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JBL - Jabil Inc at JPMorgan Global Technology, Media and Communications Conference

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PRESENTATION

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

Thanks, everyone. My name is Paul Coster. I cover alternative energy and IT technology at JPMorgan, and I'd like to welcome everyone to the 47th JPMorgan TMC Conference. And I'm also very pleased to be able to introduce Mike Dastoor, who is the CFO and -- of Jabil; and also Steve Borges who heads up the health care practice at the firm. So welcome gentleman. Thank you for making the trip here.

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

Thank you.

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

Yes. So it's good to have you here, good to have everyone in the audience as well. Jabil's been around a long of time but nonetheless it's still sometimes enigmatic to people perhaps Mike, you can start off by telling what Jabil does.

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

Sure. So everything we do in Jabil is centered around 3 main areas. It's manufacturing solutions, supply chain excellence and engineering capabilities. We lead with our engineering capabilities, and we've transformed Jabil from a traditional sort of built-to-print business to an end-to-end solutions provider. What do I mean by that? It's services such as design, NPI, prototyping, advanced planning, advanced logistics, obviously manufacturing in almost 100 locations in 30 countries in the world. We have about 220,000 people that help us with this manufacturing worldwide. And it's one of the things we've done over the last few years as we've gone beyond electronics quite a bit. So it's not just electronics, it's plastics, its metals, it's 3D, it's packaging, a whole bunch of nonelectronics now account for revenue our at Jabil.

We serve about 20 end markets, and we serve about 250 to 300 of the largest brands in tech and outside of tech as well. Couple of things that I just want to quickly highlight over the last 2 or 3 years, we've been on this journey where we've tried to diversify our business away from the casings business, which is a volatile business.

In FY '19, the casings business is only around 5% to 6%. We've been really successful in our diversification strategy. We had weakness in mobility, we've had weakness in semi-cap. But I think we still are in decent shape for FY '19 now. One of the things is growth, I think we've grown about $6 billion in the last couple of years. One of the things the growth has done, it's put a little bit burden on our margins. What do I mean by that? That's -- it's all ramp cost. So when you take on new business, you have pre revenue ramps and then when you -- once start ramping, you have cost that come in at lower yields, which gives you a little margin profile. And that's just a timing issue while over the next year or 2, we're looking forward to converting that into proper margin and free cash flow generation.

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

The ramping activity that's taken place recently, it's not just you that's been reporting it. However, you are at least standing out and that you're are actually starting to deliver some leverage from the business. But of course there's some surge in ramping activity?

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

I think it's a bit of a testament to our strategy. One of the things we've done historically is, we made tuck-in acquisitions and these tuck-in acquisitions are mainly capability-based. So let's use 5G as an example where we see really good areas of growth. 2.5, 3 years ago, we acquired a company with engineering capabilities because we knew the technology that this team was working on was extremely valid for 5G. And it's these sort of capabilities that we've acquired over the last, very small tuck-in acquisitions but they give us very good credibility with our existing and new customers there.

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

And how long does it typically take to ramp up a customer? I'm sure there's a big wide range there, but...

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

There is. It's very end market, centered to certain end markets, it could be a 6-month, 9-month trip. In health care that Steve leads, it could be 2 to 3 years. So it's just a wide sort of number depending totally on the end market.

But it does have 3 or 4 stages, as I was mentioning where you have your -- the prerevenue ramp; then you have income or your revenue start coming in but there are lower yields so the margins are low; then you have normalizing revenues, so it's getting closer and closer to your target revenue; then you have stage 4, which is your -- that is your revenue at normalized margin.

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

I think in the message that you're trying to convey and that you will probably come back to is that, it's not as if it's all happening at once. I'm sure you'll always have ramping activity. But it is actually something of a surge recently. Is that a fair statement?

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

Absolutely. I think over the last couple of years, we've grown by $6 billion. In FY '18, we grew by $3 billion. We our DMS business by anout 22% in FY '19. We've grown for another $3 billion that's another 23% on the EMS side. So we've had very good levels of growth. They were in targeted areas, they were in areas with higher margins. They were in areas with longer product life cycles and regulated markets, predictable cash flows, predictable income, extremely low volatility and that's been coming through. You're right, it has been high over the last couple of years. I don't expect that to continue. I think a natural progression in our strategy, now that our diversification story is playing out very well, FY '19 was a good proof point. I think the margins start coming in now, so that's why '20, the big focus area will be expansion of margin and expansion of free cash flows. And we don't have to do a lot to get there.

