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# Jabil Circuit, Inc. (JBL)

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## CORPORATE PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

### Unverified Participant

Good afternoon, everyone. We're going to continue with Jabil, and we've got two folks from Jabil. We have Mike Loparco who's EVP and CEO of the Engineered Solutions Group. He joined – he's been working across automotive connected consumer energy and industrial and print, engaging with customers in terms of design, for manufacturing design, for quality design for test and simply engineering. So, he covers a lot of areas. And we also have with us Mike Dastoor who's EVP of Corporate Controller, as well he's been Corporate Controller since 2004.

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## QUESTION AND ANSWER SECTION

Q

So, Mike Dastoor, why don't we begin with you with maybe a couple kind of general types of questions. First of all, Jabil hosted its first Analyst Day in a number of years recently. I wonder if you might share with us what you think are some of the key messages that the company wanted to get across.

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Sure. So, the message that we tried to give at the Analyst Day meeting, we laid out a three-year plan where we felt that we could grow revenues by about 4% to 5% over the next three years, operating margin expansion of about 8% to 10%, EPS growth of about 16% to 20%, which will lead us to FY 2019 EPS number of about \$3. We're going to continue to generate cash flow from operations of around \$3.5 billion over the next three years.

Earlier we had committed to returning 40% of our cash flow from operations to shareholders in the form of buybacks and dividends. We'll continue that for year one and year two definitely, and we might even extend that to year three. The balance of the 60% we'll continue to invest in maintenance CapEx, strategic or opportunistic acquisitions that we see in various markets. And at the same time, we'll continue to invest in capabilities.

Some of the capabilities we've invested in the last three to four years include automation, 3D printing, acoustics, optics and active alignment. The last two, which actually gives us a good pathway to the augmented reality, virtual reality markets, those two capabilities will help us leverage that quite a bit.

Q

That's great. Thank you. So, just to be clear, 4% to 5% revenue growth you leveraged into upper teens earnings growth, and that's a combination of operating margin improvement, tax rate and share repurchase. Roughly, what's the contribution?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Good. I think about a third-third-third would be a good way of looking at it.

Q

Okay. And then in terms of the free cash flow, you're talking about I think, \$2.50 in free cash flow roughly as a target, right? Operating cash flow a little bit over \$1 billion. CapEx is \$500 million to \$600 million?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Correct.

Q

So, free cash flow of about \$500 million. So, how much of the stock does that allow you to buy back each over the next two to three years?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

I think we'll try to do 40% between both buybacks and dividends. So, I think we're talking a \$400 million run rate on buybacks alone.

Q

Okay. So, just to be quick, 40% of operating cash flow...

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Cash flow from operations...

Q

...which is...

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Correct.

Q

...70%-ish of free cash flow.

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Correct. So, if we're talking cash flow from operations of about \$1.1 billion, \$1.2 billion a year, 40% of that [indiscernible] (04:04)

Q

Okay. Terrific. And I forgot to mention, please, feel free to send up your questions through the [ph] Crowd Mics app (04:13). One more for you before we turn to Mike. I have to ask, so Apple obviously has a 24%, 25% customer. I think there's two concerns investors have beyond just volumes with Apple. One is the company has been very tough on its suppliers here. And what does that mean for your margins over time? And second, there's some talk of Apple going to glass casing for the next version of the iPhone and how does that affect the casings business.

So, I know you can be very limited in your remarks about Apple, but how do you look at that as an investor, what confidence can you give us that Jabil continues to play very important in Apple's plans?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

So, you know we can talk about future generation products from our largest customer. But I can say that the strategic relationship that we have with the customer is extremely strong. We do have visibility into technology road map, so we know what sort of things are coming. We feel really comfortable about future generations and the part that Jabil would play in that supply chain. There's plenty of things that we can add value on in future generations.

