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JBL - Jabil Circuit, Inc. at UBS Global Technology and Services
Conference

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PRESENTATION

Amitabh Pasi - *UBS - Analyst*

Good morning, everybody, I think we will go ahead and get started. My name is Amitabh Pasi; I'm the technology supply chain and networking analyst at UBS. And it is my pleasure to welcome Jabil and presenting on behalf of Jabil will be the Chief Executive Officer, Mr. Tim Main.

Tim Main - *Jabil Circuit, Inc. - President & CEO, Director*

I am going to share some -- a presentation briefly and then Forbes and I, and maybe our CEO elect, will field some questions as well. For those of you that don't know Jabil, we are really a large supply chain management company, very global. We do supply chain management services for companies like Cisco and HP as well as aftermarket services and depot repair.

We do things like plastics, metals and class components. So a big global supply chain management company. 60 sites in 29 different countries, we have been in business since 1966. We went public in 1993. So we have been around for quite some time.

In contrast to the other companies in our industry and concerns with the tech world, Jabil is growing as a business even in this lackluster macroeconomic environment. In fiscal 2012 we posted revenue of \$17.1 billion which is a 4% growth over 2011 and improved -- significantly improved our GAAP operating income and earnings per share. So we are one of the few companies you might find here today that is actually showing robust growth in a very lackluster macro environment.

So what do we do? About 25% of our business is in an area that we call specialized services. And this is really -- has nothing to do with the types of things that you would typically associate with the EMS industry or traditional Enterprise & Infrastructure tech world kinds of products. Specialized Service is made up of aftermarket services and a group that we call the Materials Technology group.

Materials Technology group makes glass, machines metal, creates plastic parts, principally today for the smartphone mobility industry but in a wide range of industries from everything from healthcare products to golf spikes. So a very well diversified, well-run mechanic's production company.

The other part of Specialized Service is aftermarket services. So if you have a DIRECTV box, an HP laptop, if infrastructure provider needs to send their radios back for repair that is the type of thing that aftermarket services engages in and global logistics capabilities. So about 25% of our business is in those areas, it is a rapidly growing part of our business and we are very pleased with the performance there.

Healthcare and instrumentation and industrial and clean tech are the other components that make up the green part of the pie chart which is what we call Diversified Manufacturing Services. Healthcare products, everything from ultrasound machines to portable ultrasound products to a wide range of single use devices and disposables.

And in the industrial world we do business with all types of the conglomerates that you might know and be very familiar with, but we are also in renewable energy product areas, Smart Grid, wind turbines as well as -- unfortunately a currently struggling solar business. But we think in terms of renewable energy and grid distribution that is a very robust long-term -- it has a lot of long-term positive aspects.



So collectively specialized services, healthcare instrumentation, industrial and clean tech comprise our Diversified Manufacturing Services business, which in our most recent quarter made up 45% of our overall business. That is a business over the previous three years grew at a 33% compound annual growth rate. So tremendous growth in this area.

Started as a \$3.3 billion business segment for Jabil back in 2010, in 2012 was a \$7.5 billion business for Jabil. And sports an operating income of 6% -- well over 6% typically. So a very strong growth engine for the Company. We are placing most of our capital bets in this area and very, very distinct from what investors would typically associate with the EMS industry.

The more traditional areas, Enterprise & Infrastructure, this would be things like networking, telecommunications, enterprise storage products. We have added significant market share over the last couple of years.

Year over year in 2012 the Enterprise & Infrastructure contracted about 2%; we are certainly not pleased with that but that is much better than what you will see in terms of Enterprise & Infrastructure hardware sales across our industry or at an OEM level.

High Velocity makes up about 27% of our business and is an area of mobility products, printing products, point of sale systems, set-top boxes, traditional consumer electronic high-volume low mix type of production.

So our core operating income in total if you put all of that into the stew pot and we have got a company that is growing in the mid to high single digits we think over the next couple of years and core operating income of 4.3%, which is significantly above industry averages.

In terms of long-term targets, we believe with good reason that we can sustain growth in the Diversified Manufacturing Services segments at a long-term growth rate of 15% plus. That is organic growth; the plus would be acquisitions that we would add to that growth rate, so you might see that spike from time to time as we make acquisitions.

