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JBL - Jabil Inc at UBS Global Technology Conference

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## CORPORATE PARTICIPANTS

**Forbes I. J. Alexander** *Jabil Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Steven Mark Milunovich** *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

## PRESENTATION

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Great. So thanks for joining us for a session with Jabil. We've got Forbes Alexander, the company's CFO with us; as well as Adam Berry, who's Head -- Senior Director of Investor Relations. Please feel free to use the iPad or we've got a pretty small group here, so as we're speaking, if you have questions, feel free to just raise your hand as well.

So Forbes, thanks for joining us. Maybe just starting at a high level, what would you tell an investor in terms of kind of the elevator pitch for Jabil?

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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. Good afternoon. So elevator pitch for Jabil, I think we laid out plans about a year ago, targeting \$3 earnings per share for fiscal '19. And a journey to that is really around diversification within our Green Point activity, supported by growth in health care, which is all very much on track. And our EMS nice business continues to diversify, and margins, they're in that 3.5% to 4% type range, all supported by operational cash flows of \$3.5 billion over that time frame, \$1.8 billion in CapEx, giving some nice robust free cash flow. And then we've put a capital returns framework in place, both dividend and share repurchase, with the goal of returning \$1 billion by the end of this fiscal year to investors. And that's very much on track.

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**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

So you had an Analyst Day about a year ago. Maybe you can just kind of take us down the income statement in terms of what the guidance was for revenue, margins, tax rate, buyback, et cetera.

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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. So overall, that time frame, over the 3-year period, we looked to revenue in the growth of 4% to 5% over that time frame. Earnings per share growth from \$1.86 to \$3, \$2.11 last year and on track to deliver \$2.60 this year. And then on the tax rate, from memory, I think we're 26%, 27% over the course of that time frame. And then the share buybacks will drive the share count down to, what, 175 million from around [800 million or 700 million] during that time frame. And again, as I was saying in the opening remarks there, pretty much on track to deliver that.

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**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

The free cash flow this past year was terrific, but it's going to come down, I think, toward maybe \$2 per share. As you move toward \$3 in earnings, can we expect to see the free cash flow number go up commensurately?



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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, it will, absolutely. And what we said a year ago actually was, again, that \$3.5 billion of operational cash flow, \$1.8 billion of CapEx, it -- unfortunately, it's not turned out to be very linear, if you will. There's just puts and takes with the ebbs and flows of the business. But certainly, if we only delivered \$2 of cash flow per share this year, it will certainly bounce back as we move into fiscal '19.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

So \$2.60 in earnings this year, \$3 next year, I guess what gives you the confidence in that given at times, this has been a difficult business to predict?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. I think the EMS business, the team has done a great job there, right? It's growing nicely. We've got margin recovery there. I think that's very sustainable over the time frame we're talking about here. So that feels pretty robust. Then on the health care side of the business, that engine is really moving along now, growing 20% in terms of operating income year-over-year, mid-teens on the top line in terms of revenue and good line of sight around those programs. And that's -- a lot of focus has been drug delivery-type systems, long-life programs somewhere between 5, 20 years when these things get up and running. So feel really good there. And then as I was saying earlier, diversification within our Green Point business has been pretty robust both with our largest customer and across other elements of the business. And we have the capacity in place there, and we should see volume run through that through the balance of '18 and into '19.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

So Apple's 24% of revenue. I know you're limited in what you can say about that, but I guess what can you say to investors to give them confidence that the cycle's going to be more successful than the next one and that it supports your \$2.60 and \$3?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. I think we're very well positioned with the customer across a broad range of product sets there, well diversified. The teams have done a really good job there in terms of leading with technology, problem solving for the customer there. So as we move through this fiscal year, we've not seen anything in the last 3 to 6 months to change that point of view on delivery of \$2.60 this year. So our thinking was, I think, pretty much in line as we were coming in into this planning cycle, if you will. So so far, so good. We had some technical difficulties with a ramp in July and August time frame. Some of that bled into September a little bit, as we talked about in our earnings call, but that's now been rectified, and things are going very well there. So we feel very good about that and, as we move into '19, well positioned again to utilize the asset base and the capacity we have in place to support our customer.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

You mentioned some difficulties in ramping in July and August. I know that maybe other parts of the supply chain have [had problems] with 3D sensing and so forth, but this is

(technical difficulty)

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

(technical difficulty)