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

Awesome. Let me just develop on one thing though, which makes you a little enigmatic. As I said, it is the difference between the DM business and the EM business. What are these 2 things? Because some business that seems to be belong in the wrong bucket?

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

Yes. So when we laid out the 2 segments, I think it was a few years ago, diversified was meant to be everything that's not electronics. And our Electronics Manufacturing Services was supposed to be all things electronics. At that point in time, we had distinct customers and there wasn't any overlap. So all diversified customers were doing was Diversified Manufacturing and all electronics were focused on electronics.

Over the years, we've been quite successful with our customers, where the diversified customers would move into electronics and they want us to help them with that. And the same thing is happening on the electronic side. So that line is getting a little blurry, but I think it's just -- you look at it from a capability standpoint, you look at it from a customer standpoint.

And the diversified was always meant to be higher margin, electronics, the EMS side was supposed to be decent margin but not as high as the DMS side. We've seen a sort of natural convergence of the 2 in terms of margins because of the dynamic I just mentioned.

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

Let me just be explicit. There is one large handset OEM for instance, which is in the Diversified Manufacturing segments. And this causes a miss understanding, right? Because people think well, okay. Therefore that business is all casings when actually it's not, right?

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

No. Absolutely. I think that is something we've been trying to educate investors about. Our casings business today is in the range of $1.6 million, $1.8 billion that's about 6% of our total revenues. Our -- I think in our FY '18 filing, we exited with the largest customer at about $6 billion. That would imply there is $4.5 billion of noncasings business that we do with our largest customer. If you walk into one of their stores, Jabil makes a product or a component on almost every single product. And those products are not as volatile as the casings business. So it's really -- it's good business. We've diversified away from casings by diversifying within our largest customer. We've diversified outside of our largest customer. We've diversified into health care, which Steven, talk a little bit more about. And we've diversified in EMS as well. So it's been a strategy that we've been working on for a while. And I think the proof points are coming through.

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

Yes. I think they are. Although the stock still tends to trade up and down on iPhone projections. And I think what you're saying is that just totally doesn't make any sense anymore, or rather it makes some sense. But it's, I mean, 1/6 of that or 1/4 of that customer's business and only 6% of total revenue.

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

Couldn't agree with you anymore.

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

All right, good. So putting a line under that for time being. The last 7 quarters, you've been putting a pretty decent growth. I think you've already mentioned its ramping programs. Is it, I mean, is it just that? Or is it there a unit-driven demand? Is there a make shift? Talk to us a little bit beyond just simply the ramp.

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

So the $6 billion that we built over the last couple of years, the whole majority of that business is being focused at high-margin areas. We've intentionally gone and targeted areas of long product life cycles, of higher margins, better cash flows, more predictability, regulated markets, such as medical, you have automotive, you have cloud, you have 5G and wireless. Those are all areas that have better returns than our enterprise level margins. And again, they're in a world where once a product life cycle starts, is there for 8, 9, 10 years. There aren't many products that have a long product lifecycle like that. So in the medical, product lifecycle is lasting to double digits, well into double digits, I should say.

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

Do you ever turn business down?

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

Absolutely. We do turn business down. Like I said, we've been focusing on specific areas. We did tuck-in acquisitions, as I referred to earlier. We had capabilities that we acquired or built up so that we could focus on these targeted areas of growth. So yes, we're -- the focus on these areas, we do turn business down.

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

Can we concentrate just for a moment on the EMS and some of the end markets? I think on the most recent print, like in March now, you talked of -- for fiscal 3Q. You talked of $0.47 to $0.67 on $5.7 billion to $6.3 billion in revenues. It points to continued strengthen and margin expansion. You also talked of EMS being pretty strong in general, but not semi is in mobility. So what's -- can you just kind of give us a snapshot of what cyclically feels good at the moment and what maybe feels little soft?