And we are very comfortable with a long-term operating income range of 5.5% to 7%, which again would be leading our industry. We believe that over the next few years you will see Diversified Manufacturing Services continue to grow from 45% of our business to the bulk of our business, so well over 50%. And long-term it wouldn't surprise me if the Diversified Manufacturing Services area didn't make up 75% to 80% of our overall business and the types of industries that we can support there.

Enterprise & Infrastructure and High Velocity are both businesses we would expect to grow at kind of the secular growth rates for those industries, which handicapping in over the next few years a global GDP growth that is somewhat subdued, we think these areas can continue to grow though to 0% to 5% growth rate and will continue to drive good cash flow and margins in these areas.

The DMS area is a very big market, rich with opportunity. We talked about the specialized services area and aftermarket services and the Materials Technology group, that is a \$230 billion end market. Healthcare instrumentation a \$150 billion market in the six domains that will pursue most aggressively, which you see listed there.

And in the industrial and clean tech business we see companies throughout the healthcare instrumentation and industrial and clean tech area now upgrading to grow their business in emerging markets, to consolidate acquisitions, to optimize their current manufacturing infrastructure. And what they do is they turn experts like Jabil to help them with that process.

This is the type of growth that we saw in the early years in the P&C business, in the communications business and now that is spreading into healthcare, industrial clean tech, instrumentation accounts. We see this as a very rich area for us long-term in terms of opportunity and an area in which we can really provide a compelling value proposition for customers in this area.

It is very common for us to be able to reduce our customers' cost by 20% to 30% and still earn a reasonable profit, an appropriate profit for our Company and our investors. It is a very high mix business; investors have typically associated the EMS industry with high volume, low mix type of production programs that move from vendor to vendor every few quarters.



That is not the case broadly speaking, but it is particularly not true in these markets. These are very high mix markets, very complex, some are regulated and have very long-term product lives, seven to 10 year product lives. We produce the production levels in these businesses around unlock quantities of 50, 60, 70. So it's a very high mix, high complexity business with great staying power and a great -- think of an annuity that goes on for many, many years provided that you can execute.

New business with some of the greatest names in the healthcare and instrumentation business. We are a safe pair of hands of these companies approach the global marketplace and try to penetrate emerging markets and try and bring converged products to market. Products that need to incorporate our expertise in the mobility market, in the optics business and our materials leverage, our mechanics capability to do plastics and metals and help them create new products that incorporate a number of different technologies that we have experience with and then manufacture those products in a low-cost global footprint and help them penetrate those emerging markets.

We have every good pipeline of opportunity. We've talked about this at our analyst meeting and at several other investor engagements. Very long gestation cycles in the healthcare business and we have a very robust pipeline of opportunity that will continue to feed our growth engine for the next three or four years.

Typically these product development cycles are one to three years and then again they go on for a product life of seven to 10 years. So each time you get into one of these engagements you're talking about a 10, 11, 12 year engagement at a product level. And I can tell you from personal experience, and you can test this yourselves, these are companies that are typically risk-averse and do not take the decisions lightly and do not like to change their mind down the road.

In industrial and clean tech same type of themes, heavy machinery, energy, infrastructure efficiency and generation, some of the greatest brands and names in the world from the North American market and the European market, emerging new technologies for the Smart Grid as well as mature businesses like white goods and other types of industrial controls.

Again, we can bring global manufacturing supply chain expertise and help these companies penetrate emerging markets, manage their complex requirements. It is very common for -- particularly when you talk about the conglomerate side, for them to acquire businesses, have a very large and total manufacturing requirement, but for instance electronics may be spread across 40 different subsidiaries.

But if you consolidate that spend they may have \$400 million, \$500 million, \$600 million, \$700 million, \$1 billion of need and they can't manifest that solution on their own, they turn to experts like Jabil to help them rationalize their electronics requirements and their manufacturing requirements and gain significant economies as a result.

I've actually talked a little bit about this, that 50% of our energy manufacturing and industrial energy manufacturing is done in lot sizes of 50 or less. So it is a very, very high mix complex business. I believe Jabil produces more high mix electronics in low-cost locations than any other company in the world.

