THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

JBL - Q1 2018 Jabil Inc Earnings Call

EVENT DATE/TIME: DECEMBER 14, 2017 / 9:30PM GMT

CORPORATE PARTICIPANTS

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

Forbes I. J. Alexander *Jabil Inc. - CFO*

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

CONFERENCE CALL PARTICIPANTS

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

Adrienne Eleanor Colby *Deutsche Bank AG, Research Division - Associate Analyst*

Amit Jawaharlaz Daryanani *RBC Capital Markets, LLC, Research Division - Analyst*

Jeangul Chung *JP Morgan Chase & Co, Research Division - Analyst*

Jim Suva *Citigroup Inc, Research Division - Director*

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

Matthew Sheerin *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

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

Sean Kilian Flanagan Hannan *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Steven Bryant Fox *Cross Research LLC - MD*

Thejeswi Banavathi Venkatesh *UBS Investment Bank, Research Division - Associate Director and Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Jabil's First Quarter Fiscal Year 2018 Earnings Conference Call. (Operator Instructions)

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

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

Thank you, operator, and welcome, everyone, to our first quarter of fiscal year 2018 earnings call. Joining me today are our CEO, Mark Mondello; and our 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 first 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 second quarter of fiscal 2018 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. An extensive list of these risk and uncertainties are identified in our annual report on Form 10-K for the fiscal year ended August 31, 2017, on subsequent reports on Form 10-Q and 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 Mark, with his comments on our outlook for the business in fiscal 2018. Forbes will follow with comments on our first fiscal quarter results and guidance for our second quarter of 2018. Following our prepared remarks, we will open it up to questions from our call attendees. I'll now turn the call over to Mark.

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

Thanks, Beth. Good afternoon. I always appreciate everyone taking time to join our call. I'll begin by thanking our folks here at Jabil for their continued dedication and commitment. I'd also like to extend my sincere gratitude to each and every employee here at Jabil for making safety their personal priority. You see, keeping people safe is Job 1 in all we do. And finally, I'd like to wish each of you a peaceful and blessed holiday season.

Now let's take a look at our first quarter results. The quarter was excellent as the team delivered $227 million in core operating income on revenues of approximately $5.6 billion, resulting in core earnings per share of $0.80. For me, these results further illustrate the strength and diversification of Jabil's income, especially when paired with our outlook for the balance of the year. I'm pleased with the quarter and the nice start to fiscal '18. As customary, Forbes will provide more detail around our results during his prepared remarks.

I'd now like to address current business at hand, starting with our EMS segment. Jabil's EMS team is driving a progressive transformation, advancing their methods in which they serve a broad range of end markets. Markets such as energy, industrial, print and retail, automotive, semi-cap equipment, networking telecom and data storage. A key element of the transformation is the deliberate pivot towards higher-margin businesses, as the team leverages engineering excellence and deep domain know-how day in and day out. In short, this is what we refer to as EMS 2.0. Clearly, our EMS value proposition has taken hold. Our team has done an outstanding job performing to plan, seeing core operating margins approach 4% for the year, while showing revenue growth of 3.5% year-on-year. It's good news all the way around.

Next, I'll move to our DMS segment, starting with our high-growth health care and packaging businesses. These 2 businesses continue to grow at a rate of 20% to 25% per year through fiscal '19, a true testament to our health care and packaging teams as they play squarely in areas undergoing material disruption. Examples of the disruption being the urgent demand for affordable health care and the convergence of intelligent yet fully reliable consumer packaging. Both examples being relevant to Jabil's story.

I feel good about the outlook we see across both of these businesses as our health care and Consumer packaging teams create specialized solutions through the use of new technologies and digital innovation.

Lastly, but certainly not least, let's talk about the remaining commercial sector within our DMS segment, Jabil's Green Point business. Looking back at the first quarter, our team successfully supported numerous program ramps, demonstrating good execution and cost controls, while navigating complicated processes at extreme scale. As we've highlighted for the past 24 months, the income generated within our Green Point business is becoming more and more diversified, diversified across a wider range of technologies and hardware platforms.

In concluding my comments specific to our Green Point business, we're now seeing more and more intricate assembly and automation required, as an integral complement to our precision mechanics expertise, resulting in solutions which are directly in Jabil's wheelhouse.

