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JBL - Q2 2017 Jabil Circuit Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Beth Walters** *Jabil Circuit Inc. - SVP of Communications & IR*

**Mark Mondello** *Jabil Circuit Inc. - CEO*

**Forbes Alexander** *Jabil Circuit Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Ruplu Bhattacharya** *BofA Merrill Lynch - Analyst*

**Matt Sheerin** *Stifel Nicolaus - Analyst*

**Jim Suva** *Citigroup - Analyst*

**Mark Delaney** *Goldman Sachs - Analyst*

**Sean Hannan** *Needham & Company - Analyst*

**Adrienne Colby** *Deutsche Bank - Analyst*

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**Adam Tindle** *Raymond James - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the Jabil second quarter FY17 earnings conference call.

(Operator Instructions)

Thank you. I would now like to turn today's conference over to Beth Walters, Senior Vice President of Communications and Investor Relations. Please go ahead.

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### Beth Walters - Jabil Circuit Inc. - SVP of Communications & IR

Thank you very much. Welcome to our second quarter of 2017 earnings call. Joining me today are CEO, Mark Mondello, and Chief Financial Officer, Forbes Alexander.

This call is being recorded and will be posted for audio playback on the Jabil website, Jabil.com, in the Investors section. Our second-quarter press release, slides and corresponding webcast links are also available on our website.

In these materials, you will find the financial information that we will cover during this conference call. We ask that you follow our presentation with the slides on the website, beginning with slide 2 our forward-looking statement.

During this conference call, we will be making forward-looking statements. Including those regarding the anticipated outlook for our business, our currently expected third quarter of FY17 net revenue and earnings results, the financial performance for the Company, and our long-term outlook for the Company. These statements are based on current expectations, forecasts, and assumptions involving risks and uncertainties that could cause actual outcomes and results to differ materially.



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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, 2016, on subsequent reports on Form 10-Q, and on Form 8-K and our other securities 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.

Today's call will begin with opening comments from Mark on our second-quarter results. Forbes will follow with more detailed second-quarter fiscal results and guidance for our third fiscal quarter of 2017.

Following our prepared remarks, we will open it up to questions from call attendees. I'll now turn the call over to Mark.

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### **Mark Mondello** - Jabil Circuit Inc. - CEO

Thanks, Beth, and good afternoon. I appreciate everyone taking time to join our call today.

As always, a special thanks to our remarkable team here at Jabil. They do an outstanding job serving our customers, while also keeping an intense focus on keeping our employees safe each and every day.

It's simple. Here at Jabil, safety is job number one across our entire global enterprise. I'll begin today by addressing our second-quarter results.

The execution by our team during the quarter was exceptional. Nearly all of our business sectors performed at or above plan in terms of both revenue and income. These collective efforts resulted in \$0.48 of core earnings per share on revenues of \$4.45 billion.

I'm pleased with these results, and believe they accurately reflect the effectiveness of our strategy. A strategy to increase the quality and diversification of our cash flows and our earnings. As customary, Forbes will provide more detail around our quarterly results and speak to our forward guidance during his prepared remarks.

Before taking you through the business details, I'd like to reinforce Management's commitment and confidence in delivering \$3 in core earnings per share for FY19. Our confidence is underpinned by the following.

First, we're now in year three of a true market facing divisional structure, led by teams with incredible domain expertise. Second, each of our business sectors are becoming more and more diversified in terms of their respective cash flows and income.

This is occurring as we thoughtfully expand our customer count with market-leading brands. In fact, when I looked at our customer base, I've never felt better about the foundational balance and strength of our core business.

And third, Management remains committed to returning \$900 million to \$1 billion to shareholders through share repurchases and dividends by the end of FY18. As previously communicated under our two-year capital allocation framework.

I'll now offer some thoughts and specifics as to what's driving our business as we look to the back half of the fiscal year and into FY18. I'll start with our EMS segment.

Our EMS team continues to maintain tremendous momentum, as evidenced by a 50-basis point pickup in core operating margins year on year when comparing Q2 2017 to our second quarter of FY16. In addition, the team is also well prepared to deliver a core operating margin of 4.2% during our fourth quarter of FY17.