And the other thing I would point out that, [ph] I'd remind you (05:33), we just did a restructuring, and this restructuring we feel so good about our DMS business. The DMS was a not a major material part of our restructuring. So, that would give some sort of – some level of comfort that, okay, these guys are aware of what's coming and they've still not done any restructuring at all. So, it's an indirect way of saying we feel really good.

Q

So, in other words, you're night writing off equipment in Green Point per se, which could be [ph] applicable for Apple (06:04)?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Correct. Correct.

Q

Okay. Michael, thank you for joining us. Now, you cover a lot of different areas. Could you talk a little bit about some of those areas and the megatrends that are working across?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Sure. Sure. So, yes, Engineered Solutions Group, as the name might imply, it's about leading with engineering, and this covers a number of different end of markets, automotive and transportation, connected consumer, energy and industrial and print and retail. And some of the common themes you see across this is that our customers respectfully are coming to us today in a different model. It's no longer a mere build-to-print model, it's really about build-to-spec and build-to-function. And we're able to introduce engineering at every step of the value chain, oftentimes [ph] leaving (6:45) with engineering discussions around ideation of the product or doing design for manufacturing, design for automation, design for cost, design for quality, et cetera.

Each of the end of markets has critical scale and we're really looking at these markets, and we're blessed that we've got customers, many of the relationships for which have been 10, 15 and 20 years-plus, with brands that lead in their respective industries. If we look in the automotive space, we do business with companies like Valeo, a tier 1 supplier or a John Deere in the transportation space.

If we look at the connected consumer and the white goods area, we've got long-tenured relationship with customers like Whirlpool or new customers like Crestron. In the energy and industrial space, we've done work for many years with customers like GE, customers like Landis+Gyr in the metering space. And of course, in the print and retail, we've serviced customers like HP, Zebra, [ph] NCR (07:44), Ingenico.

So, these are well-established brands in many end-markets that are stable but, [ph] Steve (07:50), what's most exciting about it is that in each of these stable end-markets, where we have long-tenured customer relationships, we're really pivoting to areas of higher growth in each of the end markets.

Q

I think that you said that you do quite a few custom solutions for customers. Could you maybe give us a couple of examples of that?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Well, the solutions we provide for customers really are about the engineering content. And if you think about many of the customers that we serve, they're moving towards models of software and service, which is allowing them to delegate more of the hardware responsibility, more of the capabilities around that, more of the control to Jabil.

So, I'd probably say that, with respect to solutions we offer, 75% of every dollar that goes out the door has some level of Jabil-designed content in it. And then some portion of that, of course, has actual customized solutions at a product level, but certainly customized solutions when it comes to end-to-end architecture of a supply chain.

Q

So, you're part of the EMS group and that seemed fairly good margin improvement. Can you talk a bit about where that margin improvement is coming from?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yeah. I think the past four or five or six quarters have shown margin expansion. And I'd really say that that's due in part to some the domain expertise and the specialization that we have today in these end markets. So, as the rate and pace of change has continued, customers have looked to Jabil, on the different technologies and capabilities we've had, and asked us to provide more and more content. This creates stickier relationships and simply allows us to provide more value in the context of the engagement.

Q

Okay. Maybe to dive down in a couple of different areas in automotive, you hired Lisa Bahash from Johnson Controls recently. Can you talk about some of the key components and modules you're doing in the auto business and what's the focus there?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Sure. Yes. So, if you look at the automotive industry, it's been on about seven- or eight-year cycle of about a 4% CAGR. But more excitingly, I think when you look at automotive, when you look at the electronics content in automotive, that's been growing at 14% or 15%. And then if you look at other areas whether it's connectivity in subsectors, those are at even higher CAGRs.

So, Jabil has long played in the automotive industry. It actually is part of our origins 50 years ago out of Auburn Hills, Michigan. But today, we're really playing in different areas of the value chain. You can look at our experience in consumer electronics and how it lends itself to the advances in infotainment. You can look at autonomous driving and sensing and the need for optics, and you look at our camera module technology. You can look at all the different parts of the evolution, indeed, the very relationship that consumers today have with their vehicles, and Jabil is very well positioned at different technology points in that overall offering.

