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CORPORATE PARTICIPANTS

Beth Walters *Jabil Circuit, Inc. - SVP of IR & Communications*

Mark Mondello *Jabil Circuit, Inc. - CEO*

Forbes Alexander *Jabil Circuit, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Steven Fox *Cross Research - Analyst*

Sean Hannan *Needham & Company - Analyst*

Herve Francois *B. Riley & Co. - Analyst*

Steve Milunovich *UBS - Analyst*

Jim Suva *Citigroup - Analyst*

Amit Daryanani *RBC Capital Markets - Analyst*

Sherri Scribner *Deutsche Bank - Analyst*

Adam Tindle *Raymond James - Analyst*

Ruplu Bhattacharya *BofA Merrill Lynch - Analyst*

Mark Delaney *Goldman Sachs - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Jabil first-quarter FY17 earnings conference call.

(Operator Instructions)

I would now like to turn today's conference over to Beth Walters, Senior Vice President of Communications and Investor Relations. Please go ahead.

Beth Walters - *Jabil Circuit, Inc. - SVP of IR & Communications*

Great. Thank you so much. Welcome everyone to our first quarter of 2017 earnings call. Joining me today are our CEO, Mark Mondello, and our 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 investors section.

Our first-quarter press release, slides and corresponding webcast links are also available on our website. In these materials, you will find the financial information that we will cover during this conference call today. 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 the anticipated outlook for our business, our currently expected second quarter of FY17 net revenue and earnings results, the financial performance of the Company and our longer-term outlook for the Company. 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, 2016, 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.

We will begin today with opening comments from Mark on the business and outlook for the company, and then hear from Forbes on our first fiscal quarter results and guidance for our second quarter FY17. Following our opening remarks, we will open it up to questions from call attendees. I will now turn the call over to Mark.

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Thanks, Beth. Good afternoon. I appreciate everyone taking the time to join our call today. As always, I'd like to think our people here at Jabil, and offer my sincere appreciation for their continued focus on keeping our employees safe, while serving our customers with the utmost dedication and care.

Now I'll begin today by addressing our first-quarter results. The execution by our team was exceptional during the quarter, as they delivered $0.69 of core earnings per share on $5.1 billion in revenue.

Our financial results were stronger than management anticipated, reflecting the second-best quarter in Jabil's 50-year history in terms of both revenue and core operating income. The core operating margin for the first quarter was squarely in line with management's expectation of 4.1%.

Throughout the quarter, certain product volumes in our mobility sector was softer than expected, while the balance of our business performed at or above plan. I'm pleased with the results, and believe they accurately reflect the potential and overall effectiveness of our strategy, a strategy grounded by increasing the diversification of our core earnings.

Lastly, we remain highly confident in our ability to deliver $3 in core earnings per share for FY19, a management commitment communicated by Forbes during our investor day back in September. Forbes will speak more in detail to our business outlook and provide more color around our first-quarter results during his prepared remarks.

I'll now offer some thoughts as to what's driving our business, as we look into the second half of the fiscal year and beyond. Let me start with some key businesses within our DMS segment.

Our healthcare and packaging businesses are extremely well-positioned to prosper in coming years, as our aptitude and approach solidly align with positive market trends. These businesses are advancing beautifully, becoming more and more material in coming quarters. They exhibit a true growth story, as margins expand, while moving from early adoption investment periods to large-scale, well-established business sectors. We expect these combined businesses to accelerate and grow core earnings at a compounded annual growth rate of 20% or greater from FY16 through FY19.

Next, our consumer lifestyles business is delivering above plan. Our team serves companies poised to change the way in which we capture, interpret, and process the world around us. The team has done a masterful job integrating specialized assembly, embedded camera solutions, and intricate tooling, delivering solutions to growth markets, areas such as augmented reality and high-tech connected devices.

This business leverages deep and discrete capability investments, giving us true differentiation, and positioning Jabil to realize millions of dollars of incremental core earnings within our DMS segment, as we move beyond FY17. Lastly within DMS, our mobility business remains well aligned with Apple.

Our team is executing flawlessly at the moment, controlling what they can control. With that said, I'll remind you that Jabil's DMS financial results are dependent on our overall product demand in the handset marketplace, as leverage and utilization of our existing asset base is critical to our success.

Let me now move to our EMS segment. The EMS team continues to assist customers as they navigate rapid change. The solutions and services we now offer continue to increase in terms of relevancy for the wonderful OEM brands the team serves.

