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JBL.N - Q4 2024 Jabil Inc Earnings Call

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## OVERVIEW:

Company Summary

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**Greg Hebard** *Jabil Inc - Chief Financial Officer*

**Steve Borges** *Jabil Inc - Head, Regulated Industries*

**Matt Crowley** *Jabil Inc - Head, Intelligent Infrastructure*

**Andy Priestley** *Jabil Inc - Head, Connected Living & Digital Commerce*

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## PRESENTATION

**Adam Berry** - *Jabil Inc - Senior Vice President, Investor Relations & Communications*

Good morning, and welcome to Jabil's Fourth Quarter and Fiscal Year 2024 Earnings Call. It's also our 7th Annual Virtual Investor Briefing.

I'm Adam Berry, Senior Vice President of Investor Relations and Communications.

As a team here at Jabil, we're excited to share with you a couple of updates as it relates to our business. This includes some organizational updates as well as an outlook for fiscal 2025.

We'll begin today's call with a quick introduction, setting the stage for what promises to be an informative session. Then, we'll move on to our 2024 results, led by Greg Hebard, our Chief Financial Officer.

In thinking about 2024, it was a challenging year, no doubt, but it was also a very important year as we took some strategic strides as an organization while continuing to look after our customers, employees and shareholders.

For starters, we divested our Mobility business for \$2.2 billion, and returned the majority of those net proceeds to shareholders through a robust buyback program. Through this divestiture, we not only improved our diversification in terms of geographic footprint, but we also reduced our exposure to a business that required higher levels of capital.

At the same time, the organization persevered in the face of some pretty stiff headwinds. This is evidenced by strong margins, roughly in-line core earnings per share, and strong free cash flows. And we did all this despite \$6 billion less in revenue year over year. This suggests to me that Jabil is far more resilient today than when compared to previous downturns.

And finally, we reorganized our internal structure to focus on speed, precision and solutions. This approach targets our ability to serve each distinct end market effectively by creating domain expertise in core areas and better positions Jabil for growth.

As a result of the organizational realignment, we will transition our financial reporting structure from two segments to three. This change better reflects not only how we operate as a business today, but it also positions the organization for growth.

The first segment is called Regulated Industries, led by Steve Borges. It is comprised of end markets that simply demand best-in-class care and manufacturing, as the products built in this segment keep us healthy, safe and moving ahead. In a bit, you will hear about our healthcare, automotive and transportation, and renewable energy infrastructure markets.

Next, our Intelligent Infrastructure segment, led by Matt Crowley, has been designed to support end-to-end growth from the cloud to the data center and the networking and communications gear within, as the world further embraces artificial intelligence.

And then finally, our Connected Living & Digital Commerce segment, led by Andy Priestley, encompasses both consumer-facing products in Connected Living and retail and warehouse automation in Digital Commerce.

Again, this enhanced organizational framework will enable greater focus, customer care, collaboration and growth. In a bit, you will hear from all three of these business leaders.

And finally, we'll conclude with a business update from our newly appointed Chief Executive Officer, Mike Dastoor. From Mike, you will hear about team, targets, strategy, and why we think Jabil is uniquely positioned to benefit from a recovery through our global capacity and network of factories.

But before we jump into the details, please note that today's presentation is being live streamed, and during our prepared remarks, we will be referencing slides. To view these slides, please visit the Investor Relations section of [jabil.com](http://jabil.com). After today's presentation concludes, a complete recording will be available on the website for playback.

In addition, we will be making forward-looking statements during this presentation, including, among other things, those regarding the anticipated outlook for our business, such as our currently expected fiscal year net revenue and earnings.

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 on our annual report on Form 10-K for the fiscal year ended August 31, 2023, and other filings with the SEC.

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.

With that, we're excited to share our progress and future plans with you. Now, let's dive into the details.

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**Greg Hebard** - *Jabil Inc - Chief Financial Officer*

Thanks, Adam. Good morning, everyone. Thanks for taking the time to join our call today.

I'd like to begin this morning by walking through our fourth quarter results, where the team delivered approximately \$7 billion in revenue, \$364 million above the midpoint of the guidance range. This was driven by stronger-than-expected results in our connected devices, networking and storage markets.

Core operating income for the quarter came in at \$401 million, or 5.8% of revenue, a solid improvement of 20 basis points compared to last year. Net interest expense was better than expected, coming in at \$65 million, which was due to lower inventory levels and strong working capital management.

On a GAAP basis, operating income was \$318 million and our GAAP diluted earnings per share was \$1.18. Core diluted earnings per share was \$2.30, which is \$0.07 above the midpoint of our guidance range.

Now, let's look at the numbers by segment for the quarter. Our DMS segment posted revenue of \$3.5 billion, which exceeded expectations by \$79 million. This was primarily due to stronger growth in our connected devices business, although it was slightly offset by lower-than-expected revenue in the automotive business.

Year-over-year, DMS revenue was down approximately 22%. This decrease was mostly due to the Mobility divestiture. Core operating margin for the segment came in at 5.4%, slightly lower than expected, reflective of the mix.

In the EMS segment, we saw revenue of \$3.5 billion, which was \$285 million higher than anticipated. This was driven by stronger demand in our advanced networking markets as we closed out the year. While EMS revenue was down roughly 13% year-over-year, mainly due to the ongoing softness in the end markets like 5G, renewable energy and digital print.

We did see solid year-on-year growth across our cloud, semi-cap, and warehouse automation markets. This dynamic drove core margins for EMS to 6.1% in Q4, up an impressive 90 basis points year-over-year.

Moving now to our end market performance for the year. Compared to our thoughts in June, connected devices, networking and storage came in better than anticipated, while auto and transport came in slightly lower. All other end markets largely came in as expected.

Shifting gears to cash flow and balance sheet metrics, we continue to see robust results. Inventory at the end of Q4 was down five days sequentially, bringing it to 76 days. After adjusting for inventory deposits, net inventory days were 54, which is a four-day improvement quarter-over-quarter.

Thanks to disciplined working capital management by the team, our fourth quarter cash flows from operations were very strong, coming in at \$535 million. Net capital expenditures for the fourth quarter were \$116 million and, for the full fiscal year, came in at \$661 million, or 2.3% of revenue.

As a result of the strong fourth quarter performance and cash flow generation, adjusted free cash flow for the fiscal year came in north of \$1 billion. We exited the fiscal year with a healthy balance sheet with debt-to-core-EBITDA levels of approximately 1.3 times and cash balances of approximately \$2.2 billion.

With that, let's now turn to our capital structure on the next slide. We ended FY '24 with capacity under our global credit facilities of \$4 billion. With this available capacity in our year-end cash balances, we had access to more than \$6.2 billion of available liquidity.

Our debt and liquidity profile are both solid and we believe current maturities are appropriately staggered and at attractive interest rates. We also remain fully committed to maintaining our investment grade credit profile.

Moving now to our capital returns to shareholders on the next slide. We have repurchased 5.3 million shares, bringing total shares repurchased to 19.4 million shares, or \$2.5 billion, which completed our FY '24 share repurchase authorization.

This brings our cumulative shares repurchased since FY '13 to approximately 128 million shares at an average price of approximately \$47, bringing our total return to shareholders, including repurchases and dividends, to approximately \$6.7 billion.

Importantly, included in our earnings release this morning, we announced that our Board of Directors authorized a new share repurchase authorization of \$1 billion, which we expect to fully execute in FY '25. We remain committed to returning capital to shareholders through a disciplined and balanced capital allocation approach.

Moving to the next slide. The team performed well in FY '24, operating within a highly dynamic environment. In summary, over the past year, we sold off our Mobility business and used the net gains to buy back \$2.5 billion of our shares, all while managing temporary challenges in major end markets like renewables, electric vehicles, 5G infrastructure and semi-cap.

However, looking at the broader perspective, the company continues to be highly resilient and is well-positioned for future revenue growth, margin enhancement, and delivering robust free cash flow.

With that, let's turn to our next slide for our first quarter guidance, beginning with revenue by segment. As Adam highlighted earlier, we're pleased to unveil this new business unit organizational reporting segment structure today.

We will transition our reporting segments in FY '25 from DMS and EMS to three new reporting segments, Regulated Industries, Intelligent Infrastructure and Connected Living & Digital Commerce. This change is aligned with our new management structure and with how we drive our long-term planning and forecasting.