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

I think we -- when we said out the DMS, EMS segments, we said 2% to 4% for EMS. We're in the high range of that. I think the 3% to 4% is highly doable and we're performing to that. One of the reasons you're seeing big swing first half to second half is the ramp cost that I was referring to, where you have a negative cost structure on these ramps, which is now turning into a positive. We'll be at the lower margin rate. So there's about $20 million, $25 million negative turning to a $20 million, $25 million positive, which is still a low margin but there's a $50 million swing, which makes up, margins are -- at least first half to second margins improved quite a bit. So that's the main dynamic going on in FY '19. Like I mentioned before, we're working on taking those margins higher. The work has been done. The ramps are in place. We've booked all the business that we need to from a FY '19 perspective. All we need to do is deliver on those margins, which I have full confidence in.

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

In terms of the cyclicality of the businesses though, the end markets, there's nothing you're seeing that's causing you any concerns? You're not seeing China, for instance, causing some of your customers to slow down or pause? We've heard of -- obviously, there's been a little bit of weakness in handsets. There's been little bit of weakness in autos. Are these things that we should be concerned about at the moment?

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

We're not -- I think weakness and mobility is definitely there. Weakness in semi-cap, or I should say, it's a delay in recovery in semi-cap. We always knew that was going to be weak. We expected to turnaround in Q3, Q4 of FY '19. We now think it's going to be calendar year '20. I don't think it's a calendar year '19 event. So maybe our Q3, Q4, which is the March-April time frame for us. We do see a recovery coming through on semi-cap.

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

The EMS business feels a little bit stronger at the moment on revenue from -- then DMS and the other has lower operating margins. What's the mix that causes the DMS business to have such high margins? What -- is there a additional value add? Is there some proprietary technology? Is it that there's very few suppliers of a DMS-type service? What is it that allows you to come on higher operating margins in that segment?

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

Sure. So DMS, as I mentioned earlier, we've been diversifying away from casings. We've been diversifying into different parts. We've been diversifying into medical, which absolutely has a higher margin level. That diversification has helped us utilize capacity in certain situations where, for instance, in a nonholiday season, the capacity would've been idle. That being used, helps us build up in our margin. So DMS is a good story about utilizing some of our capacity, and medical and packaging. On the EMS side, there's a little bit of weakness, which is because of our semi-cap business. Semi-cap is a decent margin business, has a high level of fixed cost to it. So one of the things we've been working at is, we're working with our customers and we feel as we come out of this semi-cap weakness, we're building on our market share. We're actually gaining market share and when it does turnaround, it turns around at a much steeper slope.

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

I've got one very unknowingly sort of picky-end question on the DMS side and that is on the casings, which is only a small percentage of revenue. Is it really, only -- is the business only relating to metal casings? Or does it also attach to a plastics and ceramics valued casings?

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

Well, it's CNC machining. So CNC machining can work on classics, it can work on stainless steel, it can work on aluminum, it can work and ceramics, it can work on number of different products. So it's just a re, sort of, engineering the CNC machines.

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

Okay. All right. Got it. Steve, actually concerned to health care because it's been bit of a theme recently, hasn't it? Not at least for the big win. So talk to us about your segment please? What percentage of the overall business, for instance, is it? How do the margins look like and then we can get in some details?

Steven D. Borges - *Jabil Inc. - Executive VP & CEO of Healthcare*

Yes. I mean the general margin range for the health care business is in the 5% to 6% margin range. The business, if you go back to fiscal year 2013, the business was approximately about $430 million in size, and we'll exit fiscal year '19 in the range of $2.5 billion without the strategic collaboration between ourselves and Johnson & Johnson. So the business has continued to grow at a pretty rapid pace. And we're pretty happy with both that growth and the margin associated with it.

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

What kind of products are we talking about generally?

Steven D. Borges - *Jabil Inc. - Executive VP & CEO of Healthcare*

We have 5 essential segments. We do consumer products, think of fitness and on-body type diagnostics hearing aids, things of that nature. We do bloody analyzers, life science equipments. We do injection devices for different applications and biologics. We do fluid delivery systems. So we're pretty diversified just in our existing health care business alone.

