billion of growth and the cost associated with it. But again, if you look at our margins overall, our margins are in really good shape, especially relative to the overall competition. So I feel good about the execution. I feel good about the quality levels. I feel good about our men and our factories. And I feel good about the margin structure.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

All right. I think at the last investor update call that was – was it was more of an Analyst Day plus an earnings call, that the company talked about a $3.80 earnings target for fiscal 2021 and then a $4 scenario at some point in the future. Can you just talk about a few of the key things that need to happen for Jabil to hit those targets?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Yeah. The reason we put that out there is based on where the company is at today, based on the makeup and the composition of the company, we made a decision in September to really start being more transparent about everything going on in the company.

Historically, we've kind of kept that close to the vest for a variety of different reasons. So in the September 25 call, we talked about the makeup of each of our sectors, the end markets, what's performing well, how diversified the company has become. And then we also decided to say, look, I think the team has done a very nice job from an earnings perspective.

Along with taking the top line growth over the last number of years, we've taken earnings from – I don't remember the exact numbers, but call it $1.50 to $1.85 to $2.10 to $2.60 or $2.62 last year. And this year we're saying earnings will be around $3. If you compound that out, I think on an earnings perspective, it's 17%, 18% over the last 5, 6 years.

And what we were trying to illustrate or communicate in the September timeframe was, we're not going to stop at $3 a share. I think there's more to come and we can see our path to a $3.30, a $3.50, a $3.80 and eventually $4.

What has to happen there is we need to digest the growth. The company has been growing top line at – all at stronger double-digits. I think just based on everything around us and our approach, our discipline around margins or discipline around cash flows, I would think the growth will still be there. But again back to execution, if we do nothing but execute the business that's in front of us, digest the new product wins and have modest growth, I think we've got a good path to continue to increase earnings over the next 2, 3 years.

I think one of the things that we're focused on right now is with all the growth, the cash that's been absorbed into working capital and inventory. And what we're talking about amongst the leadership team now is, okay, good top line, really good earnings, and now we really want to focus on cash generation.

So, couple of years ago free cash was in the neighborhood of $80 million to $100 million; last year, it was around $250 million. This year, we're saying free cash flow will be in the neighborhood of around $350 million. And what we're driving to on a more normalized basis, Mark, is for the business to be generating somewhere between $500 million and $600 million a year in free cash flow. So, if we can do that, combined with the margin structure, combined with the strength in earnings, I think we'll be in pretty good shape.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. That's very helpful. Maybe we can switch gears slightly and just talk about the tariff and trade environment which has created some volatility for the supply chain, something that EMS companies like Jabil sit in the middle of. So, maybe you can help investors understand some of the trends that you're seeing that are maybe the result of the current geopolitical situation and how Jabil is helping customers to deal with some of the tariffs that are in place.

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Yeah, Mark, we as the leadership team look at it. If the trade and tariff issues between the U.S. and China gets really bad, it's going to be bad for us, it's going to be bad for everybody, and I think it would be bad for the U.S. equity markets.

If we can get to some resolution that isn't really bad and it's just slightly bad, moderately bad, modestly bad, I think that'll be pretty good for us, because although we have a decent amount of footprint in Mainland China, we have footprint all over the place.

And so, when you think about a company like Jabil that has a top line of about $25 billion, we literally build just about everything. We have engineers all around the world, supply chain folks all around the world, and then manufacturing capacity literally all around the world. One of the things along with our scale and our technical approach that differentiates us, Mark, is the fact that most all of our manufacturing capacity is tied together with kind of an optimized IT thread. So our IT systems are commonplace across all of our factories, it allows us to track inventory, production on a very optimized basis.

So we move product around in a very flexible, agile fashion all the time. The 350, 360 customers we have today, Mark, we've had probably, I don't know, 60, 70, 80 of them over the last 9 to 12 months, sit down with us and say, hey, if I needed to move or wanted to move some product out of China elsewhere, what would that look like? So we've come up with a playbook for each one of them.