Getting to a balance sheet and some other earnings metrics, cash flow metrics, our return -- our GAAP return on invested capital we believe leads the industry. It has been in the 20s for the last several years, our EBITDA level of \$1 billion is growing at a fairly rapid rate. And our EBITDA margins are significantly above our nearest competitors, 6.3% margin and EBITDA margin, 20 basis points higher than the previous year, that is 200 basis points to 250 basis points above our nearest competitors.

So a much -- a very significant cash generation engine in our business, cash flow from operations of \$634 million in the most recent 12-month period and we expect cash flow from operations to approach \$1 billion in fiscal year 2013. So we are very focused on producing cash flow and free cash flow in our business.

Where is the investment going? Our capital is being deployed in the Diversified Manufacturing Services, that is the primary growth engine for the Company, we think it will continue to be the primary growth engine in the Company. Again, a previous three years growth rate of 33% compound annual growth rate, prospectively we believe will be 15% plus and that is where we are investing our capital and will continue to invest.



We talked a little bit about cash flow trends, cash flow from operations and then free cash flow, simply put cash flow from operations less CapEx. \$634 million in cash flow from operations in the most recent year, \$828 million in fiscal year 2011. And you can see significant free cash flow even with a fairly aggressive CapEx program over the last couple of years for Jabil and prospectively looking for \$1 billion in cash flow from operations in fiscal year 2013 with free cash flow of \$500 million to \$600 million.

So, it's really a good business, producing great cash flow and free cash flow. We are looking pretty good relative to our industry bracket in S&P. I will say since 2008 Jabil is one of five companies that have grown at our rate since the great recession gripped the global economy. There are only five companies that have grown at our rate since that period. So we are growing rapidly, producing cash flow and good income.

So thank you, that is a briefing on Jabil and we would be happy to take your questions if we have time.

QUESTIONS AND ANSWERS

Amitabh Pasi - UBS - Analyst

Excellent. If you have any questions please raise your hand. Tim, Forbes, maybe I could kick it off. I wanted to start off with margins. I think if we looked at the three major segments, DMS in the August quarter you talked about sub optimal yields having some impact on margins.

Maybe you could just help us understand, do you think that is the floor as we look at the DMS segment over the next two, three, four quarters? And then similarly I had a question in E&I, what does it take to finally move towards your 3% to 4% range for E&I?

Tim Main - Jabil Circuit, Inc. - President & CEO, Director

Okay, in terms of margin performance in Diversified Manufacturing Services, periodically when we go through a very significant ramp of production we may see margins decline on a short-term basis, which is what we saw in Q4. We have seen that a couple of other times in the last few years. And typically it bounces right back; as we get through the ramp period we get to more mature levels of production, we improve yields and those margins recover.

We set our long-term targets at 5.5% to 7% and we are pretty confident that we will be in that range this year. That is a very, very good business, it is highly profitable and we think we will continue to grow rapidly this year. So we are very satisfied with the margin performance there.

Enterprise & Infrastructure has been a little bit of a disappointment this past year. We were very committed to driving operating margins higher than they are today, we did see 20 basis points of improvement in the August quarter and we saw something like 40 basis points of improvement in the May quarter.

So I think we are trending in the right direction and our long-term targets for the E&I space is 3% to 4% and we've got a good deal of confidence we will be able to get there by fiscal year-end 2013 with incremental improvements on the way.

We are no longer relying on robust revenue recovery, which is part of our margin improvement plan over the year. There is -- hardware sales in the E&I space are struggling to grow, end markets don't seem to be accommodating additional corporate or government spending.

So we will need to do that with cost efficiency, lean manufacturing practices. And we will employ the handbook that we used in improving High Velocity margins from 1.2% in 2010 to 3.8% in our most recent quarter without revenue growth, really efficiency, quality, lean manufacturing practices and we think we can apply that playbook to Enterprise & Infrastructure.



Amitabh Pasi - UBS - Analyst

Forbes, perhaps one for you, and I still struggle with this. How do we get from the \$634 million to the \$1 billion that you have laid out as a target for cash flow from ops in fiscal 2013? If you could just provide a bridge of that incremental \$400 million.

Forbes Alexander - Jabil Circuit, Inc. - CFO

Yes, absolutely. So let me back up a little bit. In terms of the guidance that we provided for this fiscal year, we had given indication that we would expect our earnings per share to grow somewhere between 5% and 10% for the year. So extrapolating from that math base if you will, from that base of guidance, that clearly suggests we are going to be expanding our operating margin and expanding our EBITDA.