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

Mike started by saying that you no longer do build to print or at least you avoid it where you can, and you're moving -- start off with engineering. So what is it that led to the cumulation of this business in health care?

Steven D. Borges - *Jabil Inc. - Executive VP & CEO of Healthcare*

Well, I mean, I think, if you look back at the capabilities, Mike talked a little bit about tuck-in acquisitions and investments that we've made in smart devices and other parts of our health care business. We now have a very solid capability that gives comfort in the health care space that we can deliver the right quality product to the patients at the right time. And I think that's allowed us to grow the business very well. As it relates to the Johnson & Johnson situation, that is little bit different. They took a hard look at their portfolio to try to understand how to optimize it further. As you'd expect, it was a competitive opportunity. I'd tell you that I believe that we were successful because of our cultural affiliation with Johnson & Johnson as well as our capabilities. A lot of the products that are currently in that portfolio that are coming across somewhere in the neighbor of 55% of those products are products that we already built today in our segments. And the balance of the products they're really tie well to the capabilities that you asked a question about our CNC machining capabilities that's essentially what this is. The CNC capabilities related to trauma, spine, and other devices. Couple that with our 3D capability as well, we were selected and humbly selected to take on that transformational opportunity. I'm really proud to report that there is 3 waves. Wave one was completed in February, wave 2 was completed in April. And we now have welcomed over 3,000 new employees to our health care business and that transaction has gone very, very well. Our teams have performed exceptionally with performance. We have had no issues, we have gotten new supply, no issues with quality. And then wave 3 is in September, which is another 7 factories. And so it's moving forward exactly per plan between both sides, and I think we're pretty happy with where we're positioned. And I would also tell you that this is transformational enough for the industry that I think there'll be more opportunities like this to pursue as we go forward.

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

And you say it's being margin neutral margin, margin accretive?

Steven D. Borges - *Jabil Inc. - Executive VP & CEO of Healthcare*

Yes. So fiscal year '19, we're estimating that about $200 million in revenue and no margin. And then fiscal year '20, we're estimating that to be about $800 million, at about 2.5%, 3% and then as we move to the third year, we're expecting that to be the neighborhood of $1.3 billion to $1.5 billion at our margin run rate of about 5% to 6%.

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

Which would be accretive to the overall company of course right, and even for the segment. So that's awesome. And you said that you wanted the business because you had a better affiliation and your [competence] is aligned and so on. I mean there is chatter out there that it was very price competitive bid as well. Is that true? Or do you feel like margin -- that the J&J was basically sort of, kind of attended to need to make it into a rational economic outcome?

Steven D. Borges - *Jabil Inc. - Executive VP & CEO of Healthcare*

Yes. I would say that again. It's consistent with the margin of our health care business. Let's face it. This is product that is incredibly important to patients. And Johnson & Johnson needs to make sure that we execute flawlessly. So I would say that they're very fair in that process. It did take a while to get it done. Took almost 2 years. But it's because it's the first time anything of that magnitude has been done in the health care industry.

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

And Mike, the Johnson & Johnson business is in the 2019 guidance?

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

Yes. It is.

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

But, I mean, once again, along with the ramp that's been done for many other businesses, (inaudible) 2020 looks pretty good, doesn't it?

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

It does. I think that's what's going to drive some of the growth going forward as Steve pointed out. Margin in FY '20 for that particular incremental revenue is in that 2% to 3% range because of some of the cost that are associated along product, transfer cycle, its medical, you have to throw resources at it, quality is critical. So I think that's where FY '20, it's still 2% to 3%. But FY '21 and for years and years and years after that, it will be in the 5% to 6% half range. It's a very double-digit -- well into into double products life cycle.

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

So changing the story a bit. We've growth there, we've margin expansion, we've got good visibility. The -- you are still confusing -- I want to try to get to the half an issue here, which is that people would say to me, well, how is the CMS company different company from that EMS company and you can point to scale or you can point a little bit to mix. But in the end, they all sort of feel like they're playing to the same script, which is get closer to the customers through engineering, try and affect the mix shift towards high-margin business. And I mean, that's basically -- maybe mix in a little bit of proprietary know how to get a little bit more margin out of it. I think even if you're going playing to the same script, it seems like the tune is coming out, it's a little better from you at the moment and into 20 -- and fiscal year '21, as we've already described. But looking beyond that, how do you think people should differentiate you from Flex and Sanmina and Benchmark and Plexus and so and so forth?

