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JBL - Q1 2013 Jabil Circuit, Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

Beth Walters *Jabil Circuit Inc - SVP, Communications and IR*

Forbes Alexander *Jabil Circuit Inc - CFO*

Timothy Main *Jabil Circuit Inc - President and CEO*

Mark Mondello *Jabil Circuit Inc - COO*

CONFERENCE CALL PARTICIPANTS

Amit Daryanani *RBC Capital Markets - Analyst*

Craig Hettenbach *Goldman Sachs - Analyst*

Brian Alexander *Raymond James & Associates - Analyst*

Amitabh Passi *UBS - Analyst*

Matt Sheerin *Stifel Nicolaus - Analyst*

Steven Fox *Cross Research - Analyst*

Wamsi Mohan *BofA Merrill Lynch - Analyst*

Shawn Harrison *Longbow Research - Analyst*

Jim Suva *Citi - Analyst*

Sean Hannan *Needham & Company - Analyst*

Sherri Scribner *Deutsche Bank - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Jabil's first-quarter earnings call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

(Operator Instructions)

Thank you. I would now like to turn the call over to Ms. Beth Walters, Senior Vice President of Communications and Investor Relations. Please go ahead.

Beth Walters - *Jabil Circuit Inc - SVP, Communications and IR*

Thank you. Welcome to our first quarter of 2013 earnings call. Joining me today are President and CEO Timothy Main; Chief Operating Officer, 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 Investor section.

Our first-quarter press release and corresponding webcast with slides are also available on the website. In these slides, you will find the financial information that we covered 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 anticipated outlook for our business, our currently expected second quarter of fiscal 2013 net revenue and earnings results, our long-term outlook for our Company, and improvements in our operational efficiencies and financial performance. These statements are based on current expectations, forecasts and assumptions involving risks and uncertainties that could cause actual outcomes and results to differ materially. An extensive list of these risks and uncertainties are identified in our Annual Report on Form 10-K for the fiscal year ended August 31, 2012, 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 our first fiscal-quarter results, highlights and comments from Forbes Alexander, as well as guidance for our second fiscal quarter of 2013. Tim Main will follow with macroeconomic and Jabil-specific comments about our performance. We will then open up the call to questions from call attendees.

I will now turn the call over to Forbes.

Forbes Alexander - *Jabil Circuit Inc - CFO*

Thank you, Beth. Hello, everyone. I'll ask you to please refer to slide 3. Net revenue for the first quarter was $4.6 billion, an increase of 7.2% on a year-over-year basis. GAAP operating income was $170.3 million or 3.7% of revenue. This compares to $170.8 million of GAAP operating income on revenues of $4.3 billion, or 3.9%, for the same period in the prior year. Diluted earnings per share were $0.51.

Core operating income, excluding amortization of intangibles and stock-based compensation, decreased 1% to $192.5 million, represents 4.2% of revenue. This compares to $194.6 million or 4.5% for the same period in the prior year. Core diluted earnings per share were $0.61.

If you'll now please turn to slide 4, we will discuss our segments. In the first quarter, our Diversified Manufacturing Services segment grew 20% on a year-over-year basis, driven by continued strength in Specialized Services, while offset by weakness in Instrumentation, Clean Tech products related to the smart grid rollout encompassing meters, solar- and wind-related products. Revenue for the segment was approximately $2.2 billion, representing 47% of total Company revenue. Core operating income expanded in the quarter to 5.8% of revenue.

The Enterprise & Infrastructure segment increased 17% on a year-over-year basis, as we had expected. Revenue was approximately $1.4 billion, representing 30% total Company revenue in the first quarter. Core operating income for this segment was consistent with the previous quarter at 2.4% of revenue.

The High Velocity segment decreased 20% on a year-over-year basis, driven primarily by declines in handset volumes. Revenue was $1 billion, representing approximately 23% of total Company revenue. Revenue performed better than our guidance, as we saw strength in the quarter in handset volumes offset by weakness in printing and set-top-box revenues. As a result, core operating income for this segment was 3.2% of revenue.

I'll now ask you to refer to slide 5. We ended the quarter with cash balances of approximately $1.03 billion. During the quarter, cash flows from operations were, as expected, approximately $152 million. Capital expenditures were $165 million, with the majority of these investments being focused towards our Diversified Manufacturing Services segment. In addition, during the course of the quarter, we purchased approximately 7.3 million shares totaling $129 million at an average price of $17.58, exhausting our approved stock repurchase program.