As our EMS business moves from legacy build to print activities to build to spec and build to function models, our team continues to extend their value proposition, as customers delegate more and more control of hardware content to Jabil. During our September call, I suggested that our EMS segment would likely grow 5% to 6% in terms of core earnings for the full-year, FY16 to FY17, while core operating margins for the EMS segment would be approximately 3.5% for the year.

As I sit here today, 90 days later, I'm pleased to communicate that our core operating margins for the back half of FY17 will likely approach 4% for our EMS segment, while I anticipate core earnings to actually grow 10% to 12% year over year. Our EMS segment continues to maintain great momentum and I firmly believe this new margin structure is secular in nature. I'd say it's the new normal.

Let me now take a minute and move from our DMS and EMS segments to addressing the company as a whole, in an effort to help you think about the business in the back half of this year. If you start with the midpoint of the guidance we provided today for Q2 2017, I'd assume a 25% to 30% decline when thinking about Jabil's third quarter in terms of core operating income. The sequential quarter-on-quarter decline reflects the typical OpEx investment required in our mobility space, as we prepare for product ramps, resulting in what we believe will be a very bullish, in fact, unusually strong outlook, for our fourth fiscal quarter.

Finally, I'd like to comment on our previously communicated capital allocation framework. The news is quite positive for shareholders, as we remain on track to return upwards of $900 million to $1 billion to shareholders through share repurchases and dividends.

The capital being returned to shareholders is underpinned by our intense cost management, confidence in future cash flows, and our commitment to shareholders. The balance of our capital, capital not being returned to shareholders, will be thoughtfully directed towards initiatives and investments that drive new and well-diversified business opportunities for Jabil.

In closing, and before I turn the call over to Forbes, a few parting comments. Jabil has evolved into a proud owner of a diverse set of outstanding businesses, businesses that offer services and solutions with specialized and differentiated capabilities to a broad range of end markets. Our divisional approach allows for speed and agility to occur where it matters most, at the customer.

We are the brand behind the world's best brands. As a management team, we have a lofty goal for Jabil's brand, a goal to become the world's most advanced manufacturing solutions company. And in doing so, we will keep our people safe, we will always respect the environment, we will conduct ourselves with perfect integrity, and we will look to make a difference in the world.

With that, I would like to wish everyone a safe and peaceful holiday season. Thank you, and I'll now turn the call over to Forbes.

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

Thanks, Mark. Good afternoon, everyone. I'd ask you to turn to slide 3, where I'll review our first-quarter of FY17 results.

Net revenue for the first quarter was $5.1 billion, a decrease of 2% on a year-over-year basis. GAAP operating income was $166 million, while GAAP net income was $88 million. GAAP net diluted earnings per share were $0.47 for the quarter.

Core operating income, excluding the amortization of intangibles, stock-based compensation, and restructuring charges was $210 million, and represented 4.1% of revenue. Core diluted earnings per share were $0.69.

Turning to slide 4, and our segment discussion. In the quarter, revenue for our diversified manufacturing services segment was $2.4 billion, a reduction of 3% on a year-over-year basis, and represented 47% of total Company revenue. Operating income for the quarter was 5%. Revenue exceeded our previous guidance, as we experienced strong year-over-year performance from our healthcare, packaging, and consumer lifestyles sectors.

Our electronics manufacturing services segment revenue was $2.7 billion, a decrease of 1% on a year-over-year basis, and in line with expectations. This represented 53% of overall revenues, and the core operating income for this segment was 3.3%.

We ended the quarter with cash balances of $747 million. Net capital expenditures for the first fiscal quarter totaled $162 million, with customer contributions of some $30 million. Net expenditures for the full fiscal year remained in the range of $500 million to $600 million.

The first fiscal quarter tracked to expectations in terms of cash flows from operations, and totaled $152 million. We continue to be very well positioned to deliver annual cash flows from operations of at least $1 billion, and free cash flows of at least $450 million. The core return on invested capital was 17.6% in the first quarter.

Turning to our capital return framework, this remains a key focus as we move through FY17 and FY18. Our plans to return 40% of cash flows from operations, via dividends and share repurchases, up to a maximum of $1 billion, remain very well positioned.

To date, we have returned some $239 million in dividends and share repurchases under this framework. Of our current authorization to repurchase $400 million of shares, and as of the end of the November quarter, we have utilized $208 million of this authorization, repurchasing some 10.2 million shares, $114 million or 5.3 million shares within the November quarter.

Turning for a moment to our restructuring alignment plan. During our last earnings call, I outlined actions we were undertaking to enhance organizational efficiency and effectiveness. Such actions are underway and in the first quarter we recorded charges of $36 million, principally associated with headcount reductions that occurred during the course of the quarter.