For Q1, we anticipate revenue for our Regulated Industries segment will be \$2.9 billion, down 9% year-on-year, reflective of softness in the renewable energy and EV markets. For our Intelligent Infrastructure segment, we expect revenue for the quarter to be \$2.3 billion, down 4% year-on-year.

This is mainly due to us exiting certain legacy networking businesses at the end of Q4 FY '24. In our Connected Living & Digital Commerce segment, revenues are expected to be \$1.4 billion. The year-over-year decline is primarily driven by our Mobility divestiture.

Speaking of Mobility, I'd like to highlight the seasonality of our business in FY '25 will reflect the impact of the divestiture. As a reminder, our Mobility business typically generated a significant portion of its income during Q1.

This means going forward, our quarterly income and earnings progression will more closely resemble our historical EMS business, where typically 40% of earnings come in the first half of the year and 60% in the second half. So, you can expect a more back-half weighted year as we go forward.

Moving now to the enterprise guidance. Total company revenue for Q1 is expected to be in the range of \$6.3 billion to \$6.9 billion. Core operating income for Q1 is estimated to be in the range of \$304 million to \$364 million. GAAP operating income is expected to be in the range of \$143 million to \$223 million. Core diluted earnings per share is estimated to be in the range of \$1.65 to \$2.05.

GAAP diluted earnings per share is expected to be in the range of \$0.26 to \$0.83. Net interest expense in the first quarter is estimated to be approximately \$65 million and, for FY '25, we expect it will be \$245 million.

And our core tax rate for Q1 and for the year is expected to be 21%, reflecting impacts of Pillar Two global minimum tax legislation and jurisdictional earnings mix. We continue to believe it's prudent to anticipate higher tax rates beyond FY '25 in the range of 23% to 24% due to additional expected impacts from global minimum tax legislation.

Moving to the next slide for our FY '25 guidance. For the coming year, we expect approximately \$27 billion in revenue, with core margins in the range of 5.4%, while core earnings per share is expected to be \$8.65. Please keep in mind, in FY '24, we divested our Mobility business partway through the fiscal year, while we also made the strategic decision to reshape our portfolio away from products in the legacy networking space.

When adjusting for these changes, which accounted for \$2.4 billion in revenue in FY '24, we believe our organic growth in FY '25 will be 2.3% on a base of \$26.4 billion. We are forecasting another robust year for free cash flow generation in FY '25, around \$1.2 billion. Additionally, due to the Mobility divestiture, we anticipate lower capital expenditures in the coming year.

For FY '25, we expect CapEx to be between 1.5% to 2% of revenue. Most notably, as in past years, we plan to return 80% of free cash flow to shareholders through dividends and our newly announced \$1 billion buyback authorization.

With that, I'd like to thank you for your time this morning and for your interest in Jabil.

Commercials

**Steve Borges** - *Jabil Inc - Head, Regulated Industries*

Hi, everyone. I am excited to share some details on our Regulated Industries segment. Each of the end markets in this segment plays a critical role in addressing some of the most pressing challenges and opportunities in the world.

Let's first start with healthcare. Many of the macro trends we've been discussing for the last several calls remain unchanged. Connected care is creating new markets by enabling remote monitoring and telehealth solutions.

Personalized medicine continues to drive improved patient outcomes, particularly in the management of chronic diseases. By tailoring treatments to individual patients, healthcare providers can achieve better results and enhance the quality of life for millions of people.

In addition, the introduction of weight loss drugs or GLP-1s drugs are all becoming increasingly important in today's healthcare landscape.

New care settings are also emerging, creating opportunities for innovation. As healthcare delivery evolves, we see a shift towards more decentralized and patient-centric models. This opens new avenues for developing advanced medical devices and technologies that can be used in a variety of settings from hospitals to the home.

As a result, we continue with a strong pipeline of design engagements to enable connected devices and home healthcare products for our customers. Meanwhile, the tailwinds of growth in autoinjectors, medical devices and diagnostics continues, most especially with the advent of many new biologics and individualized testing platforms.

Another significant trend is the need to simplify the supply chain. The complexities of the healthcare supply chain have been highlighted in recent years, most especially during the rise of COVID. There is a growing demand for streamlined and efficient solutions.

This need for simplification is leading to expanded outsourcing as healthcare device companies seek partners who can provide comprehensive supply chain management, engineering, design and manufacturing expertise, coupled with the quality requirements our customers demand.

We are the largest manufacturing solutions provider for the healthcare industry with great diversification, covering diagnostics, medical devices, orthopedics and pharmaceutical delivery systems. Staying the largest will require us to expand our capabilities and accelerate growth by entering areas of the market with macro tailwinds, which will provide an enormous amount of Jabil TAM expansion while focusing on specific geographies, like Croatia and the Dominican Republic, to fuel that growth.

The expanded capabilities and geographies will enable us to further simplify the supply chains for our customers. Internally, the most powerful aspect of what we produce is that, every single day, millions of patients around the world are using a product manufactured by Jabil.

Now, turning to our automotive and transportation end market. Our expertise in product industrialization and manufacturing continues to enable innovation in powertrain electrification, autonomous driving and connected vehicle technologies.

As the automotive and transportation industries undergo a transformative shift towards the mass adoption of electric vehicles and advanced driver assistance systems to meet global regulations and safety requirements, as well as the associated shift to centralized architectures, Jabil is playing a pivotal role in shaping the future of transportation.

We have seen some short-term volatility in demand due to regional changes in EV tariffs and incentives, which has been experienced across the entire automotive industry. The Jabil team has managed this well, supporting our customers as they manage their business through this unprecedented market evolution.

Jabil remains partnered with global market-leading automotive OEMs across the most important technology platforms of the foreseeable future, advanced driver assistance and autonomous driving systems, connectivity, electrification and software-defined vehicles.

Three of these platforms are agnostic to vehicle type, providing us with an opportunity to support our customers, however they choose. Each year, we continue to add new automotive OEM customers and technology leaders, providing further diversification across our customer portfolio.

This positions Jabil extremely well as the automotive industry works towards meeting future governmental vehicle emission targets.

Outside of our automotive customers, we remain engaged with strategic OEMs and suppliers focused on advancing precision agriculture. We leverage experience gained from serving automotive customers, as well as capability expertise from across Jabil, such as optics and fluidics, to help our customers bring the most innovative new farming technologies to the market.

As the automotive and transportation market recovers, Jabil is well-positioned to capitalize on growth with expanded strategic capabilities, including our new facility in Croatia, which will support the growth of our European automotive business. We are focused on technology collaborations and investments and capabilities that best serve our long-term OEM customers and expand Jabil's role within the value chain.

We are committed to delivering cutting-edge solutions that enhance vehicle performance, sustainability, safety and connectivity. Jabil is recognized in the market for our ability to industrialize complex technology designs, develop robust supply chains.

And create automotive-grade automation strategies for the next-generation technologies entering the market today. We deliver these highly complex products with speed and quality while meeting functional safety requirements.

Now, transitioning to our renewables and energy infrastructure end market. Global electricity demand is expected to grow at approximately 60% through 2040, and renewable energy is at the center of achieving global climate goals.

At Jabil, we are leveraging our expertise in manufacturing and supply chain management to support the adoption of renewable energy technologies. In addition, with our US footprint and the Inflation Reduction Act, we are well-positioned to help our customers transition products globally into the US which may allow our customers to take advantage of tax incentives.

Our work spans a wide range of applications, from inverters and optimizers to wind turbines, energy storage systems and smart grid technologies. Our success in energy storage manufacturing has positioned us to now extend into the automated assembly of critical elements of grid level storage systems, such as battery modules.

This capability is expected to be leveraged by customers engaged in residential storage as the attach rate of these systems rise due to policy changes. Complementing the growth in renewable energy, we continue to add new customers that focus on energy management and building controls.

Overall, the design, manufacturing and supply chain needs of renewable energy companies are becoming more complex, which increases their need to work with companies like Jabil.

Customers appreciate the fact that we are committed to delivering high quality, reliable solutions that meet the growing demand for clean energy. Our modular and scalable designs allow for flexible deployment, optimizing resource use and reducing costs.