If I look at it from a pure supplier perspective, you can look at the investments we've made in things like our control tower, which is called our InControl suite of services. This allows us to look at the supply chain end-to-end, your structured and non-structured data and optimized supply chains and most efficiently and effectively find opportunities and risks. That's very powerful for the automotive industry. So, again, we look at this, and it's something that presents a very attractive market for us.

Q

Are you dealing mostly with tier 1s or are you going directly to the OEMs?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

OEMs go through cycles of outsourcing and insourcing, outsourcing and insourcing depending upon their technology needs and the levels of innovation that suppliers can offer. So, today, we do serve multiple customers some of which are public of course like our engagement with Tesla as an OEM. But we serve the tier 1s in traditional capacity as well.

Q

Okay. On the electronics and industrial, I think you've noted the change from components to full assembly. Could you talk a bit about that?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Sure. [ph] Don't forget (11:40) some of our industrial customers, [indiscernible] (11:42) energy customers, we've had long history doing PCBA electronics. Little by little, we've made thoughtful investments, we've leveraged different technologies and we've moved up the value chain in the space. Such that, today, if you look at the energy space, for example, we first started doing advanced wind pitch systems for certain customers. We then moved further up the chain and started doing higher level assembly. Today, we'll do an entire down tower converter on a wind turbine or even a [ph] nacelle (12:12) for a 2.5 megawatt turbine.

So, we really played along different points of the value chain. And then if you look even further at where we play, you can look at everything from extraction of energy to generation of energy, to distribution and storage, even to energy monitoring on the far end. And again, when you look at some of our IT systems, the backbones that we leverage, it lends itself very naturally [ph] the plane, the squarely (12:37) in this ecosystem.

Q

And how about the Internet of Things? Sometimes I kind of pitch Jabil as an Internet of Things company, but we've been hearing about this for years and we're not all – we got our homes all hooked up in all that kind of stuff. And are we missing standards? Is security going to be an issue? What parts of Internet of Things are real and what still a ways off?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Sure. Well, I think the Internet of Things is impacting so many different end markets and sectors. And I think where Jabil plays is right at the middle of this converging technologies where companies are looking to partner with folks who bring different expertise.

I think the IoT is impacting so many customers that we serve. Take for example a customer like John Deere, a 100-year-old-plus customer. And today, John Deere has combine harvesters that have sensing technology that allows them to measure fertilizer conditions and soil conditions and changing weather conditions. And we're going to take that and put that into a cloud and do algorithms, so that they can more effectively manage their business. Jabil comes in and we're provided with many different types of technologies.

So, we're benefiting from the trends in the IoT. Certainly, [ph] Steve (13:44), there will be challenges as we mentioned, whether you think it's cyber security, when you think of protocols. The nice thing is that Jabil has good experience in mobility and different communication protocols whether it's 802.11 or Wi-Fi or cellular. We can play

very efficiently regardless of where the market itself goes, but it's certainly affecting many of the markets and almost every customer today that we encounter.

Q

Could you address 3D printing? I think Jabil touches it in many ways. You use 3D printers. You have now, I believe, a services business kind of setup to help companies implement 3D printing. Can you kind of give us a holistic sense of where it's at today?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Sure. Yes. So, 3D printing is an exciting area for us. If you think it just our long history in 2D printing, we've got established relationships in that space. We've pivoted to areas such as large format digital printing and of course 3D printing.

Specifically, when you look at 3D printing, our history goes back more than 10 years when we started investing ahead of the curve in 3D printing. And really, we first started investing in this space as a design tool to help with the innovation and the design of different products, the prototype products. We then evolved and started using 3D printing in some of our manufacturing such that, today, we use 3D printing to manufacture fixtures and jigs and tools in our manufacturing processes.