I'll now take a few minutes and address the company at an enterprise level, starting with second quarter guidance. Our 2Q guidance suggests another strong quarter, a quarter of 25% core EPS growth year-on-year and a quarter which would complete a very solid first half to the fiscal year. Moreover, we anticipate that core EPS for the second half of fiscal '18 to grow 20% to 25% year-on-year when indexed against the back half of fiscal '17. The result, I believe, will be core earnings in the neighborhood of $2.60 a share for fiscal year '18.

As we focus on cash flows and earnings, our leadership team remains steadfast in their commitment to complete our 2-year capital return framework, where we remain on target to return $1 billion to shareholders by way of stock repurchases and dividends by the end of this fiscal year.

If we widen our aperture and expand the view of our time horizon from 2 years to a 3-year time window, encompassing fiscal year '17 through fiscal year '19, what we see is highly encouraging: projected revenue growth of 4% to 5% a year, core EPS growth of 16% to 20% per year, and cumulative cash flow from operations of $3.5 billion over this 3-year time period. Again, fiscal year '17 through fiscal year '19.

On top of all this, we're investing heavily for our future, investing in the areas of material sciences, additive manufacturing, automation and robotics, and various digital platforms, just to name a few. These investments are planned and executed with a sense of purpose, underpinning our belief for success, a belief that when successful, implies a compounded growth rate north of 15% for Jabil's core earnings per share from fiscal year '16 to fiscal year '19.

Before I hand the call over to Forbes, a few parting thoughts. Shareholders remain at the forefront of our actions. To this end, we believe in what we're doing, and we have a credible plan based on sound assumptions and historical data, much of which I've shared in today's prepared remarks. Our leadership team remains confident, confident because we continue to make a real difference as we strengthen our wonderful portfolio of businesses.

At Jabil, we're helping make the world and the communities in which we work, better, healthier, and safer. And today, we have the infrastructure, the ingenuity and the talent, which offer us a real opportunity to become the most technologically advanced manufacturing solutions company in the world.

As I think about this ambitious goal, I think about an impactful quote from British novelist C. S. Lewis. Mr. Lewis said, "Isn't it funny how day by day nothing much changes, but when you look back over time, so much is different." Isn't this so true in life? It's certainly true here at Jabil, where our team is authoring change, change that I believe is proving to be quite positive.

Thank you, and happy holidays to all. With that, I'll now turn the call over to Forbes.

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Thank you, Mark. Good afternoon, everyone. I'd ask you to turn to Slide 3, where I'll review our first quarter fiscal 2018 results. Net revenue for the first quarter was $5.6 billion, growth of 9% on a year-over-year basis. GAAP operating income was $146 million, with GAAP net income of $64 million. GAAP net diluted earnings per share was $0.35 for the quarter. Core operating income, excluding the amortization of intangibles, stock-based compensation, business interruption, restructuring and related charges, was $227 million, and represented 4.1% of revenue. Core diluted earnings per share were $0.80.

Now turning to Slide 4, I'll discuss our first quarter segments. Revenue from our Diversified Manufacturing Services segment was $2.7 billion, an increase of 13% on a year-over-year basis and in line with previous guidance. This represented 49% of total company revenue. Operating income for the quarter was 5.2%. Our Electronics Manufacturing Services segment revenue was $2.9 billion, an increase of 6% on a year-over-year basis and represented 51% of total company revenue. Operating income for this segment was 3%.

Net capital expenditures for the first fiscal quarter totaled $198 million. Net capital expenditures for the full fiscal year remain on track with our previous expectations of $700 million. As anticipated, our first quarter was characterized by expansion of working capital and as a result, cash flows used in operations were $54 million. Cash flows from operations for the full fiscal year continue to be expected in excess of $1 billion.

Our core return on invested capital for the quarter was 21%, an improvement of some 340 basis points on a year-over-year basis. Core EBITDA for the quarter was approximately $412 million, representing 7.4% of revenue. Our total debt to EBITDA levels at the end of the quarter were 2x, while cash balances were $746 million.