I will now pass it along to Matt.

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**Matt Crowley** - *Jabil Inc - Head, Intelligent Infrastructure*

Thanks, Steve, and good morning, everyone.

Today, I'm excited to share some insights into our work in the Intelligent Infrastructure segment and discuss the evolution of cloud technology cycles, including the transformative impact of artificial intelligence.

Our segment is dedicated to developing and delivering cutting-edge solutions that support the backbone of the modern digital ecosystem. This includes everything from cloud and data center infrastructure to telecommunications, networking and capital equipment. Each of these end markets plays a crucial role in shaping the future of how we connect, compute and communicate.

The evolution of digital technology has laid a robust foundation for today's advancements. Starting with e-commerce in the '90s, moving through Web 2.0 in the early 2000s, and advancing with cloud computing, mobile apps and big data in the early 2010s, each phase has been pivotal.

Now, we're on the cusp of a new era. Thanks to artificial intelligence and machine learning. These emerging technologies promise to reshape everything in our lives, from solving major health conditions to seamless autonomous transportation, emphasizing the critical role of cloud infrastructure as an enabler to these innovations.

AI is the next cloud technology cycle, revolutionizing the way we process and analyze data, enabling more intelligent and automated decision making. At Jabil, we're at the center of this evolution, providing our customers with advanced manufacturing solutions, they need to stay competitive in a rapidly changing landscape. Our expertise in this segment allows us to support the development and deployment of next-generation technologies to the market.

The journey to fully harness AI comes with its own set of challenges that spur innovation and investment. Old compute architectures are inefficient for new models, necessitating the development of massive parallel architectures that drive huge data transfer needs.

Additionally, AI requires immense amounts of energy. As processing power demands continue to exceed the capabilities of conventional cooling methods, there's an increase in need for advanced liquid cooling solutions.

While liquid cooling has been around for many years, it has traditionally been a way to deliver efficiency. With the explosion of AI and the high-power GPUs required to fuel it, liquid cooling is now a requirement to deliver capacity and will soon be the standard for how data centers address cooling.

The pace of innovation associated with today's GPU silicon is twice as fast as legacy silicon architectures. This creates new challenges when launching products from development into production. In our Intelligent Infrastructure segment, Jabil has built engineering and architecture capabilities that allow us to enable this transition of hardware from development to production at scale, while also enabling us to keep pace with the accelerated development cycles we see being driven in the market today.

Additionally, as GPU speeds increase, so does the need for high bandwidth interconnect, driving the need for cost and power-efficient photonic interconnect.

Across all of these technologies, we are actively investing in capabilities that offer our customers differentiated value for solutions that meet these emerging requirements. One specific example of differentiated capability is our recently announced investment in Jabil's advanced packaging OSAT and process development facility for photonics.

This technology will become more important over time, as power continues to become more scarce and the need for higher speed and lower latency inside systems becomes more important. Our investments in this space positions Jabil to be at the center of one of the next innovation cycles, as the industry moves to co-packaged optics and on-chip solutions.

In addition to our focus on creating these key capabilities, we're also expanding our footprint in strategic geographies as we scale our support of AI data center buildouts. Our facility in Pune, India, is a key manufacturing site for our AI customers and has executed exceptionally well.

And while our demand for manufacturing in India has been driven by AI-related hardware requirements, Jabil has customers across all three of our segments asking us to leverage the region. Because of this, we have recently announced our intention to further expand our footprint in the country.



The unique capabilities we have built throughout this technology value chain are core to a strategy that is both agile and resilient, giving Jabil the ability to support massive scale from secular tailwinds like AI, while being ready for whatever comes next in the market.

Ultimately, Jabil is a key player within the technology ecosystem, ready to help customers overcome today's challenges and prepare for tomorrow. We're leveraging our expertise to support the increasing demand for advanced processors, high-speed photonics and sophisticated hardware solutions. Our solutions are designed to be scalable, secure and adaptable, helping our customers to stay ahead.

I'll now pass it along to Andy to speak about the Connected Living & Digital Commerce segment.

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**Andy Priestley** - Jabil Inc - Head, Connected Living & Digital Commerce

Thanks, Matt. Hello, everyone. I lead Jabil's Connected Living & Digital Commerce segment. Today, I'd like to take a few minutes and talk to you about our work in digital commerce and more specifically warehouse automation.

When we think about the definition of commerce, it's the exchange of goods and services, especially on a large scale. Commerce is made possible by production and fulfillment. And at Jabil, we are a critical enabler within that ecosystem. Jabil is the largest manufacturing solutions provider for digital commerce and warehouse automation customers.

Our expertise and scale allow us to support the largest players in this industry as they navigate the complexities of digitization and automation.

Leaders in this market are focused on digitization. In the aisles, electronic shelf labels and other connected technologies are becoming part of a unified commerce strategy. These innovations are transforming the shopping experience, making it more seamless and efficient for the consumer and allowing a higher standard of compliance for the retailer.

At the checkout, most shoppers are now using contactless payments. Jabil is a leading provider of point of sale and self-checkout solutions, having over 15 years of experience building and now designing these products.

This shift in technology not only enhances convenience, but also aligns with the growing demand for safer, touch-free interactions. Additionally, research shows that most consumers today are likely to choose a business that offers grab-and-go services over a more traditional business model, highlighting the importance of speed and convenience in the modern retail landscape.

Another element of the digital commerce system that may not be as immediately visible or apparent is what happens behind the scenes in warehouses and distribution centers around the world. Billions of dollars of goods are moved through these warehouses and fulfillment centers every day, and warehouse automation has seen significant growth.

The integration of digitization, automation and robotics in these environments is revolutionizing the way we manage inventory and fulfill orders. E-commerce has more than doubled since 2019 to over \$1.2 trillion to-date.

This would not have been possible without higher and higher levels of automation being deployed in these fulfillment centers globally. Jabil is working both directly and indirectly with many of the world's largest brands on autonomous mobile robots, automated sorting systems and automated guided vehicles.

At Jabil, we're constantly looking for ways to help solve some of the macroeconomic issues facing industry today. For example, the availability and cost of labor, to name but one. Jabil builds over 1,000 warehouse robots a month and powers another 4,000 a month with sub-assemblies that we also make. As we look to the future, we have several exciting projects that look to solve these labor issues with even more creative humanoid robotic solutions.

As I have already discussed, digitization, automation and robotics can play a role in a wide range of settings, all of which are designed to increase safety, improve day-to-day operational efficiency, and deliver a superior customer experience.

From automated picking and packing to real-time inventory management, these technologies are driving significant improvements in productivity, cost, accuracy and compliance.

At Jabil, we're committed to helping our customers stay ahead of this curve by providing innovative solutions that address their unique challenges. For example, we have used our expertise in 3D printing to create solutions that allow our customers to solve technical issues and provide superior products to the markets they serve.

We're constantly looking for ways to continue to help our customers become more efficient and meet the needs of their own customers. Our goal is to enable a more connected, efficient and customer-centric approach to commerce and logistics. We look forward to continuing to drive innovation and deliver value to our customers in these exciting and rapidly evolving fields.

Now, I'd like to pass it off to Mike Dastoor for closing.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Thanks, Andy, and thank you everyone for joining us today.

Over the last three months, I've had the opportunity to travel to a number of our sites and spend a lot of time on the shop floor with our teams. Let me address a question that understandingly came up a number of times in my travels, and which I believe many of you on the call have as well.

I'm often asked, Mike, are you going to change the strategy? What are you going to do differently? Well, our enterprise-level strategy is sound and, while I have made some changes to focus the organization more on profitable growth while also reducing risk, I will largely maintain the same direction that has allowed us to be so successful for the past few years.

Our diversified approach across multiple end markets with secular trends continues to provide a solid foundation. This approach was pressure tested in FY '24, as we faced multiple headwinds across several end markets and still delivered strong margins and free cash flow. Today, the company is much more resilient than in years past.

During my first few months as CEO, I've spent considerable time ensuring we have the right people leading our three distinct businesses. Each of these businesses has a different growth expectation, lead time, margin and balance sheet profile, outsourcing maturity levels and product lifecycle times.

It was imperative to ensure our teams remain focused in their respective areas of domain expertise. Based on what I've seen in the last three months, I feel like we've gotten that part right.