So, if you come to visit some of our plants, you'll see 3D print farms that actually sit side-by-side with our manufacturing facilities. On top of that, of course, in a traditional sense, we manufacture and assist and design for 3D print with a multitude of customers. And then of course, as I think you're aware, we are announced as one of just five foundational partners for HP in their go-to-market strategy.

So, we play in many parts of the value chain of 3D print. We have been for a decade or more. This is not something new to us but it's exciting and we think it's poised for acceleration.

Q

What's the M&A approach that you're taking? Should we expect you to be very active in your part of the business?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

So, M&A pipeline is robust. When you think of what we're doing from an M&A perspective, our customers are asking us to take on more responsibility. So, the M&A pipeline is attractive when you look at different capabilities that we can do from a tuck-in perspective, different investments that allow us to have more content and more control. And this is certainly in line with the OEM drive towards more services and solutions, and it's a natural partnership that Jabil go deeper and deeper, ultimately providing more value, creating more stickiness and making our business more attractive.

Q



Great. [ph] If I (16:24) don't mind going back to you, Mike. So, as we kind of wrap this into the total EMS business, are you comfortable that the operating margin can stay above 3% for EMS?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Absolutely. I think if you look at our EMS margins over the last two or three years, we've seen some extremely good expansion in that area. I think, as Mike mentioned, the whole evolution from build-to-print to providing an end-to-end solution helps us to create content, helps us to get involved in the design engineering stage at a very early stage. And that helps us to create more stickiness and the margin profile changes completely.

So, it's not just go out and build this to my spec any more. I think that the customers no longer want that. They're looking for end-to-end solutions. And some of the areas that we've invested in heavily over the last two or three years, in terms of automations, in terms of 3D printing, in terms of acoustic, it's all bearing fruit now with the expansion that we're seeing in the EMS.

If you look at some aspects of the EMS business, enterprise and infrastructure and networking and telecom, the areas that Mike doesn't play in, those are GDP growth, zero to GDP growth rate. So, they're not very big. We don't see that growing. The way we're increasing our margin profile is through the stickiness and through the end-to-end solutions that we're providing, and that's here to stay.

Q

If we can go back to the DMS business, within DMS, I think Green Point is probably over half of it, and then you've got Nypro and consumer packaging. The growth rate you're looking for I think kind of came down at the Analyst Day from 8% to 12% to at least 5%.

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Right.

Q

Given that you're looking for double-digit growth in the Nypro and at the consumer packaging business, it seems to play very little growth for Green Point. Do you expect some growth?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Yeah. So, the healthcare, you've got to remember, it's an extremely long product cycle. So, for it to get from design to actual mass production after an FDA approval, not just from the manufacturer itself, but from our factory perspective as well, is a relatively long process. And we have a decent pipeline right now. In the medical segment, we feel good that some of the things that we've been working on over the last two or three years, they might have got a little bit delayed but they're coming through now. So, we feel really good about the medical side where we service devices, diagnostic equipment, the pharmaceuticals, the drug delivery, all those we feel really good about.

On the packaging side, the whole packaging relationship has opened up a completely new set of customers for us. We've now got access to food and beverage. You're talking of some of the biggest multinationals in the world with only a fast-moving consumer goods, the FMCG. You name three or four of the largest FMCG companies in the world and we service them through our packaging. We have capabilities in our packaging world where some of the technologies that we're bringing in like in more labeling barrier technology, et cetera, are actually highly appreciated by the customer. Those are some of the unique capabilities that they value. So, the value proposition on the whole packaging side is looking really good as well.

Q

And the DMS margin stayed at 5% to 7% guide. I think the Street was kind of expecting it to come down a little bit. What gives you confidence? I assume that Nypro and consumer packaging have above average margins within DMS?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Well, that's absolutely true. I think the margins for healthcare and packaging will be above. We're being cautious about the Green Point side of the business. I think all the – we've sort of factored in most of the concerns out there already into our DMS profile and we feel really good about the way it's [ph] all shaping up (20:52) right now.