I'd like to quickly address our capital return framework. This framework remains a key focus. Our plans to return 40% of cash flows from operations via dividends and share repurchases, up to a maximum of $1 billion, very much remains on track. In the first quarter, share repurchases were $93 million. And since the inception of our capital return framework, we've repurchased 20.3 million shares at an average price of $24.28, totaling $493 million. At the end of the quarter, $357 million remains outstanding on our current stock repurchase authorization.

Turning to our restructuring plan. Our restructuring activity remains on track. During the quarter, we recorded approximately $11 million associated with this activity. We anticipate conclusion of this plan and charges of approximately $35 million during fiscal 2018, and full savings associated with this plan of $70 million to $90 million continues to remain on track to be fully realized commencing fiscal 2019.

Turning to our operations in Puerto Rico. As I discussed on our September earnings call, our operations in Puerto Rico suffered significant damage as a result of Hurricane Maria. Ongoing recovery activities continue, and I'm pleased to advise that late in the first quarter, we saw and we continue to see some limited operational activity taking place. In the first quarter, we recorded net charges of $7 million being cost of recovery and repair offset by insurance proceeds. We continue to await final assessments of damage, and we expect majority of all such costs to be recovered from insurance proceeds during the full fiscal year.

I'd now like to turn to our second quarter fiscal 2018 outlook, which can be found on Slide 5. The Diversified Manufacturing Services segment revenue is expected to increase approximately 25% on a year-over-year basis to approximately $2.2 billion, while the Electronics Manufacturing Services segment revenue is expected to increase 1% on a year-over-year basis, to $2.7 billion. We expect total company revenue in the second quarter to be in the range of $4.75 billion to $5.05 billion or an increase of almost 10% to the midpoint of the range on a year-over-year basis.

Core operating income is estimated to be in the range of $160 million to $200 million, with a core operating margin in the range of 3.4% to 4%. Core earnings per share were estimated to be in the range of $0.50 to $0.74 per diluted share, and GAAP earnings per share is expected to be in the range of $0.31 to $0.57 per diluted share.

And finally, the tax rate on core earnings in the second quarter is estimated to be 23%. The rate for the second half of the year is estimated to be in the range of 26% to 27%. And thus, the full fiscal year estimated to be 26% based on current levels of forecasted income.

Thank you, and I'd now like to hand the call back to Beth.

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

Thanks, Forbes. As we begin our Q&A session, I would like to remind all of our call participants that, in customary fashion, we will not be able to address any customer- or product-specific questions. So thank you very much for your cooperation in advance.

Operator, we're ready for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes the line of Adam Tindle of Raymond James.

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

Just wanted to start on your fiscal '18 EPS guidance. It seems to imply a similar shape as last year in terms of first half versus second half percentage weights of total EPS. Maybe just help us understand how you're thinking about the cadence of this year versus last year, because I think, if we think about last year, about 75% of total DMS profit dollars came in the first half of last year. And I think there was some hope that this year might be a little bit more linear. So any comments on the cadence of first half versus second half?

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

Adam, thanks for the question. So I don't know if you're speaking solely for the whole company or one of the segments. I think, if you looked up -- and I don't remember the exact numbers, right, but in fiscal year '17, our first half was about $360 million, I think, in profits, and the first half this year was quite a bit stronger, over $400 million, if we hit guidance as suggested today. So kind of first half to first half '17 to '18 will probably be up in the ballpark of 15%, and then, second half of '17 to second half of '18. Again, if you kind of take the $2.60, extrapolate out what the back half looks like, second half to second half, I think, also, will be up about 15%.

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

Okay. That's helpful. I wanted to ask also, Mark, on the capital return program. I understand you're committed to the 2-year return program. You certainly delivered thus far. You've also outlined some exciting growth opportunities ahead. So as you think beyond the fiscal '18, when this commitment ends, how are you thinking about the balance between investing in these new areas versus returning cash?

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

So I'm always bullish on investing, and cash flows, when we -- I think we put this plan in place in June of '16, we did so because we felt like over the 2-plus years, we had enough cash flow to make investments required, which for me is kind of a #1 priority, and still return a substantial amount of our cash flows to investors. We'll have conversations with our board, both in the upcoming January board meeting, and then, the April board meeting. And as we move through the year, either on the March call or the June call, you can expect additional color and detail around what capital returns might look like in fiscal year '19 and '20.