We have three business leaders in Steve, Matt and Andy that have the tenure and experience in Jabil, solid pedigree, deep domain expertise and know-how to run a global manufacturing business at scale. I also believe we have the right team running our factories, led by Fred McCoy, another nearly 25-year Jabil employee.

Fred's unique combination of commercial experience and manufacturing operations will allow us to be more agile and more efficient as the complexities of manufacturing continue to grow. And finally, our supply chain organization is in exceptional hands with Frank McKay.

Frank has developed a highly-experienced, long-tenured team with extremely strong relationships in the supply chain over the last 25 years, which, along with investments and advanced supply chain systems, gives me full confidence that Jabil continues to be best-in-class in the industry. This well-rounded enterprise leadership team is already delivering results, securing new business across each of our distinct segments.

In Regulated Industries, Jabil continues to partner with global market-leading automotive OEMs, offsetting EV demand softness with new wins, particularly as tariffs dictate the localized manufacturing of vehicles. In healthcare, we will soon be expanding our GLP-1 drug delivery business in Europe, through new wins with existing customers.

We've taken our manufacturing and automation, and industrialization capabilities designed in the US market and replicated those efforts in Europe, which we believe will result in solid multiyear growth. We've also recently won new programs in the diabetes wearables area. As mentioned earlier, lead times on new wins in the healthcare space due to medical validation requirements means these wins only show up in FY '26 and FY '27.

In Intelligent Infrastructure, our team is squarely situated at the center of the data center infrastructure backbone. We lead with design and engineering to build the hardware and infrastructure that will enable artificial intelligence.

Jabil is also well-positioned to participate in the recovery of the capital equipment end market during our fiscal '25. Year-on-year, we expect the Intelligent Infrastructure segment to be up by \$1 billion after adjusting for the exit of legacy networking businesses Greg mentioned earlier.

In Connected Lifestyle & Digital Commerce, our team is driving innovative solutions to address our customers' desire to automate their warehouse and retail environments as labor becomes increasingly difficult to find.

As we move through FY '25, our digital commerce business will grow, as we have won new programs with both new and existing customers in that space. Also, while early days, the robot and humanoid end market seems to be evolving rapidly, and Jabil is currently participating in that.

At Jabil, we build staff, leveraging our vast engineering capabilities, global footprint and long-term partnerships. Technologies constantly evolve, but Jabil will continue to skate to the park by investing in engineering-led tuck-in capabilities which will allow Jabil to be technology agnostic.

For instance, in the automotive sector, Jabil has built engineering capabilities that are equipped to support both hybrid and EV platforms, depending on which one prevails.

In the data center infrastructure space, Jabil has built engineering and architecture capabilities that allow us to keep pace with the accelerated development cycles and transition from older computer architecture to GPU-led system level design and hardware production at scale.

This, along with our investments in OSAT and power management engineering capabilities, means we're in a good position to offer our customers differentiated value for the solutions that meet the ever evolving requirements in this space.

Similarly, in the digital commerce space, Jabil's advanced automation engineering investments uniquely position us to provide automation solutions across various fields, including retail warehouses and robots.

Transitioning to our financial priorities and unique approach to the market, it's important to highlight that both will remain consistent. Six years ago, we deliberately refocused our organization with the intention of achieving core operating margin expansion, consistent earnings growth at robust predictable cash flows. To this end, we align the management compensation metrics to better match investor expectations. None of this changes. And importantly, our capital allocation framework continues to be aimed at creating long-term value for shareholders.

And when it comes to our approach with customers, we utilize customer-centric work sales that are focused on supporting a single customer. This approach is highly effective and sets us apart from competitors. Regardless of the customers manufacturing location worldwide, a dedicated team supports them across the three regions in Asia, the Americas and Europe. Each work cell provides tailored solutions in three key areas of expertise, advanced engineering-led engagements, AI, ML supported manufacturing solutions, and robust supply chain systems.

Currently, around 70% of our engagements are led by engineering initiatives. The complexities of modern supply chains and geopolitical challenges, along with the need for advanced software solutions and manufacturing closer to the end market have significantly enhanced Jabil's value proposition. This increased engagement means enhanced stickiness and margin improvement compared to even five or six years ago.

And when you look a level deeper within each of our segments, you'll find an exceptionally diverse array of customers, including some of the world's biggest, most innovative and successful brands. This is by no means a complete list of the customers we serve today, but it's certainly impressive by any standard, especially when considering many of our customers rely on Jabil as the sole source for their products.

Now, let's discuss our global footprint, which we believe is a significant competitive advantage. To be abundantly clear, we place considerable value on maintaining a large-scale global manufacturing footprint. However, as the geopolitical situation continues to evolve, our ability to adapt, combined with our designation as a US.

Domiciled manufacturing service provider, is becoming increasingly important as we help our customers navigate this complexity. Following the divestiture of our Mobility business, our footprint has become largely balanced with nearly one-third of our factories located in each of the Americas, Europe and Asia.

Over time, we believe there will be further demand for manufacturing that resides closer to the end customer. And for that reason, we will work with our customers that seek to near or re-shore their manufacturing, whether it be a bifurcated approach or simply lift and shift.

As this dynamic plays out, I believe our factories in both Europe and the Americas will see considerable growth.

Today, we have approximately 40 sites in North America, approximately 30 of which are in the US ready to take advantage of any near or reshoring to North America. With that said, a lot of the world's supply chain is still very much embedded in Asia, and some of our most efficient factories are located there. As we sit today, we currently have capacity in place to support an excess of \$30 billion of revenue.

Over the near term in FY '25, we expect to carry higher than normal levels of excess capacity. We are doing this because we firmly believe many of the end markets we serve will recover. This underutilized capacity will weigh on core operating margins in FY '25 by 20 basis points to 30 basis points, even after the mainly headcount-related restructuring charges we disclosed this morning.

Over the longer term, my team and I strongly believe we're well-positioned to capitalize on significant global trends in sectors such as AI, data center infrastructure, healthcare, pharmaceutical solutions, and warehouse automation, as Steve, Matt and Andy highlighted.

As a result, Regulated Industries will grow 5% to 8% with longer lead times, while Intelligent Infrastructure will grow more quickly at 7% to 10%. Over the next several years, we believe Connected Living & Digital Commerce will grow low-to-mid single digits, driven mainly by double-digit growth in digital commerce and warehouse automation.

Putting this all together, we believe our long-term enterprise growth rate should be in the range of 5% to 7%. Given this anticipated mix of business, we expect gross margins to be in the range of 9% to 10%. And when combined with operational efficiencies, our 6% margin target remains intact over the longer-term.

And when you consider our strong free cash flow generation and consistent returns to shareholders, core EPS should grow between 12% to 15% over the longer term, all of which would continue to drive consistent ROIC north of 30%.

In closing, one thing is for sure, it is our people who make us strong. Our people are resilient. So, I just want to take a moment to say thank you to all our employees for their unwavering commitment and dedication, not just to our customers, but also to our communities and to each other. Together, we will write the next chapter of the Jabil story.

Thank you for your interest in Jabil. I will now turn the call back over to Adam.

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**Adam Berry** - Jabil Inc - Senior Vice President, Investor Relations & Communications

Thanks, Mike.

As we wrap up our prepared comments today and we move to the Q&A portion of our call, I want to leave you with one final thought from me. At Jabil, we build stuff and we do it really, really well. And as we sit today, I believe we're focused on the right end markets with the right capabilities and we have a global yet agile manufacturing footprint. And from an enterprise level, you can expect our focus to remain on margins, cash flows, core EPS growth and shareholder return.

Thank you for your time today. Operator, we're now ready for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. We'll now be conducting a question-and-answer session.

(Operator Instructions)

Ruplu Bhattacharya from Bank of America.

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### Ruplu Bhattacharya - Bank of America - Analyst

Hi, thank you for taking my questions. And congrats to Steve, Matt and Andy on your respective assignments. For my first question, I'd like to ask related to the cloud and data center infrastructure segment. Your guidance for fiscal '25 suggests 11% year-on-year growth.

Are you seeing any slowdown? I mean, what is the impact from consignment in fiscal '25? And is low-double-digit the right way of thinking about revenue growth in this segment? And if you can talk about what your plan is to expand revenues in this segment beyond your existing customers?