Today, the strength in our EMS business is largely derived from outstanding execution, intense cost management, and most importantly, experienced teams. Teams who thrive on aligning near perfect solutions with the exact needs of the customers they serve.



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The diversification of our \$11 billion EMS business, which makes up roughly 60% of Jabil's revenue, offers a stable backbone to Jabil's core, which in turn affords further predictability of our cash flows. We'll use these cash flows for future investment and yet even deeper customer engagements across the Company.

Now, I'll move to our DMS segment. I'll start by addressing our mobility business.

The team is once again performing wonderfully. They exhibit a unique and invaluable combination of capability, capacity, and what we've termed optimal readiness at scale. This, combined with precision engineering and proficiency in material sciences, has allowed Jabil to become a most dependable solutions provider in an area of the mobility market that has a high barrier to entry.

As our DMS business transitions from FY17 to the first half of FY18, there's a very likely opportunity for this segment to experience a high rate of productive utilization across the installed asset base. With that said, I'll again remind you, Jabil's DMS financial results are highly dependent on overall product sell-through in the mobility market space.

Next, our consumer lifestyles business serves exciting brands, brands poised to change the way in which we capture and interpret the world around us. Brands in the areas like augmented reality and high-tech connected devices. This business leverages distinct capability investments, giving Jabil true differentiation, and positions us as the beneficiary of incremental income as we look towards FY18 and beyond.

Lastly, within our DMS segment, healthcare and packaging are extremely well positioned to prosper in the coming years, as our service offerings solidly align with the needs of the market. As I communicated during our call back in December, we expect these combined businesses to grow core earnings at an annual growth rate of 20% or greater from FY16 to FY19. These businesses are advancing beautifully, becoming more and more material to Jabil's overall portfolio.

Our healthcare and packaging sectors are yet another illustration of the demonstrated value Jabil brings forth in a deliberate and thoughtful fashion to targeted end markets. Our healthcare team, they're improving the way in which people live. While our packaging team is busy working side-by-side with leading consumer brands, creating innovative packaging solutions, resulting in brand brilliance.

Let me now take a minute and move from our reporting segments to addressing the Company as a whole. In an effort to help you think about the business for the second half of FY17, I'd take the midpoint of the guidance we're providing today for our third quarter and I'd assume a 70% to 75% increase in terms of core operating income when thinking about Jabil's fourth fiscal quarter.

If achieved, this outlook would result in the strongest 4Q in Jabil's history, and offer a very favorable segue way into what's typically our strongest quarter of the year, our first fiscal quarter, Q1. Lastly, Forbes and I maintain our belief that free cash flow for the year will be in the range of \$2.50 a share, with capital expenditures remaining in the range of \$500 million to \$600 million.

Before I hand the call over to Forbes, a few final comments. Jabil has shareholders at the forefront of our thoughts. Our Leadership Team remains confident in our path forward.

We believe in what we're doing. We believe what we're doing is working. There's clear evidence that our diversified portfolio strategy has taken hold. I like what I see as I look ahead.

In closing, our team has set a lofty goal, a goal to become the world's most advanced manufacturing solutions Company. And as we effort towards this goal, we'll always respect the environment, we'll aim to make a positive difference in the world, and we'll constantly focus on keeping our people safe. Thank you, and with that I'll now turn the call over to Forbes.

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**Forbes Alexander** - *Jabil Circuit Inc. - CFO*

Thank you, Mark. Good afternoon, everyone. I'd ask you to turn to slide 3 where I'll review our second quarter of FY17 results.

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Net revenue for the second quarter was \$4.45 billion, growth of 1% on a year-over-year basis. GAAP operating income was \$83 million, while GAAP net income was \$21 million. GAAP net diluted earnings per share were \$0.11 for the quarter.

Core operating income, excluding the amortization of intangibles, stock-based compensation and restructuring charges, was \$152 million and represented 3.4% of revenue. Core diluted earnings per share were \$0.48.

Turning to slide 4 and our segment discussion. Revenue for our Diversified Manufacturing Services segment was \$1.8 billion, an increase of 1% on a year-over-year basis, and represented 40% of total Company revenue. Operating income for the quarter was 3.1%. Revenues exceeded our previous guidance as we continue to see strong year-over-year performance from our healthcare, packaging and consumer lifestyle sectors.

