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JBL - JABIL CIRCUIT, INC. AT STIFEL NICOLAUS TECHNOLOGY & TELECOM CONFERENCE

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CORPORATE PARTICIPANTS

Tim Main *Jabil Circuit - President and CEO*

CONFERENCE CALL PARTICIPANTS

Matthew Sheerin *Stifel Nicolaus - Analyst*

PRESENTATION

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Tim Main, the longtime CEO. And this is a Q&A format, so I'll just start off with some questions and hopefully you'll have some as well. So Tim, let's just start with any comments you have concerning current demand trends in the quarter. You're a couple of months through your February quarter, you did guide a little bit below seasonal in some of your segments and you talked about reasons why. Can you just talk about any general sense as best as you can of what you're seeing so far?

QUESTIONS AND ANSWERS

Tim Main - *Jabil Circuit - President and CEO*

Yes. I think when we look at fiscal '12, it's a slower growth year than it was in '11. Most analysts have us in the kind of mid single digit growth rate year over year versus fiscal '11. Our August yearend, fiscal '11 growth was 23% which was an extraordinary year of growth for us. And I think when we compare Jabil's results in the November quarter to the competitors' December quarter, most of our competitors were down 5% to 15% roughly year over year, Jabil was up year over year. Actually guided to a pretty good quarter that will be up in terms of revenue year over year, \$4.1 billion in revenue at the midpoint versus I think it was \$3.9 billion last year. So a good year for growth for us, continuing strong margin performance, 4.5% core operating margin in the November quarter and should be above 4% again in our February quarter.

And then the second half of the year we're excited about and very, very little has to happen other than continued growth and organic growth in diversified manufacturing services which was up significantly in our November quarter year over year. Now it's over 40% of our business which is a key growth area for us. So I think current demand trends, much like fiscal '11, will ebb and flow, but the overall growth trajectory of the company is outstanding and superior in terms of industry performance.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

I know you talked a little bit about some exposure, and negative exposure to hard disc drives in some of the end markets that you play in. Anything -- any more positive or negative thoughts there?

Tim Main - *Jabil Circuit - President and CEO*

It wasn't a big deal to results in the November quarter. There were some set top box areas of the business that had a mild impact. In terms of the overall revenue level of the company and margin performance, it was a very, very small issue and I think the press has covered well that the recovery there has been remarkable, really remarkable. So I don't think that any [bottom line knock off effects] of Thailand will impact the company this year.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

And to the extent that storage or hard drive prices go up, that's pretty much just a pass-through for you?



Tim Main - *Jabil Circuit - President and CEO*

Right.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

So that's not an issue?

Tim Main - *Jabil Circuit - President and CEO*

Right, that's not an area -- that's typically an area that customers have direct relationships and pricing arrangements with those suppliers.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Okay. What I'd like to do, Tim, is to drill down into your three key business segments. Enterprise and infrastructure, high velocity, and diversified manufacturing. Maybe starting with enterprise and infrastructure which was just under 30% of your sales, you did have a couple of issues in the quarter, there was a little bit of a shortfall in revenue, your guidance was a little bit below seasonal. I know there's lots of moving parts there and your margins were below target. So could you talk about some of those issues and how you see them playing out?

Tim Main - *Jabil Circuit - President and CEO*

Sure. So enterprise infrastructure in the November quarter was down sequentially 14% versus an expectation of consistent levels of production. However, year over year was up 4%, so even with that sequential negative surprise from a year over year standpoint, clearly the company is growing its business in enterprise and infrastructure through share of wallet and service expansion. So overall, I think the health of that business is in good shape. Margins were impacted negatively by western European operations that we reacquired about a year ago. We've taken steps to reduce the costs in those areas which are largely behind us now, and that will add 50 basis points roughly to our operating margins.

And then late in the quarter, as you indicated, we had some incoming product transitions, buffer inventories were built up to support those incoming product transitions. And another customer had some, basically just some softening demand late in the quarter. So about \$150 million to \$200 million revenue shortfall. We think as that buffer supply, that inventory moves through the system and we recover that revenue in principally Q3 and Q4, that margins will rebound close to the targeted range of 4% to 4.5%. So we feel good about our position there.