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in terms of ramping of very, very steep and complex products. So we go through that. We -- and we don't expect that going forward. Just some planning difficulties on our part, but let's say we've worked our way through that, and we're very much on target now.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Now casings, I assume, is the majority of what you're doing in this case, but it's not just casings, is that right? And what else is it? And is casings coming down as a percentage of your business?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes. So we play quite broadly, and I'd remind everyone that there's an intense focus on casings. But when we acquired the Green Point assets, that was a business that really grew up with some really complex plastic moldings, right, highly engineered. So we do a lot of plastic molding today broadly across the mobility space, not just for our largest customer, more broadly, within our Green Point division. We clearly play in casings, broad range there and some other elements of supply chain that I can't go into detail here, but very, very broadly positioned across larger enterprise sets in that space.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

So obviously, a lot of what you do is for the phone. Can you give us a sense of, are you particularly concentrated in one area? Or are you fairly distributed across the new models?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

I think pretty well diversified as we look across the whole model set that's available out there. So yes, we feel we're well positioned for the balance of '18 and into '19, yes.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

I think there's some sense among analysts that you may have kind of more exposure to the 8 than to the X. The X looks like it's going to be a pretty strong seller. If the 8 were to be "disappointing," does that have a significant impact on you? Or do you feel like that's in your numbers?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

No, I think that's all baked into our guidance and our thinking. So as I said earlier, \$2.60 seems very doable for this fiscal year, and nothing we're seeing or hearing in terms of the supply chain is particularly worrisome to us over the last quarter or 2.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

I put it away, so it wouldn't electronically interfere, but for the first time, I'm actually an early adopter. So here's the X, so remind people that this isn't all glass after all. So what is it that you're doing here behind this glass?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

So again, we manufacture both metal parts and plastic parts, right? So I can't get into the intricacies of how this is built, I'm not an engineer by any stretch of the imagination, but certainly, we're involved in casing manufacture and some assembly process.



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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Okay. Yes, so I mean, we believe that there's a stainless steel frame, if you will, behind this that's relatively complicated to produce, if you will. So basically, Jabil has significant play in this phone as it has in the past. I think there was some concern. Could you -- can we get a mic over here for the question?

**Unidentified Analyst**

Just in terms of the diversity between metal casing and let's just call it other, could you help us, are the operating margins and incremental margins within those 2 businesses drastically different? One, I hear assembly, I think labor, I think perhaps higher variable costs, lower incremental margins. The other seems like a higher fixed cost structure and machining. How should we think about that on a go-forward basis with those 2 sides of the house with your largest customer?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes. So when I say assembly, I don't mean assembly of the device itself, right? It's just assembly in some of the componentry, yes. So the way we talk about that business more broadly is in that 5% to 7% margin range within our DMS. So that's our target. And I wouldn't bifurcate my words in terms of assembly versus machining in that regard, but if you think about business, our target is at 5% to 7%.

**Unidentified Analyst**

And within your largest customer on both sides, DMS has been (inaudible)

**Forbes I. J. Alexander** - Jabil Inc. - CFO

DMS and EMS? Or...

**Unidentified Analyst**

Yes. Within your largest customer, metal casing and these assemblies, the buttons, plastic moldings, are the margins of those pretty similar?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes, overall, 5% to 7%. And that goes for the other elements of DMS as well, right? I'll remind everyone there's significant activity within health care and rigid packaging there as well. And that's the way we think about our business in terms of the engineering content that goes there.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

So DMS again includes Green Point. It includes your consumer packaging and health businesses. At the Analyst Day, you kind of kept your 5% to 7% operating margin guidance for DMS, but you're pretty well below that today. Do you expect to get into that range as we get deeper into the phone ramp?



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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

We do. And it's not just about phone ramps. It's about continuing that growth in terms of our health care business year-after-year, and as I said earlier, we've got a line of sight around that. So yes, and it's about capacity utilization, really about capacity utilization as you ramp new products within our Green Point activity. And we see a line of sight of getting back into that 5% to 7% range as we move through back half of '18 and into '19. We feel good about that.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Yes. And remind us about your Green Point operation, which is where you do a lot of your handsets. You expanded capacity fairly significantly a few years ago, which I think initially you were not able to fill. But how do you feel about that situation today? And how long will it take to fill that capacity? And when might you have to spend more CapEx?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. We feel good about the level of capacity we have in place today. And as we see programs ramp, we utilize that capacity. Obviously, this year, we've seen a staggered launch of products, which is fine. But certainly, as we move through here, the back half of '18 and into '19, we'll be fully utilizing capacity. In terms of capacity expansion, it'll be on the edges. Clearly, we have to spend CapEx in terms of maintenance in Flex right there. But I don't expect any majorly significant levels of CapEx, which we saw 2 or 3 years ago in that particular space. I'd just say we've got the square footage up now, probably somewhere in north of 10 million of square feet, which was the big volume, if you will, or the big capacity expansion. And we feel comfortable that we'd be able to utilize that with these program ramps and certainly as we move through '19.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Okay. There's been chatter that Jabil is losing some share to Catcher over time, probably a lot of that coming from Catcher. Would you care to disagree with that view?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, I care to disagree. I can't really comment to what Catcher is doing, but certainly, we don't -- we're certainly not seeing ourselves lose share, and I think we're very, very well positioned.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

So I assume that a company who has scaled Apple probably needs multiple suppliers. And...