The cash portion of such charges was approximately $21 million. Our overall realignment actions remain on track to plan, and will result in cost savings in the range of $20 million to $30 million in FY17.

And now I'd like to turn to guidance for our second quarter of FY17. This can be found on slide 5. The diversified manufacturing services segment is expected to decline 2% on a year-over-year basis to $1.7 billion, while the electronic manufacturing services segment is expected to be consistent on a year-over-year basis, with revenues of $2.65 billion.

We expect total Company revenue to be in the range of $4.2 billion to $4.5 billion or a decline of 1% at the midpoint of the range. Core operating income is estimated to be in the range of $125 million to $165 million, and core operating margin in the range of 3% to 3.7%. Core earnings per share are estimated to be in the range of $0.35 to $0.57 per diluted share, and GAAP earnings per share expected to be in the range of a loss of $0.18 to income of $0.18 per diluted share.

I'd also like to take a moment to discuss our tax rate. As I noted in our last quarter's earnings call, our tax rate for the full FY17 is estimated to be 28%. That said, there will be some distortion quarter to quarter, as a result of actual and current forecasted income levels, and the geographic mix of earnings. Thus, we expect the rate in the second fiscal quarter to be forecast at 25%, and in our third fiscal quarter, the rate is expected to be 31%.

As Mark noted, FY17 is off to a positive start. As we move through the fiscal year, we are well-positioned for continued operating margin expansion within our EMS segment. Our DMS segment is seeing growth in our healthcare, packaging and consumer lifestyles sectors, while our teams in the mobility sector are executing well. We remain optimistic for the balance of FY17, while preparing for new product generations and ramps within our mobility sector that we believe will result in a strong fourth fiscal quarter. And now I'd like to hand the call back to Beth.

Beth Walters - *Jabil Circuit, Inc. - SVP of IR & Communications*

Great. Thank you, Forbes and thank you, Mark. Operator, we are ready to begin the question-and-answer session, but before we begin, I'd like to remind our call participants that we will not be able to address customer-specific or product specific questions. We thank you in advance for your cooperation.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steven Fox, Cross Research.

Steven Fox - *Cross Research - Analyst*

First question, just on the EMS business, Mark, you mentioned some of the solutions and services are increasing in relevancy. Can you talk about maybe some of the highlights from the quarter where your value proposition is improving? And then towards getting to the 4%, what would be the key drivers in terms of the value proposition, helping that in terms of mix going forward? And then I had a follow-up.

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Sure, Steve. It starts with the fact that our EMS business is just so well diversified. I think between our enterprise and infrastructure business and our engineering solutions group, and all the sub businesses below that, we probably got 200 customers in that space.

And it's everything from the automotive world, driving more electronic content to what we are doing in our stack velocity business, what we're doing in terms of optics now on a component side, versus just building the circuit boards. The semi-cap business, the semi-cap world has been a bit of a cyclical industry for the last 6, 8, 10 years. I think there is a really good secular trend there in terms of the type of assembly work, the type of assembly work with silicon, and the intricacies there.

So that's an area that we've made some fairly significant investments on, and we're getting extremely good paybacks on that, and we see that continuing to move forward the next three, four, five years. And then we continue to move out into new markets. I think today, I don't know the exact number, Steve, but we've probably tripled the amount of product that we ship out of the Company today. That has to do with much more than just core electronics. Complete products, versus circuit board electronic modules. I think that's where were getting sustainability around the value proposition and the value-add portion of the business.

Steven Fox - *Cross Research - Analyst*

Great. It's really helpful. And just understanding that obviously you can talk about customers, but you mentioned that the fiscal fourth quarter could be unusually strong. How much of that would you attribute to gaining print position, expanding capabilities on the mobility side? Ay color you can provide on how that DMS ramp is Jabil-specific? Thank you.

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Yes. I think -- as we sit today, we feel good about our 4Q, and it's a combination of things. One is, we feel good about the EMS business. In my prepared comments I talked about here's a business that back two years ago, we were making 2.5 points of margin, and as we close out this year, we're looking at margins up near 4%. So that's one area.

Number two is, for the last couple of years, we've been making significant investments in the healthcare and packaging arena, and those investments are starting to take hold. They both will have reasonable contributions in the fourth quarter, as well. And then, as I mentioned, we got our typical investments on the OpEx side, in Q3 and we are pretty excited about the mobility roadmap that we see in the fourth quarter.