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### Mike Dastoor - Jabil Inc - Chief Executive Officer

Hey, Ruplu, it's Mike. So, I'll start off, and then I'll hand it over to Matt to provide some more details. But before I start, I just want to thank the whole team here. There's a hurricane blowing outside. We were all hunkered down in the office to do this call, so thanks to the team.

As regards to Intelligent Infrastructure, you're absolutely right, year-on-year, we're seeing, I think, the growth rate is about 12% if you back out the legacy network customer that we disengage with. We talked about it on the last call. I talked about it again on this call. So, I think it's a 12% growth rate year-on-year.

Now, I'd like to remind you the Intelligent Infrastructure also has 5G in it and it has a cyclical semi-cap business as well. And obviously, in the up years, the semi-cap business will do well. In the down years, it will not. So, overall, if you look at the year-on-year increase, extremely valid over the long-term 7% to 10%, still extremely strong given the other parts of the business that are in this segment as well.

So, I'll hand the call over I think, from a consignment, by the way, the impact is very small and I think the business that I'm most excited about and that Matt is most excited about is the whole data center infrastructure business that will continue to grow, and I expect that to grow in double-digits as well.

Matt, if you want to just take the rest of the question?

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### Matt Crowley - Jabil Inc - Head, Intelligent Infrastructure

Yeah. Hey, thanks, Mike, and appreciate the question, Ruplu. Let me kind of focus on the back half of your question around our plans to expand the segment beyond our existing customers. So, we are hyper-focused on executing the strategy that we've put in place over the past 18 months.

And a good proof point of that is our silicon photonics business. If you think back to last November, we announced a transaction that brought in capability and capacity. And inside of the first 12 months, we've already seen that pay off, in that we have now landed business with two new hyperscale accounts, which we're currently shipping product into.

So, we're hyper-focused on executing there. We believe that our roadmap moving forward on the qualification of 800-gig parts as well as 1.6T, coming in calendar year '25, will allow us to continue to expand our customer base there.

We're also super-focused on executing our power and cooling business in the data center. We're currently beginning to ramp our ability to help customers retrofit data centers, which today are air cooled, need to be retrofitted to go from air to liquid, and soon will be liquid to liquid.

So, we really feel like the capabilities we've built over the past 18 months in these spaces is going to allow us to continue to expand the customer base. And we've already seen some really nice proof points of that to-date.

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**Ruplu Bhattacharya** - *Bank of America - Analyst*

Okay. Thanks for that, Matt and Mike. For my follow-up, I'll ask a question on healthcare. Again, looking at the growth rate for next year, 2% year-on-year seems a little low. Is the market itself growing low-single-digits right now? And can you talk about what you're seeing in terms of the various end markets within healthcare? Mike, I think you talked about GLP-1.

Can you talk a little bit about that? What does that add in terms of revenue margins? And is there a likelihood of another J&J type of deal going forward? So, just any details on the growth rate and what you're seeing in the markets?

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**Steve Borges** - *Jabil Inc - Head, Regulated Industries*

Hi, Ruplu, this is Steve. Let me take that question. The overall healthcare market is growing about 3% to 4%. And we've been challenged this year. I think Mike mentioned this on prior earnings call, with the GLP-1 drugs, they've impacted our medical device segment really due to the reduction of the gastric bypass surgeries.

But when I look at the business going forward, and I'll link to your question on GLP-1s as well, but now our healthcare business continues to be incredibly well-positioned.

The growth of GLP-1 drugs and some of the new wins that we've been able to obtain, really associated with the injectors that we manufacture. And then, you take a look at just the challenge across the world as it relates to diabetes care, we had some nice new wins with CGMs, minimally invasive device growth, and the need for autoinjectors, generally speaking, because biologics are becoming dominant and with the complexities of the diseases.

And so, we've won some exciting new programs. I think in Mike's opening remarks he mentioned fiscal year '26-'27. So, this is in our pharmaceutical business and our med device segment. And we like to say these programs are incredibly sticky.

They last for many, many years of steady production, and we have great visibility with our customers. And what's also exciting is these are launching in some of our new factories, both in the Dominican Republic and Croatia.

As a reminder, and again, Mike mentioned this, but the complexity of healthcare is really tied to the validation requirements, and then, you have the complexity of lead time for automation. So, new wins typically launch in cycles that are two to three years before you kind of reach that steady state production, but love where we're positioned in our healthcare business.

The second part of your question, let me take that, which is the J&J question. There's certainly we remain positive. We've seen a strong pipeline that we're positioned on currently and it's at all different levels of discussions. And that's a really solid sign that our healthcare OEMs, they still view divestitures as a potential strategy for moving outsourcing faster. So, we'll see how those transpire over the year, but pipeline is really strong.

**Ruplu Bhattacharya** - *Bank of America - Analyst*

Okay. Thanks for that, Steve. Mike, if I can squeeze another quick one in? Just looking at your global footprint, I mean, what is the current utilization? And you talked about an impact of 20 basis points to 30 basis points. Is there do you think that there's a need for any restructuring of the footprint? And which end markets do you see investing in over the next year? Thank you. Thanks for all the details.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Hey, Ruplu. So, in my prepared remarks, I talked about how after the Mobility divestiture, our footprint is really well balanced, it's one-third in the Americas, one-third in Europe, one-third in Asia. Currently, our capacity is set up for a \$30 billion-plus revenue run rate.

We've got new facilities in Croatia coming up. We've got new facilities in Dominican Republic coming up. So, there's a whole bunch of sort of capacity that was put into play. So, it was put in place to come up in '25. So, the utilization that we have today, normally, we run around 80% to 85%. Our utilization today is closer to the 70% level. And that creates obviously, a surplus capacity issue.

One of the things we're not doing. And then again, I mentioned that in my prepared remarks, one thing we're definitely not doing is going in and restructure or reduce the number of sites, because we believe, and this is a very strong belief, that the end markets that we're in will come back. We feel EVs will come back. We know healthcare will be steady eddy.

The growth that we're seeing in semi cap, the growth that we're seeing in the cloud data center infrastructure parts of the business, we're well-positioned for that. When that business comes back, by the way, there will be a decent level of leverage. So, 20 basis points, 30 basis points that I talked about, that is a headwind right now.

So, we're not restructuring capacity. I think, we did disclose this morning that we're sort of restructuring some of the SG&A piece, the headcount piece. If you think of the \$3 billion or \$4 billion gap that we've had in our revenue, 3% of that is, around \$100 million, in SG&A.

So, we're trying to address some of that. At the end of the day, we're marching to 6%. If we can get our gross margins in that 9.4%, 9.5% range and get our SG&A down to that same 3.4%, 3.5%, you have a 6% margin. It's just pure math. So, that's what we're trying to do here, but we strongly believe that the businesses that we're in, they will come back. So, no restructuring of capacity at this stage.

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**Ruplu Bhattacharya** - *Bank of America - Analyst*

Great, thank you so much.

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**Operator**

George Wang from Barclays.

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**George Wang** - *Barclays - Analyst*

Hey, guys, thanks for taking my question. I just first of all, I just want to ask about capital equipment. Obviously, it's cyclical, as you guys mentioned, but almost 20% growth stood out to me. Just curious if you can hone in a little bit, just talk about the driver behind it. Is this a new win or just say easy compare? Just kind of curious about this strong double-digit growth for the semi-cap for this year.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Matt, do you want to take that?

**Matt Crowley** - *Jabil Inc - Head, Intelligent Infrastructure*

Yeah, I'll take that one. Hey, George, thanks for the question. Yeah, we're definitely seeing some mix shift occurring in the business in our automated test equipment space, because I think there is a pretty clear attach rate there to some of the GPU silicon required to drive AI.

So, where customers are trying to get more capacity and more yield out the door for customers, we've seen an increase around demand for the ATE business. I think that's the primary driver. We're also seeing a bit of the recovery coming a little bit sooner than we expected on the WFE side. So, overall, I think that the ATE business and the attach rate to AI is a big part of that increase.

**George Wang** - *Barclays - Analyst*

Okay, great. Just a quick follow-up. Can you kind of expand and talk about kind of margin for the AI business? Margin seems to be the focal point for investors, kind of, as you guy said high-grade portfolio, fast growing AI cloud business with higher margin. Just how you think about also kind of liquid cooling, kind of OSAT and silicon photonics, potentially higher margin?