Q

Okay. And my sense is you're kind of thinking flattish revenue maybe for Green Point?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Yes. Not over the next three years. I think over the next three years, we'll probably see a little bit of increase. The next year, definitely, we're looking at a flattish roughly.

Q

Great. Hopefully...

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Again, it's not going to be double-digit growth rate that we've... but smartphone is still a \$450 billion market, so there's plenty of opportunity, there's plenty of things that we're getting involved in. So, some of the – we obviously do the housing. We do some of the silicone rubber, liquid silicone rubber, barrier technology, the waterproofing, et cetera. Those are unique capabilities that we provide as well. So, there's plenty of components even in that space that we can add value on.

Q

Terrific. Okay. So, let's see, we have a few questions about. Let's see. Mike talked about 75% of products having some Jabil-design component. Is that referring just to ESG? Do they have a higher propensity to outsourced design?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yeah. My comments were relative to ESG and the business that I manage. But I think you see this as a common trend. And again, what's happening is, to-date, so many technologies are converging that it's very difficult for any OEM to be an expert in all of them. We're very blessed by the number of end markets we serve and the exposure and experience that we have across a broad number of end markets. And really, one of the values in our model is to take technologies that we've developed, for example, the mobility space. If you look at acquisitions we've done over the years with Carl Zeiss or Sypro and we've been able to develop a camera module business. Well, we take that from one particular end market and we apply that to another. So, that's why the level of confidence is increasing in so much of what we do. But I would probably say ESG is a good proxy for many of the end markets we serve.

Q

Okay. As the traditional hardware companies are trying to make a transition to a service solution provider, do you actually see them outsourcing more to EMS/ODM?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yeah. There's no question to that, again, there's going to be an increase I think in just the amount of hardware that Jabil is able to add value to. So, if you look at our ability to come in and engineer upfront, architect the supply chain, manage that, provide the IT systems to support a complex global supply chain and to provide the tools to allow analysis of that supply chain such that the information we offer our customers is actionable and not just noise.

Q

Is that happening more strongly in any of your particular verticals where your customers are saying, hey, look, [indiscernible] (23:38) we've made our stuff, but it doesn't make sense going forward for whatever reason?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

You know, I think that there are many traditional end-markets that I served in ESG. So, I think the outsourcing catalyst took place sometime ago. Having said that, there's many new markets that I think are embracing outsourcing for the first time. And if you think of areas that are evolving like intelligent vending and retail, like in the footwear space, an area that's potentially right for disruption, there are certainly markets and industries that look at the former secular trend towards outsourcing, the value it has provided to certain industries and companies and recognize that it's an attractive proposition.

Q

Okay. Is Jabil [ph] nimble enough (24:24) to serve the wide range of low-volume industries, so large [ph] scale (24:29), higher customization and do you have any examples?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

So, I think low-volume manufacturing is somewhat of a sweet spot for us. Well, I think some of the high-volume manufacturing gets a lot of the attention. Certainly, high-mix environments, areas where we're able to establish strategic relationships with our customers, go deep in peer-to-peer engineering relationships is something that plays to our strength. We have a business unit model that's extremely agile and focused on our customer's needs and allows us to be very responsive.

So, markets that are trending towards customization I think are ones that leverage the Jabil model very efficiently and effectively. And when you look at the tools we bring, again, from an IT perspective, from a supply chain analytics perspective and automation perspective, and in the manufacturing and 3D print, we're able to transform supply chains in a manner today that meets the desires and the evolving needs of consumers and customers.

Q

Who are some of the competitors that you see in your spaces? And are the Asians like could be as big a factor here as they are, for example, [ph] more in the city, (25:36) the consumer type businesses?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yeah. It really depends with how quickly this phenomena of mass customization and instinct gratification that I think consumers today expect, in particular, the millennials if I can pick on them, right? I think that will drive potentially shifting and migrating manufacturing solutions around the globe. And again, companies that have global scale, the ability to seamlessly move as Jabil can with the single instant of SAP [ph] as our (26:05) ERP system are the ones who will benefit from those migrations.