And another area of the business that I highlighted in my prepared comments is our consumer lifestyles business. So we're doing some pretty cool stuff there with material science, tubing solutions, miniaturization, and then optics and camera modules. So, I think all of that combined gives us a pretty good outlook for the fourth quarter. Great. Thank you very much.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - *Needham & Company - Analyst*

Just a follow on the last response that you had there, Mark, and talking about the optics and camera modules. Can you expand on that, in terms of the efforts within the material science piece of the business? How do you see the consumer lifestyles sub-theme evolving from here? And specifically, as we talk about particularly optics, I think we're talking more within a handset or a small footprint type of product application, and if there's anything else around that, that you might want to add into it or clarify, that would be helpful. Thanks.

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Yes. It's an area for us where we've made some fairly substantial investments. We acquired Kasalis, which is an active alignment business, and the team has done a really nice job of taking a look at the marketplace, and really taking a look at the next four or five, six years on how folks are going to interact with the environment around them, whether it the virtual reality type of gaming or augmented reality, and that has a lot to do with, again, miniaturization, power management, material science, and a lot to do with optics.

So, your read on the camera modules and optics is correct. It's more miniaturization, but it's also a solution that we think has good growth to it. And another area that we are interested in, that we are spending quite a bit of time on is acoustics, as well, because we also believe that the days of punching on a keypad, those will start to get behind us in terms of greater and greater voice recognition.

So, that's another area that we are pretty excited about. We won't see much return this year or early parts of next year in terms of the acoustics, but it's an area we are pretty excited longer-term. Again, the product mix in that group too continues to be more and more diversified, every single quarter.

Sean Hannan - *Needham & Company - Analyst*

Okay. That's helpful. And then, also as a follow on to that, when you think about where the technology is leading us specific to this consumer side of the market and consumer lifestyles, the technology progression that you're accomplishing, that you're moving forward with, to what degree is this able to be leveraged in some of the more advanced technologies? Say if we were to think about the medical space, industrial, is there any application there that's either on the conversation table today, or how do you think about that leveraging moving forward?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

I think it's one of the -- I think it's one of the most interesting things about how Jabil is structured. We have these different businesses that serve different end markets, and one of the things I think the Company does a really nice job of, is what we call internally, we have a lot of cross talk, which means that our healthcare folks spend a lot of time with our material science folks, with our folks on optics and embedded cameras. And so the crosstalk we get, both from a capability standpoint and an end markets stand point is fabulous.

And I think there's a whole area of what we would call consumer electronics or consumer lifestyles, that we've made a conscious decision to steer away from. So there's a whole lot of gadgets out there, there is different type of wearable products and things like that, and there's just no income to that. It's all about who can offer up the next penny, and we are really going down a path of higher end products with control points and participation in higher-end technologies. I would envision aerospace, defense, automotive, healthcare, those are some markets that I think will end up having some decent cross talk with our consumer lifestyles group.

Sean Hannan - *Needham & Company - Analyst*

Great. Thanks so much.

Operator

Herve Francois, B. Riley.

Herve Francois - *B. Riley & Co. - Analyst*

Can you talk a little bit, and I apologize if you mentioned during your opening remarks, but in regards to your gross margins, and I guess even the guidance as well, does the number one factor continued to really be the mix of business between the two segments? Are there any other material items that impacts that gross margin one way or another?

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

Herve, it's Forbes. Let me take a swing at that. As Mark said in his prepared remarks, a lot of that gross margin performance, as we think forward here, certainly over Q2 and Q3, there's really around of leverage and utilization of the asset base we have in place within our mobility sector. So, as you see, those types of volumes come back and certainly as we move into Q4, you will see gross margins really snap back there.

What I'd also point out is I think we're doing a really nice job around the SG&A number, in terms of the OpEx, and continue to manage that down, having taken some actions in October. And those will continue as we move through the balance of the year here. We should also see some snap coming of that.

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Herve, I'd like to comment, a follow-up on Forbes. The one thing, I think -- yes, it's business mix, and certainly some sensitivity around the handset market, and whatnot. But the one thing I couldn't be more proud of with the entire leadership team is the amount of aggression and just overall care that the leadership team has given around the cost side.

I think one of the things, when I think about what would I think that the EMS margin structure is not going to go back to 2 points? I think the EMS business today benefits from some of the tough decisions we made 18, 24 months ago, in terms of overall cost platform and cost structures. And I'd envision that the announcement of the restructuring that we are talking about back in September, I would envision additional payback on that for the coming 24 to 36 months. One of the things that the team does a really nice job of is getting after things they control, and one of that is overall operating cost and one of them is overhead costs. The team has done a nice job there.