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

So I talked earlier about our diversified portfolio and how we've expanded well beyond electronics. The medical piece is going to be a big game changer, not just for Jabil but for the medical industry as well. We've started with -- we've put up manufacturing and that's sets us apart a little bit from our competitors into metals, into plastics, into 3D, into recycling, into environmental-friendly products. It's a slight -- it's not a slight, it's a big differentiation.

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

Material sciences and...

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

Correct. And all of that is led by our Material sciences technology group. And what people or when customers come and have a look at our capabilities from an end-to-end perspective, we can do everything for them, it's beyond some of our competitors. And we've been doing this for years, so we have a lot of credibility. The metals is high precision, we do plastics for medical companies so again, very high level of precision. We do other pieces like packaging. At the end, packaging is an area that's -- growth will be small today, but it has long legs because if you see the convergence of electronics into packaging, which is the future of packaging, it has a lot of potential again, for packaging environmental friendly. Packaging will be a big thing going forward as well, and we feel that's another capability that we've sort of distanced ourselves from the competitors.

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

We had GoPro here early on today. Not your biggest customer, but unless a nice customer to have. And they recently announced that they were moving their productions from Asia to Mexico, which yesterday rewarded them, they were only stock up in our universe I think, everyone else was was down. Tell us a little bit about China, the tariffs. What customers like GoPro? Are there any other customers, or are they the only ones to have made this move? And why would be able to move make this move in partnership with you?

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

Right. So we've been building products for GoPro for a while. It has been in China. I think GoPro decided to move to Mexico for reasons just beyond the tariffs as well. So it wasn't just only about tariffs. It was about the product portfolio, access to the U.S. markets, all of that led to that decision with the whole the tariffs noise we're getting more and more customers asking us about alternatives, asking for lended cost pricing. They're asking with -- no one is moving at this stage. There are very extremely few people moving now. Some of the customers might put it a new product into a country other than China. I just want to highlight we're in 30 countries and 29 of them are not China. And it's worldwide -- we have worldwide capacity. We are in Vietnam, we're in Malaysia, we're in parts of Eastern Europe, we're in Mexico, Brazil, U.S., is a whole -- we're worldwide for an operational standpoint, from a cost comparative. I mentioned Vietnam, India, highly cost competitive. So in the short term, as this -- I'm hoping it gets resolved, like I do think it will get resolved eventually. But in the short to medium-term, we actually see it as an opportunity. Our existing portfolio, existing business in China is relatively difficult for the customer to move. So 3 or 4 main areas of our business in China. The mobility piece, you can't just lift the mobility piece and move it to another country. You have to lift the entire supply chain. There is another 300, 400 suppliers that you have lift. You have to lift the components, you've got to lift the raw materials that go with it. So it's not an easy thing. There's millions of people involved in the supply chain. There aren't that many countries in the world that can put up a supply chain that quickly for that scale. So our mobility business, again, either takes years or it's extremely difficult to move if things go completely South.

Our medical business, long transfers. We have FDA qualifications, it's expensive to move. I think the pricing in again, in China, et cetera, and the capability that we have in the medical world, again, will preclude some of those moves. I don't think the medical piece moves as quickly as well. We work on automotive for the domestic market through Tesla that will be difficult. That doesn't need to move because it's for the domestic piece. And there's a balance of some of the other pieces, which may require a shift out, but it's a very small percentage of our business in China. In the short term, you're going to have OEMs who do set up their own factories in China. And if they decide they have to move out, they're not going to go and set up another factory in Vietnam or India or wherever. They're going to [CM] like us who has capacity, who has the setup, who has Local knowledge, who knows the regulation, knows the tax structure, knows how to employ people, knows where to get engineering capability from. And not many people have that expertise. So I think in the short, medium-term, we actually see this as an opportunity for us to build in other parts of the world. Our capacity can be taken up and down relatively easy in most part of the world. So we have to increase our capacity elsewhere, we can do that as well. In the longer term, pricing, microeconomics, does this create a far bigger scenario in terms of recession now who knows.