It wasn't a great quarter for us, below expectations, margins had been under pressure in that area. But overall, we think the trend is good this year. I think on the conference call we actually indicated that comparing the first half of our year to the second half of our year, it's about an \$8.4 billion revenue expectation overall in the first half, about a \$9 billion revenue expectation in the second half. \$300 million of that incremental revenue we expect to come from (inaudible).

Matthew Sheerin - *Stifel Nicolaus - Analyst*

And in terms of the issues you had with the manufacturing operations that you took back in Europe, it's taken you awhile, and I know part of that plan was to transition to higher margin, more value added [type of] business?

Tim Main - *Jabil Circuit - President and CEO*

In terms of the French and Italian operations?

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Yes.

Tim Main - *Jabil Circuit - President and CEO*

We have a business development effort underway to add business to those sites. That's key to putting them on a platform where they can have longevity and the people working can those facilities can continue to have jobs and have job security. And we're working on that, making some progress. We don't expect any big homeruns in the very near future, but I think it will be less and less of an issue as the year goes on. We have some new customers in those areas and we have taken some steps to reduce costs.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Are you getting close to breakeven (inaudible)?

Tim Main - *Jabil Circuit - President and CEO*

We're not at breakeven at this point. I think maybe by the end of the year, by the end of the calendar year, we could be pretty close to breakeven. When I talk about 50 basis points improvement, we don't need those operations to be profitable. And when I talk about the movement to the low end of the 4%, 4.5% range by the August-November quarter, we're not being optimistic about the profitability in those sites. I think they'll just become less and less of an issue.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Gotcha. And then staying on that topic in terms of the pipeline that you're seeing and opportunities. I know you're ramping some new programs. And is that in one specific area? I know you've been growing on the telecom side, but --

Tim Main - *Jabil Circuit - President and CEO*

In which side?

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Within the enterprise and infrastructure and telecom infrastructure, you've got some opportunities like in other areas of growth. Will you see that pipeline strong through the end of the year?

Tim Main - *Jabil Circuit - President and CEO*

Yes. Again, I think we're growing share of wallet with major customers. We have a significant business in the storage industry. We've done a lot of collaborative design or joint design in manufacturing for customers there. We have a networking customer, we have wireless infrastructure, telecommunications customers. And I think it's a relatively mature industry in terms of outsourcing, so it's not a big trend behind this the way we have in the materialistic technology group and healthcare and some of the other business areas. But we think our market share and business profile is certainly biased to be positive over the next few years.



Matthew Sheerin - *Stifel Nicolaus - Analyst*

Great. So let's turn to high velocity which is an area where you've seen a revenue decline at one of your top customers. Obviously you had some market share issues, yet you've had very strong margins, last quarter 3.8% margin. I know you've had some lean initiatives that have worked out to your advantage, although RIM I guess one would assume would continue to be a drag there. I know you guided revenue down for the second half of the year in that segment, yet you seem to be managing margins well. So talk about that business overall.

Tim Main - *Jabil Circuit - President and CEO*

Right, so that's an area we do printing, point of sale, set top boxes, we do some handset assemblies. As you indicated, it's an area where I think the company is a bit more agnostic in terms of is it a growth area, is it a stable area? We like the customer relationships we have, we'll support those customer relationships. The margin performance is really generated through very intense lean manufacturing initiatives, driving for efficiencies, and cost reductions, introducing products where we have some design content or assisting customers with design and that kind of thing in the non handset areas.

And so I think that we can consistently run that business -- probably be able to run that business above 3% operating margins for the year which would be above the high end of the range. But any particular customer issues we have there just hasn't seemed to make much of a difference in terms of business performance in high velocity, but more importantly, in the overall company. So we had a lot of investor concern in late 2010 and early 2011 that gosh, you have a big customer there and things don't seem to be going well and won't that be a drag on your growth and have a significant impact on earnings? And while it was important to service that customer very well, the company was able to put up very significant growth in fiscal '11 and grow margins year over year something like 60 basis points.