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

Okay. And just to clarify, for fiscal '18, I think, before, you were talking about CapEx in the neighborhood of $700 million, but it's annualized a little bit higher than that. Is $700 million still the right way to think about fiscal '18 CapEx?

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Adam, this is Forbes. Yes. $700 million is where we're targeting. A little bit heavier in the first quarter, but it's following a similar pattern to last year. So $700 million. I think, I'd just also add, in terms of the overall cash flows, what we outlined at our Analyst Day, just over a year ago, was expectations generate about $3.5 billion of operational cash flow over fiscal year '17, '18 and '19. So that's still very much in play. So I think we have plenty of liquidity, plenty of cash generation as we move forward here to both support shareholder returns and investments for growth.

Operator

Your next question comes the line of Steve Milunovich, UBS.

Thejeswi Banavathi Venkatesh - *UBS Investment Bank, Research Division - Associate Director and Analyst*

This is Tejas Venkatesh on for Steve Milunovich. I want to ask about the Green Point and your efforts to diversify there. In our supply chain checks, we constantly hear of new Asian competition to deliver casings. How concerned are you? And then, maybe you could speak to the diversification efforts there?

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

We're always concerned about competition, but we have been for the last 25 years. So -- and that's kind of across the whole company. I don't know. I'd just be careful in kind of maybe what you hear, and try to differentiate kind of fact from fiction. But as I said in my prepared remarks, I think we're doing an awfully good job across our Green Point business, in terms of diversification. And I forget the words I used, but that's in technologies and different hardware products and platform.

Thejeswi Banavathi Venkatesh - *UBS Investment Bank, Research Division - Associate Director and Analyst*

And across customers? And new customers as well?

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

Yes. New customers for sure.

Thejeswi Banavathi Venkatesh - *UBS Investment Bank, Research Division - Associate Director and Analyst*

Okay. And as a follow up, could you talk about what drove strength in EMS this quarter? There's a lot in there.

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

Well, we had good strength in terms of revenue. I would suggest that we had slight weakness for EMS in Q1. We thought Q1 EMS would be in 3.1 to 3.2 percentage range in terms of op margins. I think we printed a 3.0, and that was due to we've got a lot of moving parts as you heard in my prepared remarks, and I didn't cover all of them. But the end markets and the businesses inside of EMS encapsulate a large number of end markets, and probably, I don't know, 200-plus customers. So overall, really pleased with the quarter. We had a lot of product transitions, product ramps. I would say that op income was maybe off by 10, 20 basis points, which is $5 million, not overly concerning. And areas where we continue to see near-term strength are areas of automotive, energy, semi-cap equipment, and various areas of industrial.

Operator

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

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

The first question is on packaging and health care. Mark, I think you talked about 20% to 25% growth over the next 3 years. Is that an acceleration from what you had said in the past? I think, last quarter you said 20%. So are the revenues in health care and packaging growing faster than you thought? And then, can you also comment on the margins in that space? Are they well within the 5% to 7% range that you have for DMS?

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

Thanks for the question. So just to be sure we clarify, what I've commented on in the last 3 calls, inclusive of this call, is that from, say, fiscal year '16 through fiscal year '19, we see packaging and health care growing at a rate of, say, a 20% CAGR. I think in my prepared remarks a few minutes ago, I said it was 20% to 25%, and that will -- we have confidence in that through fiscal year '19. And again, it's just the overall strength of the business, the disruption of both of those businesses and I think we continue to be very well-positioned. In terms of margins, we just -- at this point, we just don't break that out as my belief would be as health care and packaging continue to be more and more material, at some point, we might break out those businesses or those sectors.

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

You said your EMS margins are pretty much on line to get to 4% this year. When we look at the overall guide for the next quarter, it would imply that the DMS margins are a little bit weaker. Is there -- is that related to the cost challenges you had in the September quarter? Any color on the DMS margins next quarter would be helpful.