Herve Francois - *B. Riley & Co. - Analyst*

Got it. So I guess just to the point, thank you, that's helpful. Outside of the headcount reductions that you had taken, you discussed last quarter, that was largely SG&A related, when you see over the next couple of quarters, are you comfortable where you are with your headcount, based on some of the forecasts that you're looking at amongst your business lines, that you're pretty much done with that?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Yes. We feel great with how the Company is positioned. In our environment, stuff changes pretty quick, but as we extrapolate out to the $3 per share we're shooting for in FY19, the cost structure we have in place is superb for that.

Herve Francois - *B. Riley & Co. - Analyst*

Got it. That's helpful. And to your team, happy holidays. Thank you.

Operator

Steve Milunovich, UBS.

Steve Milunovich - *UBS - Analyst*

Thank you. Forbes, I think you said at the Analyst Day that free cash flow per share this year could be around $2.50. Is that still the case?

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

Yes. That's correct. It should certainly be $450 million plus. Yes.

Steve Milunovich - *UBS - Analyst*

Okay. I want to clarify a couple comments about growth. On the EMS, you said the plan was for 5% to 6% profit growth. That's now 10% to 12%, that's for the full year I assume. And then on the healthcare and packaging, I thought at the Analyst Day, you said double digit, and today you said over 20% growth over the next few years. Has that increased at all?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Yes, it has Steve. Let me take those one at a time.

I think what I said back in the June call is, I gave some numbers around the EMS segment for the first half of 2017. My memory could be off, but the way I recall it is, I think in the September call, I said that the EMS segment would grow 5% to 6% in terms of core earnings for the full year, and in my prepared remarks today, I took that up to 10% to 12%, and that's for the full year, in absolute income dollars, FY16 to FY17.

And in terms of the healthcare packaging, I think in our last call, I talked about healthcare and packaging maybe growing at 10% to 15% year on year. And I believe I did say at the investor day that it would be double digits, and today I talked about healthcare and packaging for the next couple of years growing at a CAGR of 20% plus, and we feel pretty good about that.

Steve Milunovich - *UBS - Analyst*

Okay. And then, you did have a pretty wide range for the next quarter. Is there any particular reason for that?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Because. I mean it's -- we are dealing with some high beta businesses in our DMS segment, and we feel good about the midpoint. I think the midpoint of the range is around $145 million, and I think from a core EPS standpoint, it's around $0.46. But there's a lot of moving parts for the quarter, that's all.

Steve Milunovich - *UBS - Analyst*

Okay. Thanks.

Operator

Jim Suva, Citi.

Jim Suva - *Citigroup - Analyst*

Two questions, and I will give them at the same time. It looks like your EPS range is larger, and I think on the last question, you talked a little bit, and you said your answer was because of a lot of moving parts moving around. Can you help us understand about what's different now? Because it seems like the past two years you did a lot of CapEx under it? And you said you're very excited about this year. So I'm just wondering what's the real reason, not the real reason but what's the reason why there's a bigger range

And then my second question is, did you give full-year EPS guidance in revenues, or if not, why not? It seems like you're talking about fiscal Q2, 3 and 4 about some variations of what's going on with margins and stuff like that. Can you help us out with UBS guidance for the full year? Or if not, why are you not getting full-year guidance?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Okay, Jim. Let me try to hit those. I think the guidance range we have is not all that dissimilar to the guidance range we gave going into Q2 last year. I think it's a midpoint plus or minus a midpoint plus or minus 12%, 13%, and I think that's pretty consistent with last year.

And again, it's no more complicated, other than we feel good about the broad-based EMS business. We feel good about the healthcare and packaging and, again, I think everybody's aware of the high beta nature of our mobility business. So it's nothing more than that.

In terms of a guidance for the whole year, I think what we feel good about is, is to talk about things in our control, and the things that are in our control are things like cost. Things that are in our control is for us to be able to update you real time on activities around product roadmaps and whatnot, and anticipated investments, and we end up being more descript around things like cash flows for the years, because the cash flows don't seem to have the same sensitivity as, say, earnings do, in terms of potential volatility, in certain parts of our business. So, that's the rationale for not giving full-year guidance.

But I think we gave a decent amount of color in the things that we have reasonable confidence in. If you take the comments, you can extrapolate out the EMS business out through the end of the year. I think you can model out some good estimates around healthcare and packaging, and then you can back into a Q3 number, based on some information I gave in my prepared comments, of where we see Q3 relative to Q2, and we give some background on why that is. And then we are fairly, as we said today, we're fairly bullish around Q4. And if you can imagine, Q4 revenue levels on the DMS side maybe being similar to say, a Q4 of 2015, you can see how all that will model out for the year.