So I think the takeaway from that is that although there are some large revenue customers in the high velocity area, the ebbs and flows of production for any one customer just hasn't made much of a difference at all to the growth. And I think I said this in one of the conference calls anyway, what's remarkable to -- I think what's remarkable is that it had very little impact to the company's growth profile. And so we're agnostic to growth, we operate that business area to be very cost efficient. We think it adds synergies to healthcare and some of these other businesses that we're in, but we're pretty happy with the stable of customers we have there and our ability to drive profitability in spite of volatility in the revenue stream from the customer base.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

And if you look at your capacity in that space, and let's assume that that business declines, or as a percentage goes down, because the other businesses by default grow larger. Are you nimble enough to use that capacity for other businesses? For healthcare, for the diversified manufacturing for networking for example?

Tim Main - *Jabil Circuit - President and CEO*

Yes, absolutely. I mean it's very -- it's most common for enterprise infrastructure and high velocity customers, even some of the diversified manufacturing customers, to be manufacturing in the same place. And they're in low cost locations and they use a lot of the same gear and thing that require engineering infrastructure, so it's pretty straightforward for us to redeploy that capacity across a broad spectrum of industry groups.

Any capacity which is customer specific, things like tooling and custom test gear and that kind of thing, is generally covered by the customer either in a rebases or some kind of contractual basis. So there's very, very, very low risk of permanently stranded capacity if we exit a business for any reason.



Matthew Sheerin - *Stifel Nicolaus - Analyst*

And let's turn to diversified manufacturing which is a big growth driver and 42% of sales, up 30% top line last quarter, margins approaching 7%. That's broken down into three different sub segments and starting with specialized services, where your Green Point division lies, that's an area where you've made some pretty significant capital investments which seem to be paying off for you. I know there's one big customer that has been driving some of that growth, but talk about Green Point's opportunity both in smart phones, tablets, and then other areas like healthcare that you've talked about.

Tim Main - *Jabil Circuit - President and CEO*

Sure. Yeah, great question. The specialized services area, of which [materialist] technology group is a part, grew at 75% roughly in fiscal '11 over 2010 and it looks like 2012 could be another 40% growth year. We add Telmar acquisition after market services, so specialized services is the highest growing part of our business. It is a very attractive business opportunity for the Company to be there as this mobile internet blossoms and the smart phone and tablet market really takes off.

We have business relationships with five, six of the biggest companies in that area, do smart phones and tablets. And the people that run that business area for us believe that we're really in the early stages of the mobile Internet space and production and the market growth opportunity and we have a unique set of capability that puts us really in a pole position with some of the leading companies in that area. So gosh, we're just tickled with the opportunity to participate in that type of highly differentiated, engineering driven growth opportunity in the mobile Internet and in the smart phone and tablet space across a range of customers.

And to be differentiated because of capabilities in metals and aluminum and magnesium and glass and plastics and ceramics and other types of materials, is really a key advantage for us. And when you look at the EMS space, we're unique in that set of capabilities today, we're unique in our opportunity to generate revenue and profit from the growth of that industry, and because we're in the early innings, I think it's a three to five-year wonderful opportunity for our company to participate in. So we're delighted with the capital investments that we've made, we're delighted with the execution of the people inside our Company that run that business. We're delighted with the customers and we're delighted with the prognosticators who look at that industry and say it's got a sustained growth rate of 20% a year for the next three to five years. So all of that's in really good shape.

After market services is an area that has grown consistently since we acquired the business in 1998 at 10% to 15% at least a year. This year will probably be a little bit above that because we've made this Telmar acquisition. Very fragmented business area in terms of competition, very little competition within the EMS industry in that area. Significant advancements that have been made beyond depot repair, reverse logistics, advanced logistics, providing retail opportunities to customers in emerging markets in areas like Turkey and other parts of the world. So a real blossoming of servicing capabilities from aftermarket services.