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

No. I wouldn't read too much into that. I -- in my prepared remarks, I think I said something about EMS approaching 4%. So for the year, I think we're in pretty good shape to hit 3.9%, 4% for the whole fiscal year '18. If you take our guide, we've kind of guided revenue, but we haven't really guided specific percentages. But I would envision Q2 of '18 versus Q2 of '17 to be very close in terms of op margin. I didn't talk about it too much on this call, but the last call I talked about EMS kind of top line bottom line year-on-year '17 to '18 growing about 3%. We're seeing revenue maybe slightly stronger than that. I think, today, I said revenue would grow closer to 3.5%, and the shape of the year would be similar to last year, and that still holds.

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

That's helpful. And last question for me, for Forbes, I think you've guided the tax rate for next quarter to 23% versus 26% guide for this quarter. Anything happening on the tax rate? And how should we think about the tax rate for the full year?

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Yes. So for the full year, Ruplu, I'd ask you to model 26% type rate. So not dissimilar to what I said 90 days ago. What we're seeing is a shift in the mix of earnings from tax advantaged areas quarter by quarter, a little bit different than I expected at the start of the year. So 23% in Q2, and then you'll see it come back up to that 26%, 27% in the second half of the year, averaging out at 26% for the full year.

Operator

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

Steven Bryant Fox - *Cross Research LLC - MD*

I was wondering if you'd talk a little bit more about, you mentioned in your prepared remarks, Mark, about some specialized solutions that are helping growth in CPS and Nypro. Is there any other color you can provide exactly what you meant by that? And then, I had a quick follow-up.

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

Well, it's certainly around sensors. It's certainly around the digital platforms we're creating. It's certainly around some material sciences, and it's certainly around the way that we're running the factories, both with packaging and health care. I think that the one good news, Steve, on kind of a macro basis is our observations are that the overall health care wellness area is going through, again, a bit of a disruption, where people are just adamant about what I would say maybe fair health care services at a much better price point. And that leans perfectly into kind of what we do for a living if you combine our capabilities with our cost structure and our solutions. On the packaging side, we're seeing, again, a lot of disruption going on. If you think about somebody like Amazon coming into the retail space, you think about how Millennials are acquiring just about everything. Intelligent packaging and then, the way the exterior of the package looks, the shape of the package, the protection of the package, that's all changing, and I think, again, in large favor to what we do really, really well. So again, for the last 2, 2.5 years, we've been banging the drum pretty hard and pretty bullish in those 2 areas. And again, that's still holds today, and we think will hold certainly through fiscal '19 and hopefully through fiscal year '20.

Steven Bryant Fox - *Cross Research LLC - MD*

Great. That's really helpful. And then, just as a quick follow up, a little bit embarrassed to ask this, since I was so bullish on the EMS margins last quarter. But the slight disappointment in the EMS margins, you're saying that it's nothing unusual during the quarter. It was just a little bit here, a little bit there, and you wouldn't call out anything specifically. Is that clear? Is that the right way to look at it?

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

Yes. I wouldn't worry about that. It's $5 million, $6 million, and not to make light of $5 million, $6 million, but all of that business, if we kind of shake it up and looking at it holistically, is in good shape for the year.

Operator

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

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Just a question regarding the DMS guidance for up 25% or so year-over-year. That implies better than seasonality if you look historically. And I know there's product cycle going on right now. Just trying to figure out how much of that is due to specific product cycles or the diversification that you talked about, particularly at Green Point, where you're seeing opportunities across customers in product sets.

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

Yes. So I think it's a combination of maybe a change in -- maybe a change in what historically has been seasonality in parts of that business, and the other part of that is health care packaging, and then, kind of staggered overall program launches as well as the diversification. So if I try to think about the strength, I think it cuts across all 3 or 4 areas. The DMS business today, and this is what gets kind of tricky and maybe frustrating for the investment community, is the business, it's just so hard to kind of compare it even to 2 years ago because our DMS business, the way it's shaped and looks today, as well as the overall content of that business, it's just -- it's changed significantly, and I think it will change even more over the next 2 years.

Matthew Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. That's helpful. And just a follow-up for Forbes. Regarding the guidance of roughly $2.60 in EPS for fiscal '18. Does that include or assumption for the buyback, the remaining $360 million or so in share repurchases?