Jim Suva - *Citigroup - Analyst*

Okay. Great. And after hearing all that, it actually makes a lot of reasonable sense, and I sincerely appreciate all the details and wish you and your families and loved ones a happy holidays. Thank you.

Operator

Amit Daryanani, RBC Capital Markets.

Amit Daryanani - *RBC Capital Markets - Analyst*

Two questions from me. Mark, I want to go back to the numbers you talked about. DMS getting to the same run rate in Q4 as you were in August 2015, which will be a $1.9 billion number. That would imply that you actually have a stronger DMS quarter than you had in the last four or five years. I want to make sure that is not what you intend to talk about, that this business could be up high 20% sequentially in the August quarter this year.

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Yes. I don't, I'm not saying that our Q4 would be one of the strongest quarters in the last eight quarters. If you look at -- we just posted a Q1 number that I think DMS revenues were like $2.4 billion, if I have that number right. And we had a really strong Q1 of last year. If you're asking around our anticipation of Q4 for DMS in 2017 relative to 2016, I do think it will be stronger as we sit today. And, yes, I said for modeling purposes, and helping you understand where our heads are at, I think a Q4 2017 in terms of DMS revenue closer to say the fourth quarter of FY15 probably is reasonable.

Amit Daryanani - *RBC Capital Markets - Analyst*

Got it. And I guess broadly, I think 90 days ago at the Analyst Day you were hesitant about talking about full-year numbers. Today you seem to be a lot more comfortable about it. What changed?

It's in the context of I think, investors have a lot of apprehension around what happens with the new models with your largest customer, and how much or how little you play there. Is that what's changed, that you have a much better understanding today in terms of the scope of your engagement with your largest customer, hence the confidence in August, or is there something else that's out there that's giving you more conviction?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Well, it's an additional 90 days, which in our marketplace is like dog years, so it's a lot. The other part is, we do sense that there's an awful lot of apprehension, and yes, there's still a bunch of risk. You all understand the risks around each different element of our business. But the apprehension and some of the thoughts that we are going out of business with our largest customer, that's not factual.

I think that's what you're sensing is, I don't want to get ahead of ourselves in any way. There's a lot of work to do between now and the June/July/August timeframe. There's 1,000 variables that are going to impact the business.

But, again, as we sit here today, and we look in a holistic view of what's going on in the EMS space, what's going on in the healthcare space, what's going on in the consumer lifestyles space? What's happening for us in packaging? And then you add to it the mobility space, that's what's driving our commentary for the back half of the year.

Amit Daryanani - *RBC Capital Markets - Analyst*

Got it. And if I could just sneak a really quick question in, how do you think about DMS margins as you go through the year? Do you think they will be much more stable as you go through this year, which we will see in maybe FY16?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

No. I don't. I think if you just look at the guidance we just provided for 2Q, and you think about the commentary on the EMS side, I think you can get an idea of where we think DMS will come in this quarter.

I don't think the margins in DMS are going to be good in 3Q because, as I mentioned, it's a heavy investment period, and I think DMS on an absolute dollar line lost money in 3Q of 2016. And I do think the fourth-quarter overall for the Company will be good. So I think we will see some variability to the DMS margins, somewhat like last year, this year.

Amit Daryanani - *RBC Capital Markets - Analyst*

Got it. Thank you and congrats on the quarter.

Operator

Sherri Scribner, Deutsche Bank.

Sherri Scribner - *Deutsche Bank - Analyst*

I was hoping to get a little more detail into what you're seeing in the EMS segment, specifically in the server and the storage market? And then regarding your longer-term guidance to grow more than 3% CAGR through 2019, just trying to understand what gives you confidence that segment can return to growth over the next three years?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Well, Sherri, I think what we are seeing is, in the legacy storage area, that business is -- there's parts of it that are down, there's parts of it that are flat. In the cloud area, that's where we are seeing most of the growth. We are also seeing some really good opportunistic plays for us, both in terms of the legacy area, in terms of picking market share with current customers.

Our execution has been excellent. The team is doing a great job and taking care of great brands. And in our StackVelocity area, in the cloud computing area, that's an area for us that our value proposition has changed a little. And we're seeing some good wins there, and they're not huge, but there in the tens of millions of dollars which is good business.