Our sales cycle increased by approximately two days, primarily as a result of growth in inventory levels positioned to support revenue levels in the first month of our second fiscal quarter. Our core EBITDA in the quarter was approximately $284 million, representing 6.1% of revenue, and our GAAP return on invested capital for the quarter was 21%.

We're pleased with the operating performance in our first fiscal quarter. Core operating performance was well within our expected range, while revenue is above. We're off to a great start in terms of our cash generation, with continued expectations of generating $1 billion from operational cash flows in the current fiscal year. I'm also very pleased to note that earlier in December, Standard & Poor's upgraded our corporate credit and senior unsecured issue ratings to BBB- from BB+.

Our capital expenditure estimates for the fiscal year remain in the previously guided range. I would now expect expenditures to be towards the higher end of that range [for] $500 million, as we continue to make investments to support ongoing growth in our Diversified Manufacturing Services footprint and capabilities.

If you'll now please turn to slides 7 and 8, where I'll discuss our second-quarter guidance. We expect revenue in the second quarter on a year-over-year basis to increase approximately 4%, to be within the range of $4.3 billion to $4.5 billion. Core operating income is estimated to be in the range of $165 million to $185 million, and core operating margin in the range of 3.8% to 4.1%. Our GAAP earnings per share are estimated to be in the range of $0.40 to $0.48 per diluted share, and core earnings per share estimated to be in the range of $0.50 to $0.58 per diluted share, this being based upon a diluted share count of 208 million shares.

Based on the current estimates of production, tax rate on the core operating income is expected to remain at 22% for the quarter and the full fiscal year. Capital expenditures in the quarter are estimated to be $200 million.

Turning to our segments and year-on-year performance, the Diversified Manufacturing Services segment is expected to increase 7%, the Enterprise & Infrastructure segment is expected to increase 15%, and finally, our High Velocity segment is expected to decline 13% on a year-over-year basis.

I'd now like to hand the call over to Tim Main.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Thank you, Forbes. This was an interesting quarter. The primary takeaway for me is the robust revenue growth, which I think is remarkable in the current environment. I would also highlight growth in Diversified Manufacturing Services, which rose to 47% of our overall business. On each of these dimensions, the quarter was record setting for the Company.

Growth in Enterprise & Infrastructure was a bit better than planned. This was welcomed in an otherwise lackluster demand environment. Year over year, margins were up 40 basis points. We would like to see more progress, but we believe we are on path to be within our targeted range by year end. We are making investments in complex order-fulfillment capabilities diluting near-term progress. The new leadership of this business area is taking a page from the High Velocity playbook, focusing on customer service and lean manufacturing principles to improve results further.

In the High Velocity sector, business conditions weakened a bit. A notable exception to this being mobility products, which enjoyed a stronger than expected quarter. For the sector overall, we are pleased with the results and prospects for the year.

Our DMS sector is now pacing in excess of $8 billion per year. We've enjoyed multiple years of strong growth, and now have a significant scale to build upon. Quarter on quarter, margins improved 50 basis points, and are within our targeted long-term range. Additional growth and improvements in our Healthcare & Instrumentation, and our Industrial & Clean Tech businesses, which served to drive margins higher in the range. Specialized Services, and in particular our Materials Technology Group, continue to leverage growth to remarkable levels. Specialized Services is now 31% of our overall business, representing a unique value stream for Jabil.

AMS is investing in expanding capabilities to advance logistics and IT-intensive services in emerging markets, while also expanding to serve new verticals. The MTG Group has become a leader in both innovation and scale, and we will continue to invest in MTG's growth. Specialized Services is a higher value-add non-electronic set of capabilities providing us with solid diversification and new paths for future growth. Our focused strategy of driving growth and returns in a differentiated manner continues.

Please turn to slide 10. Now I'll take a moment to discuss this slide. Here we compare Jabil's DMS sector size and growth rate with that of our North American competition. We have taken publicly available information and have reconciled the data to provide as close to an apples-to-apples comparison as possible, adjusted to a calendar-year basis. The X axis of this chart reflects the dollars of revenue added to the respective DMS sectors in the last three calendar years, the years being 2010 through 2012. The Y axis reflects compound annual growth rate over that same timeframe, while the bubbles are representative of the estimated calendar 2012 revenue for each provider.