So if you think through that we would certainly expect EBITDA expansion this year midpoint of that guidance, 5% to 10% range of \$100 million to \$150 million of expansion there. We will see some benefit from our prepaids coming down to the tune of about \$100 million also, where during this past year we've been making significant capital investments and that has -- in those lead times for equipment coming into the Company -- prepaid deposits on equipment, if you will.

So we will see that abate, that will bring \$100 million back in. And then similar to what we saw in fiscal 2012 when we grew the top-line and we expected to grow revenues next year, but we will do that very efficiently in terms of working capital.

So there is certainly opportunity there, particularly around inventories, to take a day or two out of there. The scale we are operating at now that is \$50 million to \$60 million a day. So think of it in terms of the EBITDA growth, \$100 million roughly in prepaid and then the balance coming from inventory and working capital efficiency.

Amitabh Pasi - UBS - Analyst

Excellent. One other question for you. I think one of your key mobile High Velocity customers recently disclosed they plan to have a new generation of devices available early in 2013. I was wondering, when do you start ramping with that customer. And how do we think about the potential impact to margins in that segment? Would that be somewhat dilutive to the 3.8% you are running at? Just any sense of how we think about the impact of this ramp.

Tim Main - Jabil Circuit, Inc. - President & CEO, Director

We can't make any comments on particular product ramps. It has been public information in the public domain that the OEM that you are talking about consolidated their supply chain to fewer people, and Jabil was the beneficiary of that consolidation, which we enjoy when companies go through these consolidation efforts. They gain a lot of efficiency and a lot of capability when they do that. So we applaud their efforts in that regard.

In terms of margins, the margins in that long-term target for margins in that segment are 2.5% to 3.5% and I just -- I plan on our business staying in that range when you think about it long-term. Quarter-to-quarter impact, I would not expect any abrupt changes to margins in this segment.

Amitabh Pasi - UBS - Analyst

Any questions out there? We have a question over there.



Unidentified Audience Member

To revisit the question earlier about the bridge from fiscal 2012 operating cash flow to your estimate for fiscal 2013, do I understand correctly that roughly \$100 million to \$150 million of the improvement is from higher EBITDA and the balance is largely from better working capital, i.e., a release of working capital making up the bulk of the remainder of that differential?

Tim Main - *Jabil Circuit, Inc. - President & CEO, Director*

That is correct.

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

That is correct.

Unidentified Audience Member

I suspect, tell me if I am wrong, that the working capital change would be -- and I know that working capital swings cyclically. If revenues are up you would tend to use working capital, if revenues are weak you might produce working capital. Is a working capital improvement something that you think is sustainable over the long-term or is that more of a one-time item?

Tim Main - *Jabil Circuit, Inc. - President & CEO, Director*

Is the working capital improvement sustainable?

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

Yes, I certainly believe the biggest opportunity we have there is in our inventory management. So the goal here is to drive our inventory management down to around seven turns a year now for -- seven turns a quarter, excuse me, for two or three years now. So we've certainly got an opportunity there to move that towards any time.

So overall working capital, I would suggest that that is sustainable over the next two or three years in terms of an incremental improvement year on year for the next two to three years as we focus on inventory. And our model is pretty efficient in terms of working capital management. We are running overall our working capital in the 3%, 4% of revenue, which I think is one of the industry leading metrics.

Tim Main - *Jabil Circuit, Inc. - President & CEO, Director*

I think the business, at least in the intermediate term, is trending into higher velocity working capital areas. So the inventory turnover, working capital consumption is higher in areas like healthcare where it is a very high mix, Enterprise & Infrastructure. But we are getting a lot of growth out of specialized services.

And the value add in the revenue stream in specialized services is around 50%, so it is very light in terms of inventory and working capital consumption. And then as we see business in the High Velocity segment be stable we can drive inventory turns to 10 to 12 there. So I think the business overall is on a sustainable trend to be very lean in terms of its working capital consumption.

Amitabh Pasi - *UBS - Analyst*

Actually unfortunately with that we are out of time. We will have a breakout session in the Carnegie room at the conference level. Thank you.



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