Our Electronics Manufacturing Services segment revenue was \$2.7 billion, also an increase of 1% on a year-over-year basis, and this represented 60% of total Company revenue. Operating income for the segment was 3.7%, an improvement of 50 basis points on a year-over-year basis.

We ended the quarter with cash balances of \$755 million, while net capital expenditures for the second fiscal quarter totaled \$139 million. Year to date, net capital expenditures totaled \$302 million. As Mark noted, capital expenditures for the full fiscal year remain in the range of \$500 million to \$600 million.

The second fiscal quarter tracked to expectations in terms of cash flows from operations, and totaled \$194 million. We continue to be very well positioned to deliver annual cash flows from operations of at least \$1 billion, and free cash flows of at least \$450 million. The core return on invested capital for the second quarter was 13.1%.

Turning to the capital return framework that we announced last year. This remains a key focus as we move through the fiscal year and into FY18. Our plans to return 40% of cash flows from operations via dividend and share repurchases to a maximum of \$1 billion, remain very well positioned.

To date, we have returned some \$291 million in dividends and share repurchases under this framework of our current share repurchase authorization which is \$400 million. And as at the end of the February quarter, we have utilized \$245 million of this authorization, repurchasing some 11.8 million shares at an average price of \$20.71.

Touching on our restructuring alignment plan. Actions that we're taking to enhance organizational efficiency and effectiveness are well under way and on track. As such, we recorded \$45 million in the second quarter, the cash portion of such charges being \$8 million.

I'd now like to discuss our guidance for the third quarter of FY17 which you can find on slide 5. The Diversified Manufacturing Services segment is expected to increase 9% on a year-over-year basis to \$1.6 billion. While the Electronics Manufacturing Services segment is expected to decrease 1% on a year-over-year basis, with revenues of \$2.8 billion. We expect total Company revenue in the third quarter to be in the range of \$4.25 billion to \$4.55 billion, or an increase of 2% at the midpoint of the range on a year-over-year basis.

Core operating income is estimated to be in the range of \$90 million to \$130 million. Core operating margin in the range of 2.1% to 2.9%. Core earnings per share are estimated to be in the range of \$0.19 to \$0.39 per diluted share.

Expectations are for a GAAP loss per share to be in the range of \$0.34 to \$0.03 per diluted share. The tax rate on core earnings in both the third and fourth quarters is estimated to be 28%, based on the current levels of forecast income. Thus, the core tax rate for the full fiscal year in 2017 is now estimated to be 27%.

In closing, we're pleased with the first half of FY17. And as Mark noted, we are very well positioned for the second half of this fiscal year, with continued positive momentum as we move into our FY18.

Opportunity for the EMS segment operating margin expansion continues. Our DMS segment continues to see growth in our healthcare, packaging, and consumer lifestyle sectors. While our mobility organization, they're not only executing well to current demand levels, but is also positioning



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themselves with technical leadership to support new customers, new product generations, and multiple product ramps. With that, I'd now like to hand the call back to Beth.

**Beth Walters** - *Jabil Circuit Inc. - SVP of Communications & IR*

Thank you, Forbes and Mark. Operator, before we begin the Q&A session, I'd like to remind all of our call participants that in customary fashion, we will not address any customer or product specific questions and thank you for your cooperation. Operator, we're now ready for the Q&A session.

## QUESTIONS AND ANSWERS

**Operator**

Certainly.

(Operator Instructions)

Your first question comes from the line of Ruplu Bhattacharya, Bank of America-Merrill Lynch.

**Ruplu Bhattacharya** - *BofA Merrill Lynch - Analyst*

Hello, thanks for taking my questions. Mark, you've talked about the medical and packaging business growing double digits for the next few years. I was wondering, is there some seasonality to these businesses just directionally, which quarter is stronger, which is weaker, any directional guidance?

**Mark Mondello** - *Jabil Circuit Inc. - CEO*

I think I would layer that business in pretty equal across the year. I can't make much sense of it. For our business, there's a little bit more strength in Q3 and Q4.

It has nothing to do with anything in the industry. It's how our demand layers in. But I don't know, if I had to guess, I'd guess maybe like a 40/60 weighting for that business first half to second half, and I think that's probably a good call for the balance of this year and 2018.