Q

So, here's the question of the day. What are the implication of trade barriers being erected in the Trump presidency to your business?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Probably too early to say, but I think maybe I'll leave the financial questions for Mike to address relative to issues possibly around repatriation or whatnot. But to the extent that there are trade barriers, I think Jabil's ability to be agile, to have a global footprint, offering ability to seamlessly move inventory around the globe very efficiently allow us to weather whatever comes our way. So, I think we've taken a look at this and, while it's too early to say, we're certainly not fearful of what may happen. I think we're well positioned from a supply chain perspective, in automation perspective and the ability to help our customers find the most efficient solutions based on what takes place politically.

Q

If you may remind us of kind of where you're manufacturing footprint is and how fungible it is?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

Right. So, most of our manufacturing footprint right now is in Asia. It's scattered over mainly China, Malaysia, Singapore, Indonesia. On the whole trade barrier thing, I think it's a little bit early to go into a deep dive on that. I think we're looking at it from a repatriation. From a tax perspective, it allows us to bring cash back from our main operation areas, which are in Asia at a zero rate. That would just be beneficial to us. So, our repatriation in tax is actually a big plus. Trade barriers, we don't know yet.

Q

Yeah. I mean, it's not good for anyone but wouldn't your customers kind of bear the burden of that in the sense you'd passed it along?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

[indiscernible] (28:01) and again, its infrastructure, its supply chain, how much do you bring back to the U.S. There's a whole bunch of issues and nuances to the trade barriers. [ph] We just can't leave (28:11) all the operations in Asia and bring them over to the U.S. because of trade barriers. It's going to impact pricing, it's going to impact price to end consumer. So, there's a whole bunch of nuances there that we're monitoring, but it's way too early to comment on.

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

The nicest thing is that the change in complexity [ph] are our friend (28:32), and I think we've got many long-tenured relationships of trust and credibility. So, I think we're well positioned to assist our customers regardless of what happens in the near future.

Q

Okay. Very direct question here. Can we expect an acquisition activity in 2017?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

I think, again, from our perspective within ESG, we've done some acquisitions within the past year or two. If you look at Shemer as an example who's been a premier provider from Israel in the digital print space, that's an example of the capability acquisition we've done to further the offerings we can provide to markets that we think are poised for future high CAGR growth. So, I think tuck-in capability-type acquisitions are certainly something you can expect in the future.

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

I don't think I laid out the path with our cash flow from operations. If you look at \$1.1 billion, \$1.2 billion annual run rate, which adds up to the \$3.5 billion that I mentioned earlier, if 40% of that goes and return to shareholders, you're left with that 60% in that one, let's say \$650,000, \$700,000. Maintenance CapEx is in the range of that \$300 million to \$400 million that allows us another \$300 million or \$400 million of strategic, opportunistic acquisitions plus building up the capabilities that we absolutely need to play in. So, there's plenty of room left for that and do the whole return to shareholders as well.

Q

Okay. Well, maybe say a few words about your Blue Sky Center. I visited that late in the summer and it's very impressive place and, again, just kind of plays to this whole story of Jabil having a lot more technology than probably you're given credit for when people think just kind of a build-to-print manufacturer historically, but what sorts of things can people see there?

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

You want to take it or? So, Blue Sky Center is a showcase for all the technologies that we have today that we're planning to get for the future. I think the customers that actually walk through a Blue Sky Center, our Blue Sky Center get surprised by the range of activities, the range of capabilities that we do have in there. It's actually become extremely popular. I think we've had about 300, 400 of our customers go through Blue Sky in the last few months. The feedback has been extremely positive.

And then I think it – when I go and walk the Blue Sky Center, I get impressed by the amount of things that we're doing in Jabil. It is a very impressive showcase for what we can do, which, as you mentioned, doesn't get enough credit from...