In terms of overall growth for EMS, when you take the puts and takes, I think the EMS business over the next couple of years will grow. Like Forbes said at the Analyst Day, I think he said it would grow sub 5%, and we feel that's a 0% to 5% growth rate business. But our value proposition continues to change, so if you think about that business over the next couple of years in low single-digit growth, but with better sustained margins, we are pretty pleased with it, especially if you look at that business from a cash flow or free cash flow basis.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay. Thanks. And just, Forbes, can you just repeat what you said about the share buybacks, how much you spent and how many shares you bought back? Thank you.

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

Yes, absolutely. So of the $400 million authorization we have in place we've used $208 million to date, so 10.2 million shares. And in the November quarter, we actually used $114 million or 5.3 million shares were retired.

Sherri Scribner - *Deutsche Bank - Analyst*

Thanks. Happy holidays.

Operator

Adam Tindle, Raymond James.

Adam Tindle - *Raymond James - Analyst*

Just wanted to start on DMS, with the revenue upside well above your expectation, it didn't really translate to operating margin upside. So could you just talk about why the upside didn't translate on the operative margin line in the quarter?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Yes. That one was simple. As I mentioned in my prepared remarks, Adam, the mobility side was slightly weaker than we expected, and there were other parts of the DMS sector that were stronger than expected. In certain parts of our DMS business, especially when you think about the different sets of assets we have. If we would have generated, I think we overshot the midpoint on revenue by roughly $200 million, and the vast majority of that was DMS.

We would have seen probably 12, 15 points of leverage on that. But it was based on where the additional revenue came from within the DMS sector. So I think our overall leverage on that $200 million was $9 million, $10 million. Had it been other business, it might have been closer to $12 million or $15 million.

Adam Tindle - *Raymond James - Analyst*

Okay. I just wanted to zone in on the 3Q DMS guidance. It looks like it's probably going to be 0% operating margin or so, if I'm reading this correctly. Understand that there's investments involved there.

Can you help us with maybe how much investment is implied, so we can have a sense for the 4Q upswing? Or maybe another way to ask this is to say that you talked about revenue being similar to 4Q FY15. Would the operating income dollars be similar?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

I don't want to go there. What I would tell you is we are banking on some fairly significant investments in the third quarter, and we view that as a positive. The nice thing is, we've been able to navigate I'd say a tough roadmap, and we are able to leverage existing fixed assets that we have.

So, Forbes talked about our CapEx for the year. Our net CapEx for the year, it still going to be at a very, very good level. We talked about free cash flow for the year being still in the $450 million range. We are really, really pleased with that. That's what's driving, again, a decent amount of the capital return framework.

And I also view the level of investments that we are planning to make in 3Q as a positive, because we wouldn't be making those investments unless we felt good about the products that follow. So, I think on the DMS line, again, in my prepared remarks, I said something along the lines of, if you take our midpoint of 2Q, which is $145 million of core operating income, and you just set down 25% or 30%, that probably gets you cooperating in absolute dollars for Q3. If you take the EMS business, and you start modeling that, and running that up towards 4%, then I'm not sure how the math works, but doing it quickly in my head, that would suggest that the DMS space is probably close to zero, maybe slightly negative.

Adam Tindle - *Raymond James - Analyst*

Right. I guess maybe following up real quick on that. Help us understand, you sound really confident in the $3 in FY19 plan. That's predicated on a DMS target range of 5% to 7%. What gives you the confidence for that, given that these trends? And help us bridge what's happening right now versus your competence around long-term 5% to 7% DMS margins?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

I actually think we can get to $3 a share in 2019 without being in the 5% to 7% range, and I wouldn't take that as, we're not moving off the range. If I think about two to three years out, I think about where we're moving in healthcare, where we are moving in consumer lifestyle. Where we're moving in packaging.

And then we've got some other businesses that we don't talk about it all in that space and, again, from an ROIC cash flow margin standpoint, all of that business has a trajectory to be in the 5% to 7% range, and I think that's why Forbes stated at the investor day that the 5% to 7% range, in that area still holds. I don't know that we need to have our mobility space in 5% to 7%, although we anticipate it will be.

So, again, when I think about $3 a share, I think about if you extrapolate out low single-digit on the EMS business, if the EMS margin platform is, again, a little bit more secular, and let's say, that business's new normal is 3.5% to 4% margins, and then eventually stabilizes around a 4% margin range, it's pretty easy. When you think about the core operating income, you think about our interest expense, and you think about tax rate, and you also think about the share buybacks, if you start modeling the business with shares being around 170 million shares versus 200 million or 210 million shares, it's a pretty plausible story to see us getting to $3 a share.

Adam Tindle - *Raymond James - Analyst*

Okay. Thanks. Happy holidays.