**Ruplu Bhattacharya** - *BofA Merrill Lynch - Analyst*

Okay. Great, thanks. That's very helpful.

And then my second question is I think in the past you've said on the mobility side your economic profile hasn't changed on a per-unit basis. Based on what you know of the new launches coming up, is that statement still true you? Do you still think that your economic profile is still the same?

**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Economic profile is a broad term, but I guess I'd answer it this way. We feel reasonably good about how our mobility business is performing today, and the next number of quarters looking ahead.

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**Ruplu Bhattacharya** - *BofA Merrill Lynch - Analyst*

Great. And sorry, the last one from me. You haven't changed your CapEx guidance, so I'm assuming that based on the forecast you have, you think your existing assets are -- will have good utilization and will be sufficient for the launches. Is that correct?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

That's a good assumption, Seth.

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**Ruplu Bhattacharya** - *BofA Merrill Lynch - Analyst*

Great, thank you so much. Appreciate all the color, and congrats on the quarter.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thank you.

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**Operator**

Your next question comes from the line of Matt Sheerin, Stifel.

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**Matt Sheerin** - *Stifel Nicolaus - Analyst*

Yes, thanks, and good afternoon. Just a couple of questions from me. Regarding your guidance for EMS for the August quarter targeting 4.2% operating margin. That would be your best result in memory, and certainly above most of your peers.

In terms of getting there, how much of that is volume? In other words, are you expecting return to year-on-year growth there? And how much is based on mix and the restructuring program that you've been doing?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

I think it's a combination of both. My guess is that revenue tied directly to EMS, if you look at what we printed in 2Q, revenue in the fourth quarter will be slightly up and the balance of it will be mix. So I agree, it's margins we haven't seen in a while.

If you just go back about two, two and-a-half years, we were running that business at 2 points of margin and we've picked up whatever that is, 220 basis points of margin and great credit to the team. So I feel very good about that business.

And one of the things that gives me confidence in the EMS business is the business is incredibly diversified today. So I don't know the exact customer count, but I would guess in our EMS business alone we probably have 180 customers or so. And the income, the cash flows and the revenue are spread across a really solid customer base.

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**Matt Sheerin** - *Stifel Nicolaus - Analyst*

Okay, thanks for that. And then on the DMS business, it's backing into margin assumptions given your target and operating income for the August quarter. It looks like that's going to be in the 3% to 4% range, which is obviously a big step up from where you're going to be in the May quarter.



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And I know that as you ramp new products in the new cycle for your big customer, there are often costs and yield issues related to that. So it sounds like based on that target that you have relative confidence that you're going to be able to transition fairly smoothly with that product transition?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

As confident as we can be. There's a lot of moving parts. We have, as I alluded to in my prepared comments, our team has just tremendous capability and I have a ton of confidence in our team based on their track record, and we have great capacity installed and we intend to leverage that capacity.

I think when I shake all that up and figure out what that might look like as we sit today is I think a margin range for DMS for 4Q in the 3.3%, 3.4% range makes sense. But again, we've got a lot of work ahead of us, but as we sit today that feels pretty good to us. And I'd also remind you that other contributors to that DMS business in the fourth quarter, it has to do with healthcare and packaging as well.

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**Matt Sheerin** - *Stifel Nicolaus - Analyst*

Okay, great. Thanks very much.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

You're welcome.

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**Operator**

Your next question comes from the line of Jim Suva, Citi.

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**Jim Suva** - *Citigroup - Analyst*

Thanks very much and congratulations to you and your team there.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thanks, Jim.

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**Jim Suva** - *Citigroup - Analyst*

Can you help us understand with DMS, I believe it was, if my math is correct, up about 1% this quarter year over year. How come operating margins came down year over year? Do you expect like with volumes and efficiencies, or is it like investing in the future or how should we think about typically revenues going higher than margins should expand?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

I think it's -- I think there's a number of variables, but I would tell you that the overwhelming variable in that, Jim, is we've installed more capacity. So our infrastructure is bigger. Depreciation is bigger.



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Again, we've talked about this for a number of quarters. We could have made decisions not to put the infrastructure in place and the capacity in place, but we looked to leverage that forward-looking, so that's the biggest catalyst to what you're alluding to. There's a few other variables in there, but those knobs are fairly small.