Jabil is represented by the green bubble. You can see that Jabil has added approximately $3 billion of revenue in the Diversified Manufacturing segment during the period, a compound annual growth rate approximating 30%. Jabil's DMS revenues are expected to be about $7.8 billion in calendar 2012, representing an excess of 40% of the total DMS revenue expected by North American providers for the year.

Jabil is in a unique position, enjoying the benefit of diversification and scale that comes with successfully competing in E&I, High Velocity and DMS sectors. With efficient operations in E&I and High Velocity, combined with a large and growing presence in Diversified Manufacturing Services, we are in an advantaged position to drive margin and cash flow generation.

Please turn to slide 11. Here we compare absolute EBITDA dollars and margins among the largest North American EMS providers for the most recent trailing 12-month period. The bubble size and X axis exhibit absolute EBITDA dollars, while the Y axis exhibit EBITDA margins. Two companies dominate the market today, and are responsible for over 70% of the dollars generated in the industry. However, Jabil's intense focus on operational efficiency, and growth in DMS, places it in a unique position of combining scale and cash flow. Perhaps this is one of the reasons Jabil was recently upgraded to investment grade by S&P.

We plan to continue investing in our capabilities, customer services, and people. We are in a competitive business, and understand we must continuously improve our value proposition for customers. With this in mind, and in spite of the uncertain environment, we remain optimistic about our prospects for the future.

Beth Walters - *Jabil Circuit Inc - SVP, Communications and IR*

Operator, we're ready to take questions from our call attendees.

QUESTIONS AND ANSWERS

Operator

Certainly. Your first question comes from the line of Amit Daryanani with RBC Capital Markets.

Amit Daryanani - *RBC Capital Markets - Analyst*

Afternoon, guys. Just a couple questions. Two questions for me, I guess. One, just from the third quarter guidance, you guys are talking about the DMS segment being down 8% to 9% sequentially. Surely, you have a sense, do you think that's going to be uniform across the three sub-sectors or do you think the Healthcare & Industrial segment may start to hit a bottom from a revenue basis, or do you think it's going to get a bit more softer and the Specialized Services does that? If you could just maybe address that it would be helpful.

Timothy Main - *Jabil Circuit Inc - President and CEO*

I think within the Specialized Services area, there's certainly a lot of smartphone content, mobility content, which does have a seasonal element. I think we should see the Healthcare & Instrumentation and the Industrial & Clean Tech stabilize in Q2, Q3 and then start to grow again as we get to the second half of the year. But it's primarily a seasonal pattern, Amit.

Amit Daryanani - *RBC Capital Markets - Analyst*

Perfect. And then if you could maybe just touch on the inventory numbers, I think it was up about 9% sequentially in November. Could you just talk about what drove that, is that for some ramps that you had building up for the third quarter, and if you could talk about maybe how much of that was finished goods versus raw material, that would be helpful?

Forbes Alexander - *Jabil Circuit Inc - CFO*

Yes, Amit. It's Forbes. In terms of our overall spread of inventory, the finished goods is pretty consistent for the patterns we see and I believe that's running about 13% to 14% of the inventory levels, and that's been pretty consistent now for the last two or three years. So nothing extraordinary there. Finished goods did rise, I think, on average about $30 million to $40 million. But the overall growth in inventory is pre-positioning of inventory for this upcoming quarter. There's still a lot of mobility product to be built and shipped in the early part of this quarter that sells through into carriers and such like. So that's the main reason, and then we should see that start to normalize in our second fiscal quarter.

Operator

Your next question comes from the line of Craig Hettenbach with Goldman Sachs.

Craig Hettenbach - *Goldman Sachs - Analyst*

Yes, thank you. Tim, can you provide an update on the AMS business in terms of pipeline today, and then just also the potential M&A environment and how you're looking at that business going forward?

Timothy Main - *Jabil Circuit Inc - President and CEO*

The business is growing at about 9% to 10% year-over-year, so the pipeline of opportunity is good there. They've extended their business into some very advanced logistics and forward logistics capabilities, taking on new business areas in places like the African continent and other areas that are very challenging, very IT intensive and are really stretching their capabilities. We think long term, they will pay -- those efforts will pay really extraordinary dividends. We're active as always in looking for acquisitions and other opportunities to build capabilities there, but right now, their plate is very full with the customers and pipeline of opportunities that they have on an organic basis.