Forbes I. J. Alexander - *Jabil Inc. - CFO*

It does, Matt. Yes. Assume that, that $450 million is consumed by the end of August.

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

Yes.

Operator

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

Amit Jawaharlaz Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

I guess 2 for me. One, maybe to follow-up on Matt's question. The DMS guide that you guys are implying for Feb is down less than what it typically is. A lot of your -- a lot of companies in the supply chain, I guess, at our Big Apple exposure have talked about seasonality kind of getting pushed out one quarter. For Mark, I mean, do you think there's a point where, maybe, the May quarter numbers in DMS will be down more than what historical seasonal patterns are because of that push out? Or that doesn't seem to be the case from what you guys see so far?

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

Well, you're right. The decline -- if you look sequentially Q1 of '17 to Q2 of '17, and you compare that Q1 of '18 to Q2 of '18, our guide would suggest a much smaller decline, that's true. I just think, again, when you think about our diversification, I think you got to think through when you're talking about market data, market data according to what? What customers? What products? What end markets? Again, our DMS business overall continues to become more diversified. It does encapsulate health care and packaging. And then, within, say, the mobility space and the consumer lifestyle space, our business, again, continues to change both based on what we're doing internally, products that we're on, and then, some external changes to the shape of the end markets. So again, it's just -- I hate to say this, but it's true. It's just -- it's getting harder and harder to compare kind of year-on-year.

Amit Jawaharlaz Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

Fair enough. I guess, just on the EMS side, to shift gears. You mentioned a couple of times, I guess the way you ran the math was op margins and EMS will go from 3% in November to, call it, 3.7% in Feb. I think you said it will be flat year-over-year, if I'm not mistaken. Just help me understand, how do you get to that margin expansion? Because I don't think revenues are going to go up that dramatically for you guys, in the Feb quarter, on a sequential basis. So what enabled the 60, 70 basis points of margin expansion, when the revenue tailwind isn't there?

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

I'll try to think through the math in my head. So stick with me. I think we just printed 3% in EMS for Q1. I said that Q2 of '18 would be similar to '17, so what we'd be looking at is 3.6%, 3.7% on the op margin line. If you compare what we just said in terms of our guide for Q2 of '18 for EMS, the revenue looks awfully familiar to the revenue in Q2 of '17. So again, as you can imagine, our teams running this large, $11 billion-plus, $12 billion business. There's a lot of moving parts in terms of cost and investments. So that's all it is. In terms of the strength, the bullishness of the business, I bring it back to 3, 3.5 years ago, we were running that business at 2%, 2.5% margins. And this year we're going to be bouncing right up against 4%. So again, I wouldn't read too much into the quarter-on-quarter numbers for the year. That business remains very healthy.

Amit Jawaharlaz Daryanani - *RBC Capital Markets, LLC, Research Division - Analyst*

Got it. And just a final one, I'll cede the floor. Forbes, how do we think about your tax rate with the potential passage of tax reform at this point? Is there a way to think about what the structural rate could look like, if this tax bill gets through?

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Yes. So structurally, little impact if we do see these changes suggesting to on the corporate rate, 21%. We're not a big U.S. taxpayer. Most of our operations are out of the country. So no structural change there. I think, where the opportunity lies, is when we look at cash repatriation on a forward-looking basis. So clearly, all in favor of that and a territorial system. And so hopefully, we'll hear more about this in the coming weeks.

Operator

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

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

You gave a lot of details on the presentation and questions. So I guess I'll switch and not focus on DMS, but rather on EMS. It looks like you had a better-than-expected quarter for the November quarter with, I think, revenues were up around 6% year-over-year. Can you give any insights about kind of what end markets or where the strength in EMS came from? And then, it's interesting to note, if I read your slides correctly, it looks like the February outlook is for up 1%. So a bit of a deceleration from this quarter. Can you kind of help us bridge the strength to a bit of a deceleration?