As we sit today, very few of them are moving existing manufacturing out of China. Some of them have said, maybe on future products, could we think about a different geo? So, right now it's a bit read and react. I'm not overly concerned about it, again, unless it got really bad, because it's kind of fundamental to what we do every day. But if we were to move business or will move some future business out of China, it would be to areas like Penang, Malaysia, potentially Indonesia, Vietnam, Eastern Europe, Mexico, places like that. And I'm really comfortable with our ability to execute on that.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful and thanks for all the details. Related to that, there's been some discussion in the investment community about whether or not customers have prebuilt inventory, that I know tariffs for probably some products were 10%, potentially going to go up to 25%, so I'm going to import products into the U.S. ahead of time before that – the tariff may in fact go up. Has Jabil seen any of that, that you can tell?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

In terms of inventory build-up?

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Pre-build of inventory to sort of pre-empt any tariff increases?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Very little. So we've seen some inventory build in our own company, but for different reasons. And we think that will normalize over the next 12 to 18 months or so.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

One of the other challenges that the whole tech industry had faced over the last 12 months or so has been component shortages, and there's a few components in particular. And I know Jabil is always dealing with problems, and so I think this is probably what Jabil does on a day-to-day basis, [indiscernible] (00:14:11) exceptionally short compared to normal. Maybe just talk about where that sits today relative to just normal levels of...

[indiscernible] (00:14:19)

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Yeah. So now you're landing on one of the catalyst for us on the inventory build. So the, kind of in lay terms, right, we build a little bit of everything, and everything we build has anywhere from a couple of hundred to a couple of thousand different components in it, whether it be mechanics, electronics, silicon, power, wires, antennas, whatever it might be.

The last 18 to 20 months or so, Mark, the ability to get components has been constrained for a variety of different reasons. It could be overall global demand, macro demand, whatever the catalyst may be. So we have been in a tight components market. The good news is, with our scale and our relationships with our suppliers and our customers, with the way we plan the business with our IT systems, we've been able to navigate that in a really good fashion.

I talked earlier in the opening commentary about our revenue has actually been stronger than anticipated. If we weren't able to navigate the tough components market, that wouldn't have been the case. So our team has done a really nice job there.

With that though, you take the tough components market and the growth that we've seen and our days of inventory have grown. So our days of inventory today are probably in the 60, 61-day range, Mark. We think as the component markets starts to normalize and we digest the growth, our inventory will get back to more normal levels of, call it, 54, 55, 56 days. That'll be really good for our cash flows.

In terms of your exact question on is how we're seeing the overall components market around different commodities, we're starting to see the components market normalize. And I would say about 30% of that, the constrained market is normalizing real time today. Another 30% will normalize as we go through the summer and early fall, and with the balance to normalize late fall into early 2020. And we get updates from our supply chain folks every quarter and we're contemplating that as we continue to give guidance during our quarterly calls.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. That's helpful. Maybe we can dig more specifically into the DMS segment. Again, it's about 45% of revenue. And for investors that are maybe little bit less familiar with the story, the DMS business is where Jabil includes its material sciences focused products. So that'd be material sciences applications in smartphones, healthcare, and packaging.

And I think on the fourth quarter earnings call, the company announced that it entered into a long-term strategic agreement with Johnson & Johnson for medical devices, where Jabil will be acquiring 14 sites and will support J&J in areas such as endosurgical, spine, trauma and instrumentation. I think Jabil guided that business to hit annual revenue of $1 billion plus by fiscal 2021, I believe. So I was hoping you can talk a little bit about how the early response and integration of that business are going, and then what the longer-term market opportunity may be with that business.

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Great. Maybe I'd break that up into two parts, if I understood your question correctly, one on material science side. So, today the company both across the whole corporation, Mark, really has a nice blend of design, engineering, assembly, test, overall manufacturing, both electronics, power, and then mechanics, some being broad-based mechanics, some being precision mechanics. Mechanics could be metals, glass, polymers, et cetera. So that continues to be a higher degree of the overall business in terms of doing complete products.

We're also making significant investments in the area of 3D additive. So when I think about material science in the company, that's also an area where we look at that more of the capability than we do end sector, because it cuts across so many horizontals. But we think 3D additive is here to stay and we'll do nothing but continue to be more relevant over the next 3, 5, 7, 10 years.

In terms of the J&J deal, J&J's, for us, been a partner of Jabil for 10 to 12 years, and this is a fairly significant expansion on that partnership. So we know each other very well. I think there's good mutual trust both ways. And end of 2018 we shook hands on a deal. The deal would be, again, 12 to 15 years, and it will start this year. I think Mike, Adam, myself, some combination, we said that revenue for the deal this year will be about $150 million top line. Next year would start September 1 for us. For those that don't know, our fiscal year runs September 1 through August month. So next fiscal year, we anticipate revenues to be, call it, $600 million to $800 million, something like that. And then fiscal year 2021, it'd be $1 billion-plus, and I think it has good potential to be well north of $1 billion.