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**Jim Suva** - Citigroup - Analyst

Great, I fully understand that. Thank you so much for your details and clarification. Thank you.

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**Mark Mondello** - Jabil Circuit Inc. - CEO

Thanks, Jim.

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**Operator**

Your next question comes from the line of Mark Delaney, Goldman Sachs.

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**Mark Delaney** - Goldman Sachs - Analyst

Yes, good afternoon, and thanks very much for taking the questions. First question is a follow up on DMS margins. Mark, you commented about the potential for utilization rates to be at a high level in the coming quarters, and you also were talking about some very nice earnings growth in the healthcare and packaging parts of the business.

So if all of those factors play out as we start thinking about later this calendar year or early FY18, how could DMS margins compare to some of the historical peak periods when it got into the high 6% range? Is that achievable or even beatable?

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**Mark Mondello** - Jabil Circuit Inc. - CEO

I think I'd think of it this way. I'd take the coaching I gave to Matt, I think it was, on the prior question in terms of 4Q. But as we move into 2018, I think the long-term range we've given for DMS in terms of margins is 5% to 7%, and I think that's achievable as we move into FY18.

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**Mark Delaney** - Goldman Sachs - Analyst

Okay, that's helpful. And then for a follow up on the EMS segment on the revenue outlook, for next quarter revenue down about 1% year over year. I know profitability is improving, but maybe you can help us understand the reason for the slight decline in EMS sales?

Is it sluggish macro? Are you guys walking away from business to improve the margins or of any specific products that are causing that -- the slight revenue decline? Thank you.

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**Mark Mondello** - Jabil Circuit Inc. - CEO

Good observation. I don't think it's any of that. I don't have a good explanation for you other than to think about 2Q to 3Q revenue is up, whatever it is, \$150 million or whatever. That business is in very, very good shape.

Could there be some circumstances where the reason margins are going up is because maybe for some small accounts or whatnot, if we weren't able to get some decent ROIC or whatnot, we walked away. There might be some of that, but overall, Mark, that business is in very good shape at the moment.



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**Mark Delaney** - *Goldman Sachs - Analyst*

Thank you very much.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

You're welcome.

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**Operator**

Your next question comes from the line of Sean Hannan, Needham.

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**Sean Hannan** - *Needham & Company - Analyst*

Yes, good evening. Thanks for taking my question here. First thing I want to see if I can ask about, the \$900 million that you folks have talked about in terms of return of shareholders through the end of FY18, how much is actually remaining on that at this point?

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**Forbes Alexander** - *Jabil Circuit Inc. - CFO*

So to date, we've returned about, what, \$300 million, something of that nature. So we're about a third of the way through, so pretty much on track. Remembering that does include dividends as well as the stock repurchasing.

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**Sean Hannan** - *Needham & Company - Analyst*

Okay, all right. So we just started simply for FY17 here. Okay. Then bigger picture question here.

As you folks think about, strategically plan for some of the changes that may influence your business coming out of Washington thinking about footprint, capacity here domestically. Can you frame for us a little bit of context of if there is a push or a little bit more of a requirement for you to support your customers more so domestically, what type of conversation have you had with customers around that? What type of availability is there within your existing footprint today and available and/or qualified capacity? Thanks.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Hey, Sean, it's Mark. So since mid-January, Forbes, myself and other Management have probably been on about 60 to 80 calls from customers asking, hey, could we run some simulations, can we run some models, what if, what if, what if. One of the things that we're not doing is we're not offering the customers positions or thoughts about what may or may not happen in terms of tariff, tax, et cetera.

But I think we're in a great position to run a bunch of different what if scenarios. One of the things we've encouraged our customers to do is run three, four, five scenarios so they get it into muscle memory. And therefore, depending on whatever happens in terms of DC and the US government, we're ready to act swiftly.

I think we're very well positioned on an absolute basis and a relative basis. If you think about business coming back into the US, Jabil has a significant amount of capacity in the US and resource and headcount. We've also been building product in the US forever.

If you think about Jabil from a political standpoint, we're in NYSE, US domiciled Company. So I think both practically and politically, we're in a very, very good position to help.