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

Last quarter, you repurchased $145 million of stock, and $13 million total of dividend payments. You payout net debt-to-EBITDA was 1.7x. Free cash flow projection this year is now $400 million. It was previously $350 million. What are you -- what's your capital allocation kind of priorities at the moment?

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

So just for FY '19, we added $350 million authorization for the whole year. We blew through that in about 4 and 5 months. So we've completed our $350 million allocation for buybacks already. We'll continue, going forward, to have an extremely balanced return framework. Obviously, we have to invest in our CapEx for growth and maintenance from a free cash flow perspective, I would expect 40%, 50% to be in the range of -- in the range of 40%, 50% for buybacks, debt management, small M&A tuck-in acquisitions, capability expansion to be the balance of the free cash flow. So again, a very well balanced return framework.

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

We've got a few minutes for questions. Anyone in the audience? This gentleman on -- over at this side. If you could just wait for the mic. Thank you.

Unidentified Analyst

The margin story has kind of been one that might feel little bit more like a dripping sound for people who've been in the name for a while versus an S-curve of margin improvement here. Can you give some data, I mean, I know you talked about some investments that you've made, but can you give us -- capacity utilization, some level of incremental profitability. Just some details around how you see that investment transitioning to operating leverage in the coming years?

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

Let me just use FY '19 as reference point. We've grown by $3 billion, or we will grow by $3 billion-plus at the end of this year. When you grow that level of business, that complexity as an end-to-end solutions, so it's design, NPI, prototyping, all of that advanced planning, logistics, all of that comes into play. That comes with cost and that was the point I was trying to make on the ramp with the prerevenue ramp, the normalization of ramp, the leading to a normalized margins. That's a process. It's not a -- we don't have to do anything more for it to -- it works out that we've been doing that for a number of of years. Now the reason you're seeing this $3 billion, it's a big growth rate. $3 billion is a big number and that's why the impact is high. Forward looking, if you just imagine, it's -- our natural progression is to its growth with the right levels of metrics, with the right return in terms of margin expansion and free cash flow in year one. We don't want to keep talking about ramps, you're absolutely right. We've talked about ramps in the past, we don't want to do that anymore. We want to show that this margin expansion is just a matter of delivery. And it's not -- we don't have to go out and get new volume, we don't have to go out and shut down factories. We don't have to go and do anything to make this happen. All we have to do is normalize our growth a little bit and make sure that all growth that we get is at better margins, is at accretive margins, at accretive free cash flow right from the start as opposed to, well it's coming in year 2 or year 3.

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

Last question. Please.

Unidentified Analyst

Can you just talk, you've been trending a little bit better on working capital cash flow. But could you just talk about maybe what it takes to try to get back to a neutral position on that? And whether that's likely over the next year or 2?

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

Sorry, your question was free cash flow neutralizing?

Unidentified Analyst

Working capital.

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

Right. So I think that's a great point. When you're growing $.6 billion, it put pressure on working capital. Inventory, I think, everyone realizes material constraints over the last 12, 18, 24 months, have heard us in working capital as well. It's inventory based, it's not cost so much as idle components sitting in in our warehouse waiting for the final component to arrive before we start manufacturing. So there is a inventory impact, if you go back a few years, we were in the 52, 53, 54 day DII returns. We're now in the 60s. Once we start normalizing that, and I'm not suggesting we go back to 52, 53, each day of improvement in inventory is about $60 million to free cash flow. So if we can take out a day or 2 every year for the next 3 or 4 years, and your EBIT, you see a nice progression on free cash flows.

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

So borrowing external things that are out of your control, it sounds like the next year or 2 are going to be pretty interesting for you. Some operating leverage and some revenue growth, combine the 2 together, and it sounds like a nice set up. Thank you very much for coming today. And thanks everyone for attending this session, which I thought was quite interesting.

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

Thank you.

Steven D. Borges - *Jabil Inc. - Executive VP & CEO of Healthcare*

Thank you.