Operator

Your next question comes from the line of Brian Alexander with Raymond James.

Brian Alexander - *Raymond James & Associates - Analyst*

Thanks, good evening, guys. So it looks like you're guiding revenue down about 5% sequentially, EPS down about 12%, if I use the mid-point of the guidance. Can you just talk about the operating margin decline that you're looking for in the February quarter, 20 basis points or so, how much of that is being driven by the mix shift away from DMS and how much would you attribute to margin declines within some of your segments? And if you can maybe just give some directional color on margins by segment that would be helpful, thanks.

Timothy Main - *Jabil Circuit Inc - President and CEO*

It's pretty tough to isolate how much of it is just deleveraging on the revenue being down and how much of it is associated by segment because it's kind of tough to pick apart. It's really very consistent if you look back over our history. It's actually a very low level of seasonality in terms of being 5% down, the last three or four years have been low-single to 5% kind of seasonality. It's a lot less than it has historically been and the level of income that's coming out of the model for Q2 is very consistent with deleveraging, probably a little bit less than what we've seen historically. Historically, we would see something on the order of $0.15 to $0.20 on the dollar and in this case, it's less than that. So I don't think it should be surprising from a deleveraging standpoint.

Directionally, in terms of margins for the business, like we said on the last conference call and I'd just reiterate that here a little bit, we see the Enterprise & Infrastructure and the High Velocity margins coalescing in the 3% range, notwithstanding the fact that they have different long-term targets, at least in the next three to five quarters. I think we would expect the average of the two to be in the 3% range, maybe a little bit better as we exit that period, but kind of an average of 3%. And I think that in terms of Diversified Manufacturing Services, if you looked forward a few quarters, we should be able to average 6% or a little bit better, so that would model to something in the mid-4%s for the Company overall, which we think is a reasonable way to look at it beyond Q2, so looking at Q3, Q4 and maybe Q1 of 2014.

Brian Alexander - *Raymond James & Associates - Analyst*

Okay, just a quick follow-up, Tim, on the -- I didn't hear you allude to the EPS growth for fiscal '13. I think last quarter we talked about 5% to 10% growth, so I don't know if that's still something you're expecting or if that's off the table? I think you need to generate about 55% of the year in the second half, so just thought I would check on that. Thanks.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Yes, I don't think -- we're not pulling away from the 5% to 10%, although I'd say based on the fact that the first half of the year is about what we thought it would be that we probably trend more towards the low end of that 5% to 10% range.

Brian Alexander - *Raymond James & Associates - Analyst*

Got it. Thanks a lot.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Okay.

Operator

Your next question comes from the line of Amitabh Passi with UBS.

Amitabh Passi - *UBS - Analyst*

Hi, thank you. Just a couple questions. Forbes, maybe just an appreciation of why the turnaround or improvement in E&I margins appears to be taking longer, revenue seems to be holding up relatively well. So I was hoping you could maybe just touch on that. And then for High Velocity, as we move into the February quarter one of your mobile customers will be ramping. Should we expect operating margin to stay above the 3% range, or do you think we could see the operating margins in the high 2%s?

Mark Mondello - *Jabil Circuit Inc - COO*

This is Mark.

Amitabh Passi - *UBS - Analyst*

Hi, Mark.

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Mark Mondello - *Jabil Circuit Inc - COO*

How are you doing? In regards to the E&I margins, I actually think we're on track. We put the team in place from High Velocity and exploiting some of our High Velocity capabilities. So they're in the process of consolidating resources, managing cost containment, driving lowest landed cost solutions, optimizing working capital, and improving operational efficiencies, at the same time taking great care of the customers and providing good customer service. As we had talked about when we were recently on the road, we feel optimistic about getting to the 3% with little or no wind at our back as far as revenue recovery. To the extent we get some type of macroeconomic recovery that will help that much more.

Amitabh Passi - *UBS - Analyst*

And then, just on HVS margins as we look at the February quarter?