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Then I would supplement that by saying our digital cloud-based analytic tools in terms of supply chain analytics are being exercised quite heavily at the moment, running a bunch of these different scenarios. So for us, it's being well prepared, helping our customers be well prepared and we'll see what happens in the coming months out of Washington.

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**Sean Hannan** - *Needham & Company - Analyst*

Okay, that's very helpful. Thanks so much.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thank you.

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**Operator**

Your next question comes from the line of Sherri Scribner, Deutsche Bank.

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**Adrienne Colby** - *Deutsche Bank - Analyst*

Hello, it's Adrienne Colby for Sherri. Thanks for taking the question. I was wondering if you could comment on what drove the upside in EMS sales versus expectations in the quarter? And along with that, what was driving the expectation for a decline in sales next quarter?

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**Forbes Alexander** - *Jabil Circuit Inc. - CFO*

So, hello, this is Forbes. In terms of the upside this particular quarter, it was relatively broad-based. I think it was only, what, \$25 million, \$30 million to our expectations. So pretty broad-based, certainly given the number of customers in that EMS segment that Mark discussed earlier.

As we move forward into Q3, we're down 1% on a year-over-year basis, sequentially up 5%. So it's in really good shape. Again, we talk in percentage terms but it's a little bit of rounding in the revenue on a year-over-year basis than what \$30 million or something of that nature. So that business is performing well, really across all the business sectors, if you will, and with that very nice sustainable margin profile.

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**Adrienne Colby** - *Deutsche Bank - Analyst*

Thanks. And as a follow-up, at your Analyst Day last fall, you talked about new market opportunities Jabil was looking to penetrate with 3D printing and digital supply chain tools. Just wondering if there are any updates you can share on those initiatives or any new customers you can talk about?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Can't talk about any new customers. I think I would characterize both in the digital world as well as 3D print as well as new markets, I would characterize it as in all cases we're either at or ahead of plan. So we feel pretty bullish about all those areas.

And again, none of those will have an impact in the back half of 2017 and they probably won't have much of an impact in early 2018. I would guess that those type of businesses will start to be impactful the back half of 2018 and moving into FY19.

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**Adrienne Colby** - *Deutsche Bank - Analyst*

Thank you.

**Mark Mondello** - *Jabil Circuit Inc. - CEO*

You're welcome.

**Operator**

Your next question comes from the line of Steven Fox, Cross Research.

**Steven Fox** - *Cross Research - Analyst*

Thanks, good afternoon. Just first on the EMS margins, could you give us a sense for the 50 of basis points improvement year over year, how much of that was from just cost down versus mix and volume?

And then along similar lines on EMS margins, as you move towards the 4.2%, is there an assumption here that new business in general us is being added at around 4% margins or is that not necessarily the case? Then I had a follow-up.

**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thanks, Steve. I don't think I'd make that assumption. I think, again, I touched on this a little bit in prepared remarks.

The EMS team is just doing a phenomenal job in terms of asset utilization, execution. And then I hit on it quickly, but we're into year three of our org structure changes.

And what I'm observing is that all the different end markets and the different sectors we serve across EMS, again, it's broad-based, we've got teams now that really, really understand the marketplace. Can talk to customers in their language, whether it be automotive or energy or cloud data or hyper data or metering or whatever it may be. And it's making a big difference.

So I think I'd answer both of your questions the same. The uplift for this quarter and then the outlook for 4Q, it's all about the fact that that business our approach is different, we're being very, very diligent on business that we're saying yes to, and cumulatively and overall that's a -- it's a big book of business. It's \$11 billion going to \$12 billion, what we're doing is working.

**Steven Fox** - *Cross Research - Analyst*

Great, that's helpful. And then just on the healthcare and consumer packaging business, in terms of the confidence around the 20% profit growth profile over the next couple years. Is there anything you can point to, successes during the quarter just completed or things you've booked for this quarter that give you more confidence around that number since you last talked to us?

**Mark Mondello** - *Jabil Circuit Inc. - CEO*

What gives me confidence is we've been -- we've had our pick and our shovel hand in hand grinding in the healthcare and packaging business for the last two and-a-half, three years. The team is awesome. Our value proposition has finally framed out to where it's being really well received in both markets, and the last couple years have been to me more of an investment phase.