Again, we got a lot of work ahead of us and we got to execute. We got to take great care of J&J. We got to protect their credo, and it's all about the patients, the docs, and the nurses. We're doing some fairly specialized stuff for them that we take very seriously. We're going to have that business be part of our healthcare business today.

So for those listening, we have a substantial healthcare business today, billions of dollars of healthcare business. This will be additive to that. I have a ton of confidence in our team.

And then the other thing that this deal does for Jabil is we're going to bring 6,000-plus J&J employees over to the Jabil team. That's huge for us. They're going to be able to help us with the growth. They're going to help us navigate J&J. They're going to help us beyond J&J. A number of those employees are hugely talented and would be able to work in other parts of our business over the next two, three, four, five, six years. So not only is it what we believe to be really good business with a really good term sheet, but we get 6,000 new employees that will add different beliefs, different approaches, different technologies, different ideas into the company. And I view the addition of the employees to be every bit as strategically important to us as the business itself. So, really looking forward to get going. We're going to be integrating that business over the next nine months – nine months to 10 months or so, Mark, and it's starting real-time. So, real good opportunity for Jabil.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

I think the guidance is that this year the business will be breakeven EBIT.

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Correct. On a core line, yeah.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

And so, as we think about maybe fiscal 2020, is that a year where that business is in line with DMS average margins in the say 3% to 4% range, or what sort of cadence should we think about the margin?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

I would think in fiscal year 2020 margins in that business would be neutral to corporate margins. And then if we do a good job in fiscal 2021 and beyond, hopefully, we'll see some slight accretion to margins based on the partnership with J&J.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. And I think you said something that's I think very important. You said 12 years to 15 years, if I heard you correctly. And I know sometimes in EMS industry broadly, when there's been sites acquired from customers that those programs haven't necessarily lasted for long enough, as they ended up be more challenging when the EMS company had to go and rebid for follow-on contracts. It sounds like you have a nice longer term pipeline for this...

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Well, the nice thing is the end that we operate in [indiscernible] (00:21:46), it's like a 100-year deal. But, yeah, I think, again, there's nothing free in this world. We have a lot of work to do in supporting the J&J and protecting the J&J brand. But if we do a good job there, we think it'll be a long-term deal for us. So, that's a pretty exciting part of this new partnership as well, Mark.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

So, one of the things that you mentioned at the start of our conversation was reach diversification for Jabil. Well, I think last fiscal year [indiscernible] (00:22:19) 10-K, 28% of Jabil's revenue came from Apple. But within Apple, Jabil's been working to diversify across more programs and products. Can you just update us on where you are with that goal? I think is it – 5% is the target for...

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Yeah. I'd split that into two answers. One is, we are going to get the company to the point where no product or product family is more than 5% of the company. And, again, if we do that and we drive EBITDA up into the $2 billion range, you do the math on that, and I think that's going to be good for our valuation.

In terms of Apple themselves, we're always very respectful of not sharing a lot of detail around the relationship with Apple. That's what they ask of us. We've been outstanding, I think, in protecting the Apple brand and handling that information, especially in public setting appropriately. But I'm very, very pleased with where that relationship is today. I think the relationship is strong and the relationship itself continues to be well-diversified. So, Apple's a good customer.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

One other part of the DMS segment is the packaging business, which if I'm not mistaken, Jabil got into with the Nypro acquisition I think in 2013.

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

That's right.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Maybe just [indiscernible] (00:23:33) a little bit about what Jabil's [indiscernible] (00:23:36) in the packaging business and what the growth opportunity is?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Yeah. So one thing I'm really excited about is, is we hired a new exec to run that business. She's been here about a year. I think Brenda joined us in June of 2018 on or about, plus or minus. She comes from the packaging industry. She's outstanding. She has shown wonderful leadership characteristics that align beautifully with our culture, so that's really important to me. But she knows the business inside and out. And the team is in really good shape in terms of competency, capability, motivation.