And quickly, just curious, since you guys re-segmented, not sure if we can still reconcile to this \$6 billion AI revenue you guys talked about a couple quarters ago. Besides this cloud and DCI, maybe there's some in the AI networking. So, just curious whether does it still sort of a valid number we should look at kind of from grow by \$1 billion to \$6 billion this year, or should we just stick to a new sort of disclose of segmentation of \$5.1 billion for the current DCI for this year? Thanks.

**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Yeah, no, thanks. Look, I think, in general, an easy way to think about margins is that we expect AI margins to be in-line to slightly accretive to the enterprise targets that we've laid out. We're currently, obviously, undergoing a number of ramps. And the way to think about the \$6 billion is that it's spread across cloud and DCI, capital equipment and networking.

So, as I just kind of illustrated, the ATE business as an attach rate there to AI, our networking business where we're helping customers transition from air-cooled to liquid-cooled switches has a clear attach rate, as well as, obviously, what we're doing in the data center for power and cooling.

And so, I think the easy way to think about the \$1 billion of incremental growth year-on-year is roughly half of it is being driven by our cloud and data center business, and then the other half is split relatively evenly between photonics and capital equipment.

**George Wang** - *Barclays - Analyst*

Okay, great. Thank you.

**Operator**

Thank you. (Operator Instructions)

Steven Fox from Fox Advisors.



**Steven Fox** - *Fox Advisors - Analyst*

Hi, good morning, and thanks for doing this call in the middle of a hurricane. I guess, just on the automotive and transport segment, the numbers in the quarter, at least the revenues were a little less than expected. Again, the guidance for the full year, this fiscal year, is down. So, in the near term, I'm wondering how much negative leverage that auto business is creating for you since I assume it's still high margin?

And then, maybe more important, like if I think about this business longer term, I know it makes sense to think of further EV growth in the future, but there are a lot of dynamics out there that make you wonder about whether how the company is positioned in auto.

If you could address whether these are good or bad for the for Jabil longer term? Mainly, we're seeing lower-cost vehicles out of China, we're seeing OEMs global OEMs having trouble competing in Asia, and you're seeing tariffs rise up all over the world, among other items. It just seems like the auto industry is going to go through some major changes, and I guess I'm wondering if Jabil is positioned well for that. And then, I had a follow-up.

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**Steve Borges** - *Jabil Inc - Head, Regulated Industries*

Thanks, Steve. This is Steve. We kind of hit this at a kind of a broad level and then we can if you need to dial in further, let me know. But I think, as I said in the opening remarks, it is going through kind of a transition phase or transformation phase in the auto market.

And it has been hampered by higher interest rates, the government incentives, in many cases, have been reduced, and then you have, like, as you mentioned, the overall tariff situation. So, it's been pretty dynamic.

And we've seen some pushouts of programs that we had thought about for this fiscal year. But when you take a look at the general consumer challenges as well with the charging infrastructure concerns and battery range, you kind of sit back and you say, geez, there's some challenges ahead.

And what I'll say though is despite the challenges, I actually remain pretty excited about the EV market because the growth you look at different forms of predictions, but still expected to be in the 25% to 30% range through 2030, albeit that's down from 48%, but that's still really strong growth.

And I'd say between the growth rates and our ability to grow new relationships, we during this softness, we've added some new OEM relationships. We have a strong pipeline of opportunities.

And I'd also say the team has done a really nice job during the softness where they've added other products that are agnostic to vehicle type. And that really shows the strength of our OEM relationships to try to use some of that capacity that we had in place to support their programs.

And then, I'll just close with, in addition, we actually launched on time an OEM relationship in Croatia. And so, we're excited about that business as well.

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**Steven Fox** - *Fox Advisors - Analyst*

Yeah, that's Steve, that covered pretty much everything except for the short term. I'm just maybe just now dial it back and talk about, like, the negative leverage this year as auto and transportation maybe are down a little bit.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Let me answer that question, Steve. I think there's definitely some level of negative leverage there. As you're aware, our Croatia factory that was put up, that's coming online actually this month or in October, was mainly an automotive factory. Some of that has got pushed out.

We're actually converting that Croatia factory mainly to a GLP-1, sort of healthcare factory just shows how nimble and agile someone like a Jabil can be. That's the beauty of the model here, but there is definitely going to be some level of negative leverage.

The good thing is our revenue is not getting going down by 10%, 20%. It's just not going up. So, there's a little bit of deleveraging, but not so much. But there are definitely newer pieces of capacity that are coming online which are getting pushed out a little bit.

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**Steven Fox** - *Fox Advisors - Analyst*

Great. That's helpful. And just as a quick follow-up, the cash flow targets for this fiscal year are pretty impressive. Can you just walk through the puts and takes in terms of how we see free cash flow go up again towards that \$1.2 billion number for the year? Thanks.

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**Greg Hebard** - *Jabil Inc - Chief Financial Officer*

Yeah. Hi, Steve, this is Greg. Yeah, we're very confident on the \$1.2 billion guidance on free cash flow. As Mike spoke on in his remarks regarding free cash flow conversion of being 80% to 100% of core net income, we feel '25 is going to be stronger.

A couple of things related to that. We are targeting to take another couple days of working capital out of the cash cycle. And CapEx, we're seeing CapEx being approximately \$200 million down year-over-year as we're looking at 1.5% to 2% of CapEx of revenue this coming year. So, really do feel confident on that \$1.2 billion.

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**Steven Fox** - *Fox Advisors - Analyst*

Great. That's helpful. Thanks a lot, and stay safe.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Thanks, Steve.

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**Greg Hebard** - *Jabil Inc - Chief Financial Officer*

Thanks, Steve.

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**Operator**

Melissa Fairbanks from Raymond James. Your line is now live.

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**Melissa Fairbanks** - *Raymond James - Analyst*

Hey, guys, thanks so much. I hate to say it, but it seems like we're always running from a hurricane down here during your year-end calls. It'd be great if we could change that pattern. That would be fantastic. So, just to start, I love the new segmentation and all the detail that you're giving us. I think it gives us all much better visibility into the real drivers.

So, thanks for that. Matt, you are the popular one on the call today, so I've got a question for you. Up and down the supply chain in the cloud and data center infrastructure supply chain, we've heard of increasing pricing pressure, both from Nvidia on their suppliers or attempts to protect the margins by the hyperscalers as the cost of these compute systems continue to skyrocket.

I'm wondering if you're also seeing some pressure from your customers as they're more cost conscious when they're planning out their portfolios, or if this is actually an opportunity for Jabil as to maybe help consolidate the supply chain.

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**Matt Crowley** - *Jabil Inc - Head, Intelligent Infrastructure*

Yeah. Hey, thanks, Melissa, for the question. What I would tell you is that we're constantly under price pressure, right? It's part of the business. So, is it a little bit more so than typical? Maybe, but it's something that we have to deal with on an ongoing basis. So, does it afford us an opportunity? Absolutely. And we're constantly looking at ways to consolidate.

Are there opportunities in the market that we see that would create more value for our customers? We're constantly looking at that. I don't think it creates an opportunity beyond the typical one, though. So, it's an ongoing effort to manage costs. We'll continue to do it. We'll continue to look for efficiencies that deliver value for our customers, but it's nothing we're not used to.

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**Melissa Fairbanks** - *Raymond James - Analyst*

Okay, great. Thanks. Maybe a quick one for Steve. So, in the healthcare business, I was wondering if we could get a quick update on the equipment side of things, like the surgical robotics, the imaging. You had mentioned, there's an uptick in GLPs, maybe offsetting some gastric bypass surgeries. Wondering how that's playing through your customers planning longer term.

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**Steve Borges** - *Jabil Inc - Head, Regulated Industries*

Yeah. Thanks for the question, Melissa. So, certainly genomic testing is continues to increase where we can kind of get granular on the disease and how to treat it, and so we are seeing growth in our diagnostic space linked to that, which is really exciting.

On the general GLP-1 side, as I mentioned before, we continue to see very strong growth in that area of the business. As it relates to the other equipment areas like med devices, I would say that we continue to see a growth rate of that 3% to 4% range currently as we grow in the diabetes area of the business.