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So we've added resource, we've taken away from some of the income through increasing OpEx. And Steve Borges and his group and Eric Hoch in our packaging group, they've put together what I'd characterize as pretty amazing teams and our value prop in both of those areas is taking hold. So my confidence as I sit here today on the 20% CAGR from 2016 to 2019 is very high.

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**Steven Fox** - *Cross Research - Analyst*

Great, thank you very much.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thanks, Steve.

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**Operator**

Your next question comes from the line of Amit Daryanani, RBC Capital Markets.

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**Amit Daryanani** - *RBC Capital Markets - Analyst*

Thanks, good afternoon, guys. I guess two questions from me.

Mark, last quarter, you talked about DMS revenues in the August quarter this year would be roughly equal to what you saw in the August of 2015 quarter. Would you recalibrate that expectation, or do you still feel pretty good about that \$1.9 billion bogie for Q4 for DMS?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Well your observation is correct. Again, Amit, you know this business as good as anybody on the call. And you know the variables, you know the catalysts, you know the puts and the takes. It's a high bet business, and I'll just say that, again, I think our team does an amazing job.

I think we're reasonably well positioned, and we'll see how it plays out. But I feel pretty good about what we said in prepared remarks and, again, we'll know better after we get through the fourth quarter. But as we sit today, things look pretty good.

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**Amit Daryanani** - *RBC Capital Markets - Analyst*

Got it. My views are again, you guys talked about the EMS segment being around 4% operating margins, today you're talking about 4.23, modestly upticking there. I don't think you've changed your broader discussion around the Company's profit. Does that imply that DMS margins are somewhat below what you thought they would be 90 days ago?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

No, not at all. I think our DMS margins are exactly where we thought they'd be for the balance of this year. I think that there was a question earlier that was around this topic, and I think we have a good opportunity to get DMS margins back in the 5% to 7% range as we move into Fy18. You combine that with the EMS margins and things could look pretty good.

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**Amit Daryanani** - RBC Capital Markets - Analyst

Fair enough, thank you.

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**Mark Mondello** - Jabil Circuit Inc. - CEO

Thanks, Amit.

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**Operator**

Your next question comes from the line of Peajes Venkatesh of UBS.

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**Peajes Venkatesh** - UBS - Analyst

Hello, I'm filling in for Steve. But in case mobility surprises on the upside, I wanted to get an update on what amount of incremental revenue you can drive based on available capacity and within that \$500 million to \$600 million CapEx envelope?

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**Mark Mondello** - Jabil Circuit Inc. - CEO

I don't think the uptick in the mobility space is tied at all to the CapEx number. So the CapEx number, as we play out the rest of the year with money that we haven't spent yet, I think CapEx so far first half of the year is around \$300 million.

Very little of any CapEx for the rest of the year is going into mobility. Our assets are largely in place, and I would suggest that against everything you've heard today we could take a bit of an upside on the installed asset base that we already have in place.

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**Peajes Venkatesh** - UBS - Analyst

Got it. And then how did networking and storage do during the quarter?

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**Mark Mondello** - Jabil Circuit Inc. - CEO

They held their own. That's a bit of a broad-based question because storage today is legacy storage and also cloud-based storage. I'd say the cloud-based storage, the hyper data, is performing better than some of the legacy storage. But overall, I'd say it's holding its own.

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**Peajes Venkatesh** - UBS - Analyst

Thank you.

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**Mark Mondello** - Jabil Circuit Inc. - CEO

You're welcome.

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**Operator**

Your next question comes from the line of Adam Tindle, Raymond James.



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**Adam Tindle** - *Raymond James - Analyst*

Okay, thanks and good afternoon. Just wanted to ask on DMS, it looks like revenue is going to grow relatively consistently with your long-term goals of 5% this year but operating margin will be down to the low 3% range. So I'm just trying to understand how we bridge the 5% to 7% DMS operating margin that you mentioned could be achievable in FY18 given it looks like revenue is currently growing at plan?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Well, we haven't provided any outlook for FY18 yet. So everything you're looking at is truncated at the end of 4Q, so it's hard to extrapolate that out.

I think we'll see. I think we'll talk more about that in the June call, Adam. But again, do I think the 5% to 7% range for DMS is achievable in 2018, I do. And again, I've been very bullish on commentary around packaging and healthcare.