Today, those two business make up, as you indicated, specialized services business area, that's grown to 20%, 22% of our overall business. And I think that can continue to grow all year.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

It there -- I guess there's an investor concern about the growth with Apple. And certainly Apple is a great customer to have and certainly strong growth prospects, but you talked about within Green Point having five or six key customers there, it seems like you're skewed more towards that one customer. Is that a concern of yours or are you making further steps to diversify?

Tim Main - *Jabil Circuit - President and CEO*

Well, Matt, I'm not trying to be coy with you at all, but we -- the Company has a policy not to discuss specific customer relationships and while many analysts have identified the customer that you identified, we haven't. So with that caveat, the investment in capability and capacity that we



have is as fungible as the EMS capacity is. We're buying industry standard equipment, making significant investments in deploying that into particular processes where our knowhow is key. That can be applied across a broad range of customers and product areas and I think that that's part of what diversification does for you. And part of the value proposition for investors is, if you want to participate in a diversified way in the growth of the mobile Internet and outsourcing and engineering expertise and global supply chain management, Jabil is perfect for you. We represent a window of opportunity into so many strong global growth trends and so many broad based opportunities that you just can't access -- I mean you can diversify your own portfolio, invest in individual stocks, but to get all of that kind of stuff rolled into one opportunity, I think that's something that's compelling.

Along with our growth in healthcare and MTG does play an important role. Many, many healthcare opportunities, programs that we've won in the last 12 months, we've won a ton of new healthcare business that will go into production in 2013 and 2014, 2015, we've won because of our capabilities in MTG in addition to the other capabilities that we have as a business. So good synergy there from across that diversified manufacturing services segment. And kind of a -- if you look at a business and said, that business is going to grow 20%, 30% a year for five years and earn significant returns and through diversification of capabilities, diversification of customers, be relatively stable -- we think that's unique in our industry and we think that's kind of the unique opportunity for investors to participate in.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

You talked about the healthcare opportunity, on the industrial and clean tech, it looks like investment looks flat last quarter, it looks like there's still a lot of incremental outsourcing opportunities across the industrial segment.

Tim Main - *Jabil Circuit - President and CEO*

Yes, I think we're doing really well in industrial and energy. There'll be some ebbs and flows quarter to quarter. Renewable energy has its own ebbs and flows associated with it as government policies come and go and that can influence some of the renewable energy side of it. But conglomerates, industrial applications, are going through a fundamental restructuring of how their electronics manufacturing is done and Jabil is right in the middle of it. And if you look at fiscal '11, that industrial energy group grew at 23%. I think this year we'll probably grow above the corporate average and we'll continue to gain market share and do a great job there. It's a very profitable business for us.

And one of the things that we, investors, under appreciate or maybe we haven't communicated enough, is that Jabil is really a high mix manufacturing business. That's attractive to these industrial customers because they've got a lot of small stuff that they need to aggregate in order to get the economies of scale that we can give them. So they like to aggregate in low cost locations, but nobody really has high mix manufacturing capability in those low cost locations. Jabil does that better than anybody else in the world.

70% of our production is done in lot quantities of 100 or less. We're really a high mix manufacturing business. And so companies that have small, discrete programs or their total sum across ten business groups is only \$100 million, can aggregate that business with Jabil and enjoy significant economies from that aggregation and Jabil can earn an appropriate level of return for providing that service.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Any questions? I guess one thing that investors ask concerning the whole diversified manufacturing segment is that you've got several of your competitors now are also getting in that game, looking at that opportunity, making investments. So the thought is that we're going to get more competition and potentially more margin pressure.

Tim Main - *Jabil Circuit - President and CEO*

I think as you kind of go around the business segments that we have, we can talk about specific differentiators in each one. Nobody really has an MTG. Those synergies translate into meaningful competitive advantages in healthcare. Aftermarket services is a specialized business area. We've

got a 13-year head start on everybody else. The industrial area, we do more high mix manufacturing, low cost locations than anybody else in the world. We've got a significant head start on some of the people in our industry. So I think there's a number of reasons why we think our business growth and performance is sustainable.