Forbes Alexander - *Jabil Circuit Inc - CFO*

Yes, directionally, as we look into the February quarter, we've experienced some weakness in printing and set top box as we've gone through the first quarter and seeing some similar patterns as we move into Q2 with some seasonal adjustment there. Some strength in handset, can't discuss particular customers' plans there, but obviously, we have a customer within High Velocity that clearly is looking to launch product some time during our second fiscal quarter. We'll see how that plays out, but we have seen some drift down in the margin just as that handset content increases within relative scale in our High Velocity, so depending where those volumes go, so I would say to be consistent to maybe down a little bit depending on the levels of handset volumes we see sell through in Q2.

Amitabh Passi - *UBS - Analyst*

Okay, thank you.

Operator

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

Matt Sheerin - *Stifel Nicolaus - Analyst*

Yes, thanks. First, just a quick question on your customer exposure. Could you tell us what, if any, 10% customers were in the quarter, and what the top 10 customers represented as a percentage of sales?

Forbes Alexander - *Jabil Circuit Inc - CFO*

Yes, we had one 10% customer and that's in the Diversified Manufacturing Services area in the quarter.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Could you be specific about that number? Is it more than 15%?

Forbes Alexander - *Jabil Circuit Inc - CFO*

Just that we had one 10% customer, and our Top 10 customers are pretty consistent actually around about 60%, 61%.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay, and then on the E&I segment where you continue to see some good growth there relative to the end markets, obviously, being weak. How much of that is on the new program ramps versus what you're seeing from your customers in terms of end demand? And if you could be specific about the new program ramps or pipeline within that business breaking down into the various segments of that industry?

Mark Mondello - *Jabil Circuit Inc - COO*

I would just answer that in general terms. I think that most of what we're seeing on E&I in the early half of fiscal year '13 and carrying to the back half of the year are wins that we realized mid to end of fiscal year '12. The market conditions have been quite tough in that entire sector. The one good thing is we continue to serve some of the best brands whether it be in storage, networking or telecom. What we are seeing is if there's any uptick, the carriers and the NSPs are starting to spend some level of CapEx for network and infrastructure expansion, especially around the 4G and the LTE area, but as far as specific program wins or what not, rather keep it at a general level.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay, and just a quick follow-up on that, Mark, relative to the pricing environment we obviously saw the Juniper and Plexus news, talk from other EMS guys about a little bit more pricing pressure. Obviously, a tough market to begin with. Are you starting to see some more pricing pressure on these new deals?

Mark Mondello - *Jabil Circuit Inc - COO*

I wouldn't characterize it as new pricing pressure. We've been in that market a long time and we're always under pretty intense pricing pressure. So as I alluded to earlier, we've got, I think Tim in his prepared statements called it our High Velocity playbook. What he's alluding to there is we're taking some of our consumer-type High Velocity capabilities, again, around cost containment and optimizing working capital and consolidating resources, et cetera, et cetera, to be sure that we can not only offer competitive pricing but get reasonable returns and get us to the 3% margin range by the end of the year.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay, great. Thanks.

Operator

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

Steven Fox - *Cross Research - Analyst*

Thank you. Good afternoon. Two questions. First of all, just in terms of new programs. Just so I'm clear, it doesn't sound like you were talking about any other new program wins in the last couple months helping this year's revenues. Have you seen any, is there anything you can highlight in terms of momentum since the last quarter? And then specifically with that could you talk a little bit about your ability to maybe diversify in Specialized Services away from just your one largest customer, if you had any success there? And then I have a follow-up.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Which segment in the first part of your question, which segment are you referring to?

Steven Fox - *Cross Research - Analyst*

Just in general, Tim. Just any kind of new program commentary, just going forward beyond what we've already talked about.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Yes, a little too diverse and dispersed to really characterize any major new programs that we've won. Some of the areas of our business we're actually precluded from talking about new wins, but we feel good about it being a growth year. I think most people would be looking for a top line growth this year. We're off to really a fabulous start, so in terms of FY '13 over FY '12, it should be a good year. Mark alluded to, in Enterprise & Infrastructure at least, wins that were secured in FY '12 contributing to FY '13 revenue. And in Specialized Services, we do have an after-market services business there that's growing, that's a component of Specialized Services.