There's also a significant amount of business in our overall DMS segment that is unrelated to handsets, and you guys can make the judgment on how you feel about the overall handset market. But we've made some commentary around the fact that we've got a substantial amount of fixed assets in place, and we feel like we'll get some decent leverage on those assets in the first part of 2018.

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**Adam Tindle** - *Raymond James - Analyst*

Okay. And given -- I understand that much of the depressed margin issue is attributable to the fixed costs. What level of revenue do you think you need to achieve that 5% to 7% goal?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

We'll talk more about that in the June call most likely.

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**Adam Tindle** - *Raymond James - Analyst*

All right, fair enough. Thanks.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thanks, Adam.

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**Operator**

Your next question is a follow-up question from the line of Sean Hannan of Needham.

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**Sean Hannan** - *Needham & Company - Analyst*

Thanks for taking my follow-up here. My follow-up actually had been answered. But let me see if I can come up with another one for you folks while I've got the opportunity.



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So the EMS side of the business, it looks like, at least the way that we're moving today, August should be up both sequentially and year on year. So I want to see if we can validate that, number one.

And then number two, given that there has been a lot of portfolio optimization that's been occurring, as we get to the back end of this year, do you feel that the business should be in a better position to have more sustainable growth, albeit whatever that level is? But a little bit more consistency in being able to demonstrate year-on-year growth? Thanks.

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thanks, Sean. I'm not sure I understood your question. I think you made a comment -- not so much a question but a comment that EMS 4Q 2016, 4Q 2017, there's growth there.

I think I said on my prepared remarks we thought a 4.2% core op margin in the fourth quarter was a good place to drive models. If we were to achieve that, again, lots of work ahead, but if we were to achieve that I think that's about a 40 basis point pick-up from 4Q of 2016. So if that's what you were alluding to -- .

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**Sean Hannan** - *Needham & Company - Analyst*

Mark, yes, actually what I was looking to try and see if we can call out was really on the top line, I think that there is an opportunity where you can grow that EMS business in the August quarter top line sequentially as well as year on year. So I wanted to see if we could validate if that's still an opportunity, even though we've been doing a lot of portfolio trimming?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Yes, I think that if I remember right in 4Q of 2016, EMS was around \$4.4 billion. I think next quarter, so 3Q of 2017, EMS will be about \$4.4 billion. And I think that as we move into the fourth quarter of 2017 for us to deliver a decent year relative to consensus, EMS revenues have to be up a decent amount.

So I think a good estimate there might be for 4Q in the \$4.8 billion, \$4.9 billion -- excuse me, for EMS, \$2.9 billion range. So Q4 EMS \$2.8 billion, Q4 2017, \$2.9 billion, somewhere in that range.

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**Sean Hannan** - *Needham & Company - Analyst*

Got you. And then since we've done a lot of portfolio optimization within the business, we're driving our margins up. There's some pieces that came out of the top line more near term.

Is this largely accomplished now? Does this continue to happen? And then do we get to a point where as we exit 2017 that we're able to have a little bit more consistency in terms of year-on-year growth for that segment?

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**Mark Mondello** - *Jabil Circuit Inc. - CEO*

I think -- how would I want to answer that? I think we're efforting -- our whole strategy around EMS is to grow cash flows and do it on a more predictable consistent basis. I think we'll see if we accomplish that, I don't know that we're there yet.

But I think one good proxy would be the last five or six earnings calls around EMS and our commentary around EMS forward-looking, we've delivered to that. So I think that's a pretty decent proxy. I think as we get into the June call and the September calls, we'll give you better call an annual basis of where we think EMS will be.

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**Sean Hannan** - *Needham & Company - Analyst*

That's all very helpful. Thank you so much.

**Mark Mondello** - *Jabil Circuit Inc. - CEO*

Thanks, Sean.

**Operator**

That does conclude the Q&A session for today. I would now like to turn the call back over to Beth Walters for any closing remarks.

**Beth Walters** - *Jabil Circuit Inc. - SVP of Communications & IR*

Thank you, everyone, for joining us today on our earnings call, and we certainly will be here the rest of the evening and week for any follow-up calls with investors, analysts and the investment community. So thank you again for your interest and participation.

**Operator**

That does conclude today's conference call. Please disconnect your lines at this time, and have a wonderful day.

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