Mark, I think when you think about consumer packaging across so many different areas that there is ways to disrupt that market with sensors, technology, and things that today maybe haven't been embedded in the packaging themselves or included holistically. And so Brenda has been working with lots of her peers and leaders and engineers across the company in terms of how to take maybe more advanced technical solutions to the consumer packaging market. Today, that business relative to other sectors is small, but I see the growth rate on the packaging business to be north of 20%. And I think it will be north of 20% for a number of years to come.

So it's a really interesting area for us. It's an area where we think our engineering talents, our approach will be well received and accepted. We're seeing early indications of that. And we'll see what we can make of it, but it's an exciting area and it fits beautifully into our overall diversification strategy, Mark, where again we want the company to be well diversified.

And maybe one thing I can clarify because I get this question sometimes is, is [indiscernible] (00:25:33), Mark, as an investor, I really don't want you to be diversified. Just focus on what you do really well and then give me my returns, and I'll figure out how I want to invest my money. That's exactly what we're doing. When I talk about diversification inside of Jabil, these aren't different businesses. They're all tied back together and sewn together with engineering, technology, manufacturing, supply chain solutions and distribution. And so all of our business ties to that single thread, Mark, it's just that we're building more different products in more different end markets around more different technologies. So, again, if we'd get it right, I think it's going to be a good story.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

One of the related markets to packaging was – flexible packaging, I think Jabil's business was rigid packaging, and there's always this question, will Jabil get into the flexible market? Is that still something that the company is considering doing?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

[indiscernible] (00:26:27)

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Okay. We have about 8 minute left, I've got another 10 questions, which we will not get through, but I'll ask one more and then I'll go to the audience. So start thinking about any potential questions that you may ask to Mark.

I wanted to talk about the EMS segment [indiscernible] (00:26:45) you mentioned 5G as one of the areas that's driving revenue growth for the company this year. Maybe just talk about what you're seeing this with 5G and maybe help us think about the sizing of that opportunity to Jabil.

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

So I think we've said publicly kind of our new 5G business more advanced wireless business. So we have a fairly large wireless business and have – we've been in that business for 10 years to 12 years, Mark. We have great partners there. And we think the new part of wireless 5G area will be $250 million, $300 million this year. I think 5G has a potential to be fairly transformational.

If you look at the physics, if you look at the science, if you look at the speeds, if you look at the lack of latency and you look at where that could impact various markets in terms of getting on body diagnosis, if you look at the healthcare business, if you look at what could happen in aerospace and defense, if you look at what happens to autonomous driving in automotive, and you just continue to extrapolate out a fundamental shift in wireless speeds, wireless security, etcetera. We're pretty bullish on what that might hold in the next three, four, five years, not only just on the infrastructure side where we're participating fairly actively, especially in – potentially Europe and the U.S. markets. But then, on all the edge devices as well, that also have to be designed and appropriate for the intersection and the overall composition of the 5G network. So, an area that we're pretty bullish on for the coming years.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Does anybody have any question – in the audience, have a question for Mark? All right. Yes?

Q

[indiscernible] (00:28:42) You talked about weakness in mobility segment right now, which I guess [indiscernible] (00:28:49) and you mentioned about a pickup in summer or back half of 2019. Is there anything different in terms of your expectation about pickup? Is it mainly driven by new products from customers? I'm just wondering how big 5G is a factor in terms of your expectations for back half [indiscernible] (00:29:09).

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Let me clarify maybe a miscommunication, is – I think what I was trying to say, if I didn't say it accurately is, is we've seen weakness in different areas of our business four or five different sectors. Two predominant areas of weakness would be the mobility and semi-cap equipment. When I was talking about recovery in the summer, late fall, that was largely around the semi-cap equipment comment. In terms of mobility, although we've seen some weakness, for us, as we move through the summer and the back half of this year and early next year, our belief is it'll be business as usual in mobility sector.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

I want to talk a little bit the about use of cash in M&A. And I know one thing that we've always talked about is when Jabil does acquisitions you're buying that company forever. It's a marriage and culture is really important. So with that backdrop, maybe you can talk a little bit about how you think about consolidation in M&A?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Well, I'll give you a direct answer and a little bit of indirect commentary. So let me start with the indirect commentary. I'm really happy with our management team, Mark, in terms of our discipline around capital allocation. If you think about it, where we saw the valuation of the company the last number of years, we started buying back shares in a very disciplined approach in mid-2016s. We've taken our share count from about 212 million, 215 million shares. We'll end this year in the 150 million range. So we've taken about 60 million shares off the market on a base of about 215 million. So in terms of our belief in the company, belief in where our valuation was, is and going, I think we've been really good to shareholders that way. That's on top of our dividends.