Operator

Ruplu Bhattacharya, Bank of America Merrill Lynch.

Ruplu Bhattacharya - *BofA Merrill Lynch - Analyst*

My first question relates to your CapEx guidance. It looks like you haven't really taken up the guidance. It's still the same as what you had last time. So that implies that, based on what you know of the new phones that are coming out, your existing infrastructure or existing equipment is sufficient, or could there still be some M&A that you need to move, to be able to deal with the new phones?

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

No. I think, the existing infrastructure in terms of square footage and equipment and capabilities is pretty much in place. Any contemplated additions are included in that net number I've given you. So, as we sit today, knowing what we know today, we feel that we are in pretty good shape.

Ruplu Bhattacharya - *BofA Merrill Lynch - Analyst*

Okay. Thanks, Forbes. And the follow-up is, based on what you see in the mobility space in FY18 and beyond, do you think there is an opportunity for Jabil to increase its content both on the mobility side, in terms of phones with your customer but also maybe even the non-phone revenue. Do you think you can increase your content in that? Just want to get your thoughts on content growth from Jabil over the next couple of years.

Mark Mondello - *Jabil Circuit, Inc. - CEO*

I don't know how I want to answer that. Do I think there is an opportunity? I always think there's an opportunity.

Would I anticipate that our content is going to go up? I think I would think about the business as our content staying in a reasonable band of where it's been. So, I can tell you that on the mobility side of our business, relationships haven't changed. The stuff we do on a unit price basis, the economic profiles haven't changed.

The biggest issue there is all around asset utilization and asset efficiency, and we've layered in capacity. Our depreciation in Q2 and Q3 year on year are going to be up, and again, we wouldn't maintain that additional depreciation or capacity, if we didn't think there'd be good leverage on those assets. And if you run all that on a net present value model, we feel like we made a good decision to give those assets in place. In terms of non-mobility product, yes, I think is opportunities there, for sure.

Ruplu Bhattacharya - *BofA Merrill Lynch - Analyst*

Okay. Great. Thanks for the comments, Mark. Appreciate it.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

First question, I was hoping to better understand the opportunity on the retail, and specifically soft goods manufacturing. I think you alluded to it a bit at the Analyst Day, and some headlines about working with Under Armour, so I was hoping you help us understand what that could mean for your model, and how quickly we could see material revenue from that effort?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

Yes. Thanks for the question, Mark. I'd like to hold off on that until we get further through the year, and for a few different reasons. Let's hold off and we'll potentially talk about that in the March call or the June call, but I want to be sensitive to our customers in that area, and what we are doing there. It's an area of great interest for us, not just because it's a new potential market, but some ideas we have there around automation, 3-D printing, some of the partnerships that we have developed, I think we've got a really, really nice value proposition, and we'll talk about it more as appropriate.

Mark Delaney - *Goldman Sachs - Analyst*

Okay. Just given the sensitivity makes me think about as with one person to start, then maybe long-term it expands to more customers? Is that fair?

Mark Mondello - *Jabil Circuit, Inc. - CEO*

I would think of it as multiple customers in parallel, and I would think about it not being relevant until say mid FY18, in terms of what we see ahead of us.

Mark Delaney - *Goldman Sachs - Analyst*

Okay. That's helpful. And for a follow-up question, just trying to better understand the restructuring program. I think, Forbes, you reiterated the $20 million or $30 million this year. Maybe you can help us understand how much of that is already being realized with the guidance you gave for 2Q and 3Q around EBIT levels? And how quickly do you get to that full $70 million to $90 million?

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

Yes. So, let me answer the last part first. The $70 million to $90 million we previously said that would really be as we moved into FY19, in fact, given the proposed timing of some adjustment of some assets in 2018. That's the long pole in the sand there, some higher cost regions.

But as we think more near-term, in terms of FY17, a lot of these actions we took were late in the first quarter, so there's little impact in the first quarter that we just printed. But, you probably see $3 million or $4 million of that reflected in Q2, and then I'd layer in from there with the majority of that between Q3 and Q4.

Mark Delaney - *Goldman Sachs - Analyst*

Thank you very much.

Operator

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

Beth Walters - *Jabil Circuit, Inc. - SVP of IR & Communications*

Okay. Great. Thank you everyone for joining us today, and I'll reiterate, I hope everyone has a safe and happy holidays, and we will certainly be available through the balance of the week to talk to any investors or analysts. Anybody for that matter who has questions on the quarter and the fiscal year. Thanks again. Happy holidays.

Operator

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

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