Robotic surgeries, obviously, is an area that we strategically invested in over the past several years. We've added new customers, and we continue to do more and more of the surgical equipment itself, which is exciting, gives us great diversification and capability expansion as well that can be used elsewhere. So, yeah, we really like where we're positioned there as well.

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**Melissa Fairbanks** - *Raymond James - Analyst*

Perfect. Thanks. This may be a question for all of you, or Mike, maybe you can address this. It's something I've been getting asked about. I think I know the answer, but just in case. Wondering how your customers are approaching the upcoming election. If there's been any change in their ordering or planning, or even delays with some of their longer-term program planning?

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Yeah, Melissa, there is a little bit of a wait-and-see approach, particularly as it relates to some of the end markets. I think most end markets are okay. I think once that stand out, obviously, are EV's and renewables, there is a little bit of a wait and see. I do think whichever party comes in, I feel good that we'll have a long-term sort of growth driver in both EVs and renewables. I'm not that worried about the election per se. Obviously, there'll be short-term impact, but I think Jabil has mitigated most of that.

**Melissa Fairbanks** - *Raymond James - Analyst*

Great. Thanks. I think that's all for me, guys. Stay safe. Take care.

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**Operator**

David Vogt from UBS.

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**David Vogt** - *UBS - Analyst*

Great. Thanks, again, guys, for taking everything, given the circumstances, and please stay safe. Maybe can I just start, maybe go to Matt, I know, Matt, you're answering a lot of questions, but I just want to get a better sense for not just on the cloud and data center side, but as it ties to networking and comms.

Obviously, the networking and comms business ex the divestiture is still a little bit weak. How do we think about how those two different businesses kind of work together going forward in terms of demand drivers?

And over the longer term, obviously, when we hear from a lot of investors, there's some concern or maybe some fear that there's a degree of digestion that could potentially happen over the longer term. I know you just gave '25 numbers, but just how do you think about your visibility across different programs and how that maybe plays into your long-term thinking about the segment? And then, I've got a couple more.

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**Matt Crowley** - *Jabil Inc - Head, Intelligent Infrastructure*

Yeah, let me kind of take them from the back forward. So, if you think about visibility, we have a pretty unique position because we have customers across the entire spectrum of the ecosystem. And so, we have a pretty good view of what's happening at the folks who make silicon for AI, at the folks who then transform it and consume it.

And so, we feel pretty good about where things are going. Now, if you think about digestion and you think about near term, we're currently in the midst of helping customers move from air cooled switching gear to liquid cooled switching gear. And so, we can also see the consumption of that on the back end. I think it's going to continue to take off as we move out of fiscal '25.

If I address the question on how comms and networking works together, I would tell you, look, artificial intelligence is driving this massive wave in the market, that's probably having more of an impact on our networking business and our comms.

And with the 5G installations where they are, which is pretty well publicized, I don't think they're as adjacent as they used to be, but certainly as workloads evolve and new opportunities to drive synergy between those, we'll be able to take advantage of that.

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**David Vogt** - *UBS - Analyst*

Great. Thank you. That's helpful. And maybe one for either Greg or Mike, whoever wants to take this. So, this is more on the model. When you kind of think about, obviously, making the adjustments for the divestitures, the Mobility piece, the \$700 million that you referenced earlier, obviously, I think we're getting some questions about the back-half ramp that sort of implied from an EPS perspective given sort of the year-over-year comp in Q1 and, ultimately, what it probably looks like in Q2.

I know you touched on it briefly, but can you kind of help us understand how we should think about utilization going into the second half? And is that the driver of margin expansion on the gross line, or is it really driven by this buyback? I'm just trying to get a sense for how the second half ramps.

And is the buyback really going to be upwards of like \$900 million in the fiscal year based on sort of piecing together the commentary about 80% of cash flow return to shareholders and your CapEx and upping sort of your free cash flow numbers?

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**Mike Dastoor** - Jabil Inc - Chief Executive Officer

Thanks, David. I do think the 40-60 is critical. I think if you go back to our Mobility days, Q1 was always the big quarter and, Q2, sometimes was a bigger quarter, sometimes wasn't, depending on the Chinese New Year impact.

So, Mobility coming out the bulk of our seasonality is sort of like an EMS seasonality. We do have some connected living business with our customer who used to be the largest customer, and that seasonality does come down in the second quarter. So, there's a little bit of a mixed bag between the connected living, the EMS seasonality.

So, I'll ask Andy to provide a little bit more color on the connected living piece first and then I'll jump back on after that.

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**Andy Priestley** - Jabil Inc - Head, Connected Living & Digital Commerce

Yeah. Thanks, David. If you look at that connected living piece, we're seeing some muted demand through the consumer. We're taking a pretty conservative view of their demand picture, which I think is feeding into our overall numbers there. And then, as we contrast that with digital commerce, which is much more of a level profile, we're in a really good shape for the second half.

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**Mike Dastoor** - Jabil Inc - Chief Executive Officer

And then, the second half, the margins, I think if you look at the EMS seasonality, our margins in EMS have always been higher in the second half of the year, so no major change there.

The buyback at this stage, we're going to be very opportunistic, do buybacks as and when needed. We fully intend to use the \$1 billion authorization that the Board just approved for us this morning. So, there's no obviously, that will help on the EPS side, but nothing unusual. We'll be just spreading it across the year and opportunistic as and when we feel like.

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**David Vogt** - UBS - Analyst

Great. Thanks guys for all the help, and stay safe.

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**Mike Dastoor** - Jabil Inc - Chief Executive Officer

Thank you.

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**Operator**

Mark Delaney from Goldman Sachs.

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**Mark Delaney** - Goldman Sachs - Analyst

Yes. Good morning, and thanks for taking my questions. I have a follow-up first on the data center market. Matt, you mentioned Jabil has won business with two new hyperscaler customers. Can you elaborate on how broad-based those wins are? Does it include assembly and services for

hardware and racks, or was it more specifically tied into optical? And anything you can share around the timing for when some of these new program wins ramp up?

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**Matt Crowley** - Jabil Inc - Head, Intelligent Infrastructure

Yeah. Hey, thanks for the question, Mark. It is specific to optical, but it's an example of how our strategy is working as intended, right? The whole what we've attempted to do is create capabilities outside of our core, scaled out manufacturing that allow us to access customers in different ways.

And so, while these wins with the two new hyperscalers are specific to our optical business, it gives us access to the hyperscalers to go and demonstrate that we can create value for them in all the other areas of our business. And obviously, with the mass adoption of folks who are trying to retrofit data centers to go from air to liquid, it puts us in a great position to have different conversations.

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**Mark Delaney** - Goldman Sachs - Analyst

Okay, helpful. Thank you for that. My next question was a follow-up on how you thought about guiding fiscal '25 and more with respect to revenue in the back half of the year. I'm hoping to better understand to what extent you tried to factor in any conservatism in terms of your forecasting by end market.

Given what happened last year with some of the volatility, I'm curious if you've changed your approach on how you're trying to factor in any potential market macroeconomic volatility.

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**Mike Dastoor** - Jabil Inc - Chief Executive Officer

Hey, Mark, we have learnt our lessons from last year, and the second half that we have put in here is relatively booked business. There's no assumptions of a huge recovery in the end market. It's based off of seasonality. It's based off of our regular sort of wins that we have. Some of the wins take a little bit longer than others.

There's multiple ramps going on. So, I feel good about the second half of the year. There's nothing in there that would suggest that there's some level of optimism there. It's a pretty conservative number as well.

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**Mark Delaney** - Goldman Sachs - Analyst

That's helpful. And just lastly for me, and I'll turn it over. In terms of the EBIT margin outlook for fiscal '25 at 5.4%, Mike, you already spoke about the underutilization and how that's a factor year-on-year, but could you go into a bit more depth around any effect on from pricing and how this may be factoring into margin guidance for this year? Curious to better understand if there's been any change in the broader pricing landscape given some cyclical weakness that we're seeing in some of the end markets and if that's at all a factor in your guidance. Thank you.

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**Mike Dastoor** - Jabil Inc - Chief Executive Officer

Yeah. I'm not seeing any major pricing issues. I think the whole industry is doing really well from that perspective. I think it's just a matter of the surplus capacity that we're carrying today. And I talked about that. It's about 20 basis points, 30 basis points, nothing more than that. So, it's sort of it's not more than what we're saying, to be fair.