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yeah. The interesting thing, [ph] Steve (31:32), is that we developed the Blue Sky Center out in San Jose in the middle of Silicon Valley, of course, to allow our customers to see the broad range of capabilities we have and also create a space where we can come and go deep in different areas and service the ecosystem partner bringing together different players. An unintended benefit of that has been, it's been a great tool simply to educate the 170,000 Jabil employees we have around the world on our rich and expanding capabilities that are constantly evolving.

So, whether it's to come and see the control tower capabilities we have, our medical advancements, an IoT lab, our 3D print capabilities, it's fairly broad and we've been able to continue to attract a lot of the younger employees, a lot of talented employees that are out of the Silicon Valley area or wanted to come and join the company that serves so many of the world's leading brands without locking them into a single monolithic market.

So, the ability for a young engineer who's talented to come in and play across a broad range of technologies or end markets is something that's fairly intriguing and we've seen a real unintended benefit from.

Q

How many design engineers do you have both in your area and the company? And are you able to attract the quality and numbers of people that you need?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yes. So, in the ESG group alone, we've got multiple thousand of engineers that are contributing to the design for our customers. Beyond that, do you want to speak more globally?.

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A

On the materials sciences technology, we have a whole bunch of people that are in Taiwan. So, again, it's hundreds. I don't think they'll be thousands for that particular aspect and other parts of the business. You probably have a similar, slightly lower than ESG. ESG is where that content is huge, where that design engineering is a big value prop.

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

You mentioned Lisa Bahash in automotive. And I think that's just one of the more highly visible examples of us really being able to attract and recruit talented industry veterans and develop the domain expertise that really allow us to most efficiently serve the end markets today in which we play. .

Q

And when you see the innovation center, you kind of think, wow, something learned over here can be very useful over here. So, is there much cross-pollination across [indiscernible] (33:56) and how do you facilitate that?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yeah. You know the Blue Sky Center has become really part of the hub-and-spoke model when it comes to this cross-pollination of learnings and to technologies certainly across the sectors that I manage and, more broadly, across the divisions. It's one of the main reasons we actually developed that center and it's provided immense value today.

Q

Mike, and I know Adam is here as well in IR. Do you feel like you're beginning to talk to a broader range of investors as people gradually begin to perceive the changes of the company and so forth? What's kind of the reaction that you get? Quite often, the typical reaction I get is, oh, I haven't looked at the stock in five years and just had to say, well, things have actually changed quite a bit.

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

A



Absolutely. I think we're constantly looking at expanding our investor days on which meetings we should be attending, what conferences we should be going at. We're constantly evaluating, constantly trying to create this whole – the diversified manufacturing service is a very different piece from the engineered solutions.

Engineered solutions is very different from what it used to be five years ago. So, there's a whole bunch of messaging communication that needs to happen. We're right now currently engaged in some of that but it's an evolution. We're going to have to – it's a learning curve for us as well to go and talk to other than tech companies. It's something we'll do in the future.

Q

So, another question. Can you put a size to your auto business and what is your content per car and how do you see that trending over time?

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

A

Yeah. So, if you think of just EMS as a whole, between \$11 billion and \$12 billion, the ESG portion is roughly half of that. And then we've got stand-alone sectors each that are north of \$1 billion on scale and size. So, again, we've done automotive for the past 50 years. I think what's exciting now is really the convergence of technologies that's taken place as electronics content increases in automobiles. So, again, it's an attractive space for us. We have broad experience and I think we've been able to focus on areas of technology that we think present the largest opportunity for future growth.

Q

Okay. Anything else?

Unverified Participant

Okay. Now, I think [ph] we're on there. (36:25) Mike and Mike, thank you so much. You guys can start a show.

Michael J. Loparco

*Executive Vice President & Chief Executive Officer-Engineered Solutions Group, Jabil Circuit, Inc.*

Thank you.

Unverified Participant

Appreciate your time.

Meheryar K. Dastoor

*Senior Vice President & Controller, Jabil Circuit, Inc.*

Thank you.



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