And sometimes you've just got to step back and say, look, you know, why did Southwest Airlines do so well against American Airlines? I think Southwest Airlines listed in 1971 or something like that. Everybody else had 40 years to knock them out of the box and never did. And business model, culture, the ability of the company to grow consistently over time, stable performance since we went public in 1993 in terms of sustaining growth. Look at track record and knowhow and capability as well, and I think we compare very favorably in that regard.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

And you talked a little bit about obviously the differentiators of Jabil, but in terms of investor perception, what is it do you still think that they just don't get about the Jabil story?

Tim Main - *Jabil Circuit - President and CEO*

My sense is investors are warming to the story quite a bit. And I think the growth of diversified manufacturing services from the time we started talking about it, when it was 25% of our business, to today when it's over 40% of our business, why we've managed the content of high velocity down and have grown margins in the way that we have, and we've exploited these growth opportunities in renewable energy, healthcare, materialistic technology group, I can tell you, Matt, that the conversations that we're having with investors today are much different than we had a year or two years or three years ago. It's a -- I think it's a new -- I think the appreciation is growing that the content of Jabil and the way Jabil is looking at the industry and the way the business is growing, is fundamentally different than any previous experience in the EMS world.

Hyper growth periods previously in the EMS industry have been about hot industries or hot products or hot customers. This isn't about any of those. This is about a fundamental shift through conversation towards engineering driven, global supply chain management, knowhow, expertise, and capabilities that are highly differentiated in a world where global complexity is increasing. And where companies really need companies like Jabil that can simplify the management and global supply chain networks on their behalf. And so that's growth business and it's different than the EMS experiences in the past. And I just think it's taken time, one, to show that Jabil can put up the results, and two, to listen to the story and get a feel for how fundamentally things have changed over the last three, four years.

So I think it is changing. I don't think that people don't get it, I just think more and more they're realizing, hey, people used to talk about this going on all the time, that didn't matter. Because that was terrible in fiscal '11, and look at what Jabil did anyway.

I don't want to talk about that stuff anymore from an investor standpoint -- I'll talk about whatever investors need me to talk about, but I don't want to talk about this. I want to talk about this other stuff, there's all this diversified manufacturing services stuff that's going on that's growing and making money and you're doing well, and gosh, I'm scratching my head, I've never seen that before. It's not -- like I don't know what to make of the EMS company that does that. And it is different. It's a unique animal.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Questions?

Unidentified Audience Member

(Inaudible question -- microphone inaccessible).



Tim Main - Jabil Circuit - President and CEO

Well, I think the buy back and dividend, the return of capital to shareholders is just how we balance that against the capital needs of the company to grow because we have these extraordinary growth opportunities. And some of them do require more significant CapEx than others. So we just increased our dividend 14%, so I think we've demonstrated the orientation to return capital to shareholders in a disciplined way. We want to be a dividend paying stock, we want to be a free cash flow company, and we want to grow free cash flow for our shareholders. We'll do periodic share repurchases. We've have \$100 million share repurchase approved right now that we'll execute over the course of the year as things go. So we have that discipline in place. We have to balance being more aggressive in those areas or returning more capital to shareholders with our expectations with respect to capital required in the business.

There's some small acquisitions we'll probably make this year and we'll see how business trends go. We may need to make some significant investments in the business.

Unidentified Audience Member

(Inaudible question -- microphone inaccessible).

Tim Main - Jabil Circuit - President and CEO

Yes, it's a really good question. So we have a very unique organizational structure called the business unit model which dedicates a group of people and assets with specific customer relationships. So if you want to start to grow your relationship with Jabil at \$5 million a year in revenue, we can do that through what we call flexible work settles. As you grow the business to \$10 million, \$15 million, \$20 million a year, we're going to put a dedicated group of people in front of you that gives you a single point of control globally. You won't be trapped in a factory. We'll look at your business globally and we'll grow it over time. And our business structure is completely unique in the industry. We're a confederation of independent business units that are customer centric versus the typical approach of our competitors is to be plant centric or geocentric in their thinking.

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