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**Mark Delaney** - Goldman Sachs - Analyst

Okay. Thanks so much and wishing you all the best with the hurricane.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Thank you.

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**Operator**

Matt Sheerin from Stifel. Your line is now live.

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**Matt Sheerin** - *Stifel - Analyst*

Yeah, thanks. Good morning, and thanks for all the information so far. My question regarding that exit of your major networking customer. The first question is, is that revenue all out of the model? And in terms of balance sheet receivables and cash flow from that, was that mostly a Q4 or are we going to see some of that in Q1?

And then, on sort of bigger picture, obviously, it's a big step for you to exit from a customer that you've had for 20-plus years. And I know the industry, a lot of your peers have also been disciplined walking away from major revenue opportunities, looking at returns and margins. So, question is, have you looked at other relationships in terms of your portfolio back to customers? And is this sort of giving you a little bit more leverage with customers in terms of pricing and returns as you look at forward contracts? Thanks.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Yeah, Matt, the walking away from a customer, where I think I've said it a number of times, for the last six years, we've been focused fully on margins, we've been focused on free cash flows, and we're looking at earnings and return to shareholders.

If customers we never sort of walk away from them directly. We try to negotiate a price, and if the price doesn't work out, that's when we disengage. So, there's no walking away from customers, but there's definitely a disengagement going on there.

As regards to your question on, is it all done? It is all done. I think we call it out on our slide. There was about \$700 million of revenue with the legacy network customer in '24. That will not repeat in '25 at all. And all the balance sheet items have also been closed. So, we have a nice amount of sort of separation after 31st of August.

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**Matt Sheerin** - *Stifel - Analyst*

Okay, thank you for that. And then, just a follow-up on the end markets. Your renewable energy and infrastructure, it looks like you're actually guiding for growth. And I know we've heard I mean, you've had headwinds, certainly in the demand front and so have your peers. So, what's behind that forecast for seeing at least modest growth next year?

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**Steve Borges** - *Jabil Inc - Head, Regulated Industries*

Sure. This is Steve. I'll take the question. Yeah, renewables is slightly up as we've been able to get some new wins in the HVAC space and battery storage. And then, with the IRA and its impact, we've been able to in our US footprint, obviously, being well-positioned, has given us some opportunities there as well to ramp some new programs.

So that's where it's coming from. We are not as Mike said, not looking for a solar residential or commercial rebound in the fiscal year, keeping that flat, but the growth is really coming from some new wins.

And there's some consolidation going on in that end market as well and we've been the beneficiary of that. And it's directly related to the IRA piece that Steve referenced.

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**Matt Sheerin** - *Stifel - Analyst*

Okay. All right, thanks very much.

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**Operator**

Thank you. Next question is coming from Samik Chatterjee with JPMorgan Chase & Company. Your line is now live.

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**Samik Chatterjee** - *JPMorgan Chase & Company - Analyst*

Hi, thanks for taking my questions, and thank you for hosting the call under the circumstances, I wanted to start with a margin question more in relation to Mike, your prepared remarks, and the reiteration of the 6% margin target that you have.

I'm just trying to think in terms of if you have any updated thoughts around what's the revenue scale that you need to get to that margin number. I know you're calling out about 20 basis points, 30 basis points to the 5.4% for fiscal '25, which implies that you'll still be at sort of 5.6%, 5.7% underlying sort of if you get to a \$30 billion capacity or utilization of the \$30 billion capacity.

So, just trying to think like what do you need in excess of that \$30 billion, how do you think about what scale you need to get to that margin target? Thank you. And I have a follow-up.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

I think between \$30 billion and \$35 billion would get us there. I think what I've said before is gross margins are 9% to 10%. So, if you can just mathematically get to that 9.5% on a gross margin, and you can do that with mix and you can do that with operational efficiencies. If you get to the 9.5% and by the way, we've hit 9.5% in the past. In fact, I think Q4 was 9.3% for the year...

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**Greg Hebard** - *Jabil Inc - Chief Financial Officer*

9.3% for the year.

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**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Yeah. So, 9.5% is not a target, that's out five, six years. We've done that in the past. And then, getting SG&A down to that 3.5% number, I think would get us to the 6% pretty fast. I'm not suggesting we'll get to 6% in the next one or two years, but I'm also not suggesting we'll get there in five or 10 years. It's going to be somewhere in the 202X timeframe, and we'll have a definite path to that 6%. I feel really good about that.

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**Samik Chatterjee** - *JPMorgan Chase & Company - Analyst*

Okay. Got it. And for my follow-up, I guess, it's sort of probably a question for you, again, Mike, in terms of the strategy update that you provided, no major changes, focusing more on profitable growth. As you think about sort of your portfolio and the opportunity to sort of keep expanding margins.



Should we be expecting some level of portfolio rationalization sort of happening every year, or sort of a continuous look at the portfolio to sort of weed out some of the lower-margin businesses and continue to drive the mix higher, or is this the biggest chunk in terms of what's coming out in fiscal '25, and everything beyond that should be really immaterial in that sense? Thank you.

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**Mike Dastoor** - Jabil Inc - Chief Executive Officer

Over time, Samik, we normally have those sort of portfolio rationalizations anyways. The reason we call this one out was because it was a material one. We have smaller rationalizations going on all the time where we try and get a negative customer back into positive territory and then beyond. If it works well for both of us, we continue.

If not, we help them transition somewhere else. But overall, I'm not expecting some big rationalization exercises to take place. I'm relatively happy with what I'm seeing today from a portfolio perspective. Don't forget, some of the customers that have a slightly lower margin have really good free cash flow.

So, it's not just about margin, it's a mixed story between free cash flow and margin. And we're constantly working that.

One thing I will say, over the last few years and especially since COVID, the value proposition that Jabil provides has gone up considerably. I think if you look at our engineering capabilities, if you look at our manufacturing facilities, particularly with all these geopolitical issues going on, and then you look at our supply chain, which came through very strongly during COVID.

I think pricing is not that much of an issue, obviously, every customer will negotiate pricing, but I do think the value proposition that Jabil provides is extremely strong today, and I think that continues in the future as well. So, the portfolio rationalization will be there but limited.

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**Samik Chatterjee** - JPMorgan Chase & Company - Analyst

Okay. Got it. And I'll just sneak one in. This is a follow-up to the question David asked you on the sort of ramp through the year. You do have revenue that's relatively sort of flattish through the rest of the year in terms of the implied implicit sort of annualized run rate here, but you're starting off the first quarter with 5.1% margin and implicitly you have to end somewhere in the high 5% in the fourth quarter to get to the full year of 5.4%.

What is the driver there? I think you said some you answered it, but I didn't really catch what you were implying. Is it mix, is it something else that's really driving that margin to sort of end up being in the high 5% by the time you end exit the year?

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**Mike Dastoor** - Jabil Inc - Chief Executive Officer

So, there's two or three things. First is the normal EMS seasonality. If you go back and look over the past few years, the second half, from a margin standpoint and an earnings standpoint, has always been stronger. Part of it is mix.

I think the mix that we're working on today, particularly in some of the regulated pieces, you have businesses coming through six months, nine months, 12 months out. Second half is looking good. I don't have anything in the second half which is exploratory.

Sort of this is booked business, this is confirmed. Will it go up and down a little bit? Sure, but it's not based off of an optimistic return of end markets perspective. It's a conservative forecast. It's just the way the 40-60s working out. It's purely a seasonality, purely the way the bookings are, purely mix.

That's how we're getting some leverage on that as well. And that's why you'll see second half is a little bit better than the first half.

**Samik Chatterjee** - *JPMorgan Chase & Company - Analyst*

Okay. All right. Thank you. Thanks for taking my questions.

**Mike Dastoor** - *Jabil Inc - Chief Executive Officer*

Thank you.

**Operator**

Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

**Adam Berry** - *Jabil Inc - Senior Vice President, Investor Relations & Communications*

Thank you. We appreciate your interest in Jabil. We look forward to getting back with you all over the next couple days, and we'll see you soon. Thank you. Bye.

**Operator**

Thank you. That does conclude today's teleconference webcast. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

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