Our MTG Group does have a high level of concentration, although we do business with virtually every major mobility company in the world today, so that revenue is a little bit more diverse than what maybe people think. It's expanding into areas, other areas of consumer electronics, optics, and healthcare, which we hope to accelerate in the near future. And within customers, it's always the objective of the Company to diversify within each major customer, so there's quite a bit of program and product diversity within our MTG Group. I think people tend to think about that as very one dimensional in terms of product and we participate in a broad range of products over 25 to 30 different programs and literally hundreds of different part numbers. So that stream of value is quite a bit more diverse in terms of product categories than what folks have typically associated with it.

Steven Fox - *Cross Research - Analyst*

I appreciate that. That's very helpful. And then just a quick follow-up, just to be clear, you guys have had some Jabil-specific issues that have affected the margins over the last few quarters, but if I understood the commentary correctly there's some investments going on in E&I. But generally speaking, as we look at the margins the rest of the year, we're basically looking at margins being driven by revenues, quarter-to-quarter changes in revenues, or are there other things we should factor in?

Timothy Main - *Jabil Circuit Inc - President and CEO*

Well, for Q2, I think you just have to take it for what it is. It's revenue deleveraging, and we're still looking at a growth year for Jabil. So that would imply that the second half of the year will be very good from a revenue and margin standpoint, at least that's the way we see it today. And I think we would see some -- particularly if we get some tailwind in the Healthcare & Instrumentation and Industrial & Clean Tech areas that stabilizes and start to improve a little bit, that the DMS margins might start with a 6% in the second half of the year, and between the E&I and High Velocity segments if we average 3% that would imply operating margins for the Company overall in the mid-4%s. By the end of the year, based on growth rates, we should see Diversified Manufacturing Services become 50% of our business.

Steven Fox - *Cross Research - Analyst*

Great. Thank you very much.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Okay.

Operator

Your next question comes from the line of Wamsi Mohan with Bank of America.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Yes, thank you. Your DMS segment margins improved nicely relative to last quarter. Tim, can you give us some sense of what percent of capacity has been ramped up so far, or maybe which inning you're in with the ramps in Specialized Services, such that is it like realistic to think that exiting next quarter the drag from the ongoing ramps will be entirely behind you?

Timothy Main - *Jabil Circuit Inc - President and CEO*

We're in kind of a continuous state of capacity expansion. Forbes mentioned CapEx trending towards the high end of the $500 million range, which means it will be adding capacity throughout the year. So we're at very high levels of utilization. We will be building additional capacity, not all of which is in Specialized Services, but fundamentally, the vast majority of it in the Diversified Manufacturing Services.

So in terms of the drag, I think a lot of the interruptions that we highlighted in our Q4 call started to decline over the course of Q1 and we feel much better about the position that we're in today. I think margins would have been better in DMS if had we not seen a fairly significant decline in Clean Tech and Instrumentation business, which is very understandable given the dynamics and particularly when you start thinking about renewable energy and [spark we're de-metering] which tend to be government and subsidy related. So I think as that stabilizes and we start to improve margins in the Healthcare and Industrial areas that the overall DMS margin picture can improve.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Thanks, Tim, and just to follow up, you mentioned, I think, in your answer to the last question that you could get to 6% DMS margins in the back half, but could you get there even if your levels of revenue in sort of the Healthcare & Instrumentation and Industrial & Clean Tech may have levels where they are today? Thanks.

Timothy Main - *Jabil Circuit Inc - President and CEO*

I think that's possible. We'll have to see how things go. We have growth in Healthcare and Industrial. Actually, if you isolate the Healthcare-only business it's actually very stable and we're positioned for some growth, and the same is true of the Industrial business.

If you isolate Clean Tech from the Industrial area, the Industrial business has been very stable and poised for growth for the balance of the year. So we just need the Instrumentation and Clean Tech areas to be stable. They don't need to grow. They just need to stop eroding to the extent that they did in the last quarter and then we'll see the Industrial and Healthcare business grow and that will be accretive to the overall business.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Okay.

Operator

Your next question comes from the line of Shawn Harrison with Longbow Research.

Shawn Harrison - *Longbow Research - Analyst*

Hi, two questions. Just a follow-up on the capacity. Maybe another way to think about it is how much square footage have you been adding for DMS over the past 12 months? At the end of this CapEx cycle how much will square footage increase? And then the second question is with the buyback complete, are you looking to do another buyback here during the remainder of the year?