If you look at fiscal year 2018, Mark, we returned about $500 million to shareholders. That was along with CapEx of about $700 million, M&A activity of $100 million, $150 million, and then we made about $250 million of OpEx investments for sustainability, technology, et cetera. If you advance to this year, fiscal 2019, we're about halfway through, which is hard to believe. Again another $400 million back to shareholders, CapEx in the $800 million range, another $100 million, $150 million to M&A, and then some very substantial OpEx investments again, engineering capability, etcetera.

In terms of M&A itself, I think I observe that a lot of M&A activity never offers maybe the belief in payback. It's hard. M&A is really hard. I think it's hard sometimes for the private equity guys. I think it's hard for public companies. So, our M&A activity tends to be pretty modest, I think very, very disciplined. One could be a little bit critical maybe and say we're overly conservative in M&A, but we have enough uses for our cash right now that I think are quite good relative to big M&A.

We've also observed over the last number of years that public multiples have gotten pretty frothy. And so we've kind of backed away from deals where maybe people are paying you know 12 times, 14 times, 16 times for different deals. As those multiples start to normalize, depending on what happens with interest rates and borrowing rates and hurdles and everything else, might we look at some richer M&A deals? Maybe. I'd put it at possible, not probable. And we'll stick with the smaller M&A activities, which is really around engineering capabilities, some specialized areas that supplement the rest of our business in a really good way.

And then you said something that is really interesting to me, which is every single M&A opportunity we have, we start the conversation with, forget about the spreadsheet, forget about the strategy, what's the culture like? M&A is really hard. Spreadsheets tend to be overly ambitious. Strategies sometimes to be overly thought. And so those two are hard in and of itself. But if you do a deal and the cultures are misaligned, it's a really tough road. So we kind of lead with culture first. I think we've done a really nice job with the companies that we've acquired of aligning the cultures, Mark. And then how does how does it fit to our strategy and then certainly the financials have to make sense. So, when I indexed through our logic diagram for M&A, that's kind of what we're up to.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

[indiscernible] (00:33:35) – one more for the audience we can finish off with.

Q

Yeah. Just following up on the question on the recovery. Do you see any differences between this recovery and the last recovery? Is any specific – do you think it's just, again, segment specific or is there so much uncertainty so with all that puts and takes, why are you that confident?

Mark T. Mondello
Chief Executive Officer & Director, Jabil, Inc.

A

Let me try to break that into two parts because I'm not exactly sure when you say recovery. Maybe we can talk about the component market within the macro. So, I don't think the macro headwinds we've seen in certain areas is anything like the tech wreck in 2000, 2001-2002 and certainly not like the financial crisis in 2008-2009, and we lived through those.

We're seeing some choppiness in [indiscernible] (00:34:24), but I wouldn't suggest that we see any type of big macro issues that would institute a so-called recovery. So, again, our growth has been fairly substantial. Saying it again, we've added $5 billion, $6 billion to top line. Earnings have been very solid. Cash flows are coming right behind. So, I think the business overall is in good shape.

If you're talking about the component recovery, I'd got some confidence there because if you think about a company like Jabil with our scale, we have the opportunity to participate in 14, 15, 16 different end markets, and we literally build just about everything. So, when you think about the hundreds of thousands of components and different commodities that we have to purchase or at least engineer and the relationships that we have in the supply chain, we've got a pretty good point of view on when things were going to soften, when demand was going to get tight, and then as we're coming out of the tightness of the component market, how the recovery may look. And we've been pretty conservative in our financial numbers. So, again, we started seeing indications that the component markets kind of broadly across the board could recover starting now so spring, maybe winter/spring, early winter/spring. So call it, January to May of calendar 2019. We think there'll be further recovery as we go through the summer. And then I think the component market has a good opportunity to normalize as we get to the very back half of 2019 and the early part of 2020.

Mark Delaney

Analyst, Goldman Sachs & Co. LLC

Thank you, Mark. We are out of time. Appreciate you being here.

Mark T. Mondello

Chief Executive Officer & Director, Jabil, Inc.

Thank you.