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

Sure, Jim. So again, so many moving parts as I've said before, kind of hard, always, to put this in 90-day buckets. If I think about commentary for EMS the last couple of calls, been pretty bullish on the growth rate, both top and bottom line. Took the revenue number up a little bit higher. So I think last call I said that EMS top line would be up around 3%. I think, in today's prepared remarks, I said that might be closer to 3.5%. In terms of 1Q, it's just the business performed extremely well. The -- again, the reason we were off, maybe, 10, 20 basis points on margin is a lot of product ramps, transitions, which drove the strength in revenue. And you're correct, I think, 1Q of '18 compared to Q1 of '17, it was up about 6%. And then, Q2 of '18, Q2 of '17. It's up, I would just say, marginally to flat. But if I take a look at kind of the first half of '18 versus the first half of '17 and you blend all that together, I think EMS will be up a little over 3% first half to first half. And then, the back half, I would imagine, would be about the same. And again, aggregate all that up, I think revenue for the year will be up around 3.5% for EMS as a whole. In terms of where we're seeing strength, I commented earlier. Certainly, automotive energy a bit across some of our industrial businesses, and then semi-cap equipment, and I could add 3 or 4 other sectors on to that, but it's fairly modest so that's right. I think some of the strengths coming from, if I look at it, on an annual basis.

Operator

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

Adrienne Eleanor Colby - *Deutsche Bank AG, Research Division - Associate Analyst*

It's Adrienne Colby for Sherri. I was wondering, within the EMS segment, if you could comment on the trends you're seeing in legacy storage and server business as well as trends in your cloud-related business?

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

I would say that we're seeing areas of kind of neutral to softness across some storage platforms. In terms of overall kind of hyper cloud and cloud data storage, certainly stronger than in the areas of kind of legacy data storage, if that's helpful.

Adrienne Eleanor Colby - *Deutsche Bank AG, Research Division - Associate Analyst*

It is. And as a follow up, I was wondering, in the quarter, you talked about opening 2 new Blue Sky innovations, I think one in Singapore and one in Italy. Just wondering if you could talk about the strategy for those centers, how you're -- how many you're planning to. What the startup costs are? And your expectations in terms of areas that these centers will be focusing on?

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

Probably won't get into that detail. I would say that as a corporation, we -- our Blue Sky innovation Center for the -- for kind of the globe is in San Jose. We had such a great acceptance in reaction to what we're doing in San Jose. That various business sectors have opened up what I would call kind of working development centers in different geographies, so that's all that is, whether it be Italy, whether it be Spain, Singapore. So the main innovation Blue Sky Center for customers, that kind of holistically captures the theme and the pedigree of the whole company is San Jose. The other, what we'd characterize as Blue Sky centers are really more working R&D labs, and the work that they're doing cuts across various sectors of the business.

Operator

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

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Nice work on the results and the guide here. So really just one question for me. I think that, Mark, you had referenced some expansion of services that you had in the Green Point business. So I wanted to see if there is a way you can expand upon the nature of those services and the nature of application.

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

I'll try. So I think the reason I put that in my prepared remarks, Sean, is differentiating Green Point from the rest of DMS. I think that there is a lot of conversation going on around Green Point being maybe expert and heavily weighted towards mechanics and machining, precision mechanics, to be specific, and that's largely true. But as we expand across different product platforms, as we expand across customers, as we expand across different end markets within Green Point, we're seeing a lot more intricate assembly coming in to complement the precision mechanics, and that's really good for us. We're very, very good at precision mechanics, and -- but we have a long, long history of complicated intricate assembly work, so the 2 of those complementing each other is a good story for Jabil.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Okay. So from an application standpoint, though, can you expand on that a little bit more in terms of the relevance to, let's say, handset markets or further expansion into other types of markets and products?

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

Yes. So I'll just give you some hypotheticals. You know we play in the handset space, and I won't say anything more than that on the handset space. But you think about what's going on with augmented reality, virtual reality, you think about what's happening with the density and the package miniaturization with optics and cameras, and then we have a whole -- we have kind of a whole -- people forget about our Consumer lifestyle business, and people also forget about the fact that there's a lot of other mobile products out there other than handsets. So that will give you kind of an idea of the different areas we're playing in.

Operator

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

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

I guess, first question, just trying to get a higher level perspective, Mark, what you're seeing in terms of macroeconomic trends. I know you talked a little bit about what you're seeing in EMS and maybe some broader industrial pickup. But if you could just talk, maybe, any differences geographically? Or have you seen kind of improved global GDP-type of an environment. Just curious of your thoughts there.