Timothy Main - *Jabil Circuit Inc - President and CEO*

I'm not sure how many square feet we've added. It's enough to accommodate $500 million worth of stuff. I'm not being obtuse on purpose. I really -- I just don't know off hand, and I'm not sure that's a metric that will be valuable anyways, but we're adding a lot of space. Forbes, do you want to address the --

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Forbes Alexander - *Jabil Circuit Inc - CFO*

Yes, as you say, we've completed the stock repurchase. Certainly, at this juncture, no immediate plans to increase that or [whisper] additional repurchase authorization. We're well positioned in terms of our cash generation this year. I still expect about $1 billion of cash flow. As we said earlier, we now expect our CapEx to be at the $500 million level, but we want to continue to manage the balance sheet conservatively as we move forward here and make sure we do have liquidity available to continue to invest where we feel it's appropriate to do that, enhancing our capabilities via acquisition or continued on this really good organic growth path we're on.

Shawn Harrison - *Longbow Research - Analyst*

Well, I guess with the $500 million does that give you breathing room in terms of utilization within DMS or are you still running up against it?

Forbes Alexander - *Jabil Circuit Inc - CFO*

I think that we will, once we deploy, that would certainly give us some breathing room. Obviously, we're laying down additional square footage, we talked a couple of quarters ago about expansion in Guangzhou with up to 2 million square feet. We don't at this juncture plan on building the full 2 million, but certainly, we would expect perhaps half of that as we exit the end of '13, we'll see how that plays. But there will be some capacity and we'll review that as we move through the fiscal year as to the demand patterns we're seeing there.

Shawn Harrison - *Longbow Research - Analyst*

Okay, thanks so much.

Operator

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

Jim Suva - *Citi - Analyst*

Thank you. Happy Holidays, and congratulations to you and your team there at Jabil. When we look at your guidance, and I'm talking the February quarter year-over-year, I was looking at year-over-year to remove seasonality, can you help us understand why EPS is not growing, yet sales is growing, and DMS is a much bigger part of your Company? Is it still the yield issues within DMS, and if so, when you talk about 5% to 10% EPS growth this year, if my math is correct that would be a materially second half ramp. Is that correct? And how should we think about how you can get from not year-over-year EPS growth right now, but yet such a big increase in the second half of the year? ¶ And then my follow-up question, which is probably for Forbes, is your use of cash, stock buyback, you finished it, you did quite a bit. Looking ahead, CapEx, up a little bit. But is your planned use for cash now more centered around M&A, engineering talent, CapEx, dividend? Help us better understand your viewpoint for cash because you're looking to be in a quite healthy situation. Thank you, and, again, Happy Holidays and congratulations.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Thanks, Jim. Yes, I think year-over-year when we look at the DMS margins, they're down about 90 basis points, we're not pleased with that. We would like to see that be in a higher register in the 6% range for sure, at least. A lot of that is investments in AMS, and the aforementioned headwinds that we're seeing in the Clean Tech and Instrumentation area. Our Specialized Services area is actually doing relatively well year-over-year.

And, again, I think we'll see marginal improvement in that area in the second half of the year. So -- and I think we're really pleased with the 50-basis-point improvement in that area quarter-on-quarter. Our targeted range is 5.5% to 7% and we're at 5.8% and a little bit better improvement and we'll see 6%s again.

Forbes Alexander - *Jabil Circuit Inc - CFO*

In terms of the cash flow, Jim, I think you hit the nail on the head there. We're in a really strong position from a cash generation perspective, and as I said to the previous comments, our main focus with that cash generation is to ensure liquidity, to focus on what has been some -- in this macroeconomic backdrop -- impressive growth organically. And also from an engineering talent perspective, from an acquisition perspective, should we feel we need to further expand our capabilities or enhance the revenue stream, so that's our key focus. We are committed to our dividend as it sits today and we'll see how the balance of the year goes in terms of that cash generation, but we feel really good about the position we're in.

Operator

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

Sean Hannan - *Needham & Company - Analyst*

Yes, thank you, good evening.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Good evening.

Sean Hannan - *Needham & Company - Analyst*

Quick question around -- there have been a number of comments out there about reduced orders at your biggest customer and really based on bottlenecks within the supply chain. I haven't really heard that addressed or referenced too much during the call and I wanted to see if we could get a perspective around that?

Timothy Main - *Jabil Circuit Inc - President and CEO*

There's no way that we could talk about supply chain bottlenecks or anything to do with any individual customer's business.

Sean Hannan - *Needham & Company - Analyst*

Okay, well, looks like we'll move to the second question. So when you think about your new business, is there a way, Tim or Mark, if you could provide an overview of how you're looking at the ramps on the horizon this year, perhaps where you feel a little bit more confident in realizing the intended scale and timing of programs, maybe even rolled up at a segment level, versus where there may be modifications on the state of the macroenvironment. Are there some areas being affected a little bit more so than others? Thanks.

Timothy Main - *Jabil Circuit Inc - President and CEO*

I think in terms of weakness, for the last couple of quarters, and I think in terms of the present tense, any business area that relies on business spending, capital spending, and government spending has been really weak. And really over the last four or five months of the year, weakened even further. So I think in terms of business confidence, we need to see that turn around a little bit so that those capital spending areas can improve.

Now that said, we feel -- we feel like we have line of sight to adequate enterprise infrastructure growth for the year, even in the poor spending environment, so we actually feel good about that. In the High Velocity area, there has been some weakness, as Forbes outlined, in set top boxes and printers. There's really not much to make us believe that there will be any type of robust recovery in those business areas any time soon. Our mobility business, on the other hand, looks like that could trend upward over the course of the year. So I guess we're cautiously optimistic about that element. In Diversified Manufacturing Services, as I said the Industrial and the Healthcare areas are relatively stable, and we do have a pipeline of opportunity that can supply, not spectacular growth, but growth. And if we see the Clean Tech and Instrumentation level out and improve a little bit, that would really contribute to a better margin picture in the DMS area.

In Aftermarket services, they are in the midst of ramping some very large, very complex customers. If those customers are successfully ramped over the course of the next quarter or two, I think that can contribute to much better earnings and margin performance in the second half of the year. And then in the Materials Technology Group, we think that will be another good year of growth.

Sean Hannan - *Needham & Company - Analyst*

Thanks very much.

Timothy Main - *Jabil Circuit Inc - President and CEO*

Okay.

Operator

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

Sherri Scribner - *Deutsche Bank - Analyst*

Hi, thanks. I just wanted to dig a little bit into the DMS segment. The guidance was for up 7% year-over-year and I think your long-term guidance is for 15%. I think that suggests you are going to need to see some improvement in the back half. Just trying to understand what the puts and takes are in that 7% being below your expectations, and should we assume you'll see some improvement in the back half in that segment?

Timothy Main - *Jabil Circuit Inc - President and CEO*

Well, I'd say that you're applying a long-term target to a single quarter and a seasonally down quarter at that. It was up 20% in the first quarter. So I think when we look back at this time next year, we'll easily see a 15% growth rate for the year. So not filled with much concern there. This is -- with the growth in Specialized Services in that business, Sherri, that's going to be a little bit more seasonal than maybe it has been historically as that part of the business increases as a percentage of the total DMS area. So still feel very good about the 15% year-over-year growth.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay, great. And then just a technical question for Forbes. I think the share count guidance for the second quarter was flat Q-over-Q, but you did a lot of buybacks in the first quarter. Was that first quarter buyback weighted to the beginning of the quarter or should we expect the share count to be maybe even a little bit lower than the 208 million? Thanks.

Forbes Alexander - *Jabil Circuit Inc - CFO*

Yes, it was predominantly weighted to early on in the quarter, Sherri. We do have the issuance of some equity. Our typical period of equity issuance is late in October of each year, so we will have the full effect of that issuance offsetting some of that buyback in the second fiscal quarter.

Sherri Scribner - *Deutsche Bank - Analyst*

Great, thank you.

Forbes Alexander - *Jabil Circuit Inc - CFO*

You're welcome.

Operator

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

Beth Walters - *Jabil Circuit Inc - SVP, Communications and IR*

Okay, great. Thank you very much, everyone, for your participation on the call today. We will be available through the balance of the week for any follow-up questions you might have on the quarter, and I might just also note that Tim Main will be a guest on "Mad Money" tomorrow afternoon from around 5.00. Thank you very much.

Operator

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