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

Sure, Mark. One thing I feel good about is, whether global GDP is 2.5, 2.8, 3, 3.2, whatever the number might be, I feel really good about the fact that our earnings, if you go off of the basis when we delivered whatever it was, $1.85, $1.86, extrapolate that to last year at $2.10, $2.11, our outlook for this year being $2.60, and next year, something greater than that. We're probably at 4x or 5x global GDP. I feel really, really good about that. In terms of overall macro, as we're traveling around and around the road a lot, it feels like the economy is getting better. I would say that maybe not across the board, I would say we've got some kind of long in the tube legacy businesses that, based on technologies and things like that are maybe slow to slightly declining. But certainly, across the U.S. in our travels, parts of Europe, a little bit in Japan, things just feel a little better. I think we'll see what happens with this tax plan. I don't think anything -- I wouldn't think of a significant step function up, but maybe an upward slight glide path over the next couple of years feels about right. And if that happens, that would be outstanding, because the last number of years, we've been fighting some interesting headwinds and getting a little wind in our back for the next couple of years would be great.

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

That's helpful. I had a follow-up question, just on inventory. I know it was up and I think days or maybe similar, but I think inventory dollars were up and just trying if you could provide some context for why inventory increased.

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Yes. You're correct. It was up, I think, $250 million, $300 million. No particular reason. Just if you think about the way our quarter aligns with calendar quarters and such like and Consumer buying season, if you will, so we'll see that correct itself as we move through second quarter, i.e., contract with the quarter end on November and then you still got pull-through in sales in the December period. It's not untypical.

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

I think the other thing -- I think the other thing there, Mark, if you just kind of step back and look at everything, if you look at -- we've been -- certain parts of the component market have been tight. We see that starting to loosen up a little bit. So we made some buys a little bit early to be sure that we had continuity of supply, but you take a look across the whole company in Q2 of '17 versus Q2 of '18, revenue is up quite a bit. And if you just kind of index out to the back half of the year and you look at what our revenues might be relative to the back half of '17, knock on wood, they'll be up as well. So I think all that plays into inventories being a little bit fluffy at the moment.

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

If I could just ask a third one. I know NAFTA has been under negotiation for a while, and hasn't been renewed. I mean, do you guys have any conversations about that with your customers? And any kind of contingency planning? Just sort of curious what you guys would do there.

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

At this point, no. It -- we'll see if that becomes real. I -- let's just wait and see what happens there. That would be an issue for a lot of industries and a lot of companies. So we'll see how that goes. But at the moment, there's not a lot of real conversation going on around that.

Operator

Your next question comes in the line of Paul Coster, JPMorgan.

Jeangul Chung *- JP Morgan Chase & Co, Research Division - Analyst*

This is Paul Chung on for Coster. So just one quick follow up on Green Point. So given the ramp up costs are now behind you, can you quantify any scale benefits you expect as we move through the year? And respective impact on margins? And how that carries over to the next product cycle?

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

I would say that we addressed and talked about some of the cost and ramp issues we had going back to the July, August and part of September. Those were all largely behind us, and I think we're in relatively good shape across both DMS and Green Point for the balance of the year.

Jeangul Chung *- JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then, how should -- just quickly on, how should we think about stock comp for the rest of the year after the big step up and 1Q in? Also, your restructuring charges for the full year?

Forbes I. J. Alexander *- Jabil Inc. - CFO*

Yes, let me handle the restructuring charges first. $11 million in Q1, we expect about $35 million for the full year, so $24 million. Probably, I would say, most of that would be the second half of the year, based on current expectations. In terms of stock comp, that will move back to more normal cadence of around $15 million, $16 million a quarter, starting in the second fiscal quarter.

Operator

We have reached our allotted time for questions. I would now like to turn the floor back over to Beth Walters for any closing remarks.

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

Thank you so much, everyone, for joining us today. Please feel free to reach out with any follow-up questions on the financial results, or clearly, on the outlook of the company. And I'll just reiterate, Mark and Forbes' comments of happy holidays to everyone and enjoy the season. Thank you.

Operator

Thank you for participating in today's conference. You may now disconnect.