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Indeed.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Yes. Given that you weren't the first one there, I would think that potentially, that could help you over time.



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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, yes. I mean, that's -- customers are always looking to diversify the supply chain, right, particularly as they're in a growth market such as our largest customer. So I view it overall as healthy, and as you say, we are very well positioned and not concerned about losing share.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

I think you -- did you bring a new manager into Green Point recently?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. There's been some retirements going on within the company. So HH retired, so that was a planned event. And we have a gentleman called Kenny Wilson, who's now replaced him. So yes, they're doing well.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

What's his background?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Kenny is actually in machining. He's been with the company a number of years, for 10, 15 years. He's been operating within our EMS business previously, but prior to that -- early in his Jabil career. And prior to that, he was involved in metal machining and plastics. So a wealth of experience.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Yes. Does that EMS background bring any particular skill sets to Green Point?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

I think it does in terms of overall planning, right, and scale. But again, Kenny has a good depth of experience in Green Point-type business in terms of machining as well. So combining those, I think he'll do a very good job.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Okay. Let's talk a little bit about EMS. So we're looking at, I guess, kind of 2% to 3% growth over time. You've managed to move the operating margin up to 4%. Maybe you could first kind of talk about what's within EMS since it's a very big segment.

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Sure. Yes, it's a broad bag. So in there, we've got our enterprise and infrastructure business. So think of telecommunications, networking, storage-type products; automotive, industrial-type businesses; areas we call connected home, so think of the smart touch panels that you're seeing more and more both in homes and businesses. And then there's printing and semi cap equipment. So quite a broad range there. Printed circuit board assembly, along with final assembly of products also. And as you say, the margin profiles are covered from, what, 2.5% about 24 months ago to, I think we closed the year, what, 3.9% overall for the year this year. And we certainly believe that's a sustainable-type margin profile. Areas of growth we're seeing they're in automotive, industrial energy, semi cap equipment, and there's more engineering content there, more value add, which helps us in terms of our margin profile. At the same time, we've been doing some restructuring over the past year. And that certainly assisted in some of



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that margin growth, as we've taken our Western European capacity out. But yes, we're really pleased with that business. It seems relatively stable. If I go back over a decade, there used to be quite a bit of volatility in that business. It's much more stable these days, and really, really pleased with the result there.

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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

So that 4% operating margin, you think is sustainable?

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**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes, certainly, high 3% to 4%, yes. It certainly feels that way as we sit today.

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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

What's going in the automotive business? And I guess where do you play within it? Because we heard this morning about autonomous driving and a lot of exciting things going on. But kind of how do you play there?

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**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes. We play pretty broadly both in terms of electric vehicles and good old combustion engine vehicle, right? So it's pretty broad. I think that the good thing is that we're seeing more and more electronics content in the vehicle. As consumers, we're seeing more computerized activity within the cabin, within the vehicle and braking systems to safety systems and such like. So we play broadly both here in the U.S. and Europe in terms of content there. So that's growing, continues to grow. And we're actually -- just been adding capacity in one of our sites in China actually, to continue to see growth there in terms of printed circuit board assembly. So all looks very, very positive and, again, pleased with how that business is running.

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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

And your customers in auto are primarily Tier 1s or the OEMs?

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**Forbes I. J. Alexander** - Jabil Inc. - CFO

Primarily Tier 1s. That's typically how that business continues to operate today.

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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

You mentioned semiconductor capital equipment. Is that significant? And that seems to have been on quite a roll recently.

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**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes. It's doing really well, and we made a couple of acquisitions there over the last couple of years, which helped us in terms of engineering content for large form factor. And there's been consolidation on -- in the end markets there, and I think that's brought stability to the space. And again, it's all test equipment, so most of the large OEMs there are customers. And again, pleased with that, and we're seeing some growth as we move into '18, just closed the True-Tech acquisition in September 1, which, again, adds more capability here in the U.S., and yes, we look forward to growth there.



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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

There's still a fair amount of legacy exposure in EMS obviously in telecom and networking and so forth. Is that -- do you feel like the bottom's kind of been reached there? Or is there risk of that worsening?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

It feels relatively stable right now. Now having said that, our guidance through '18 and '19 is not really assuming much growth at all. So again, in the business we are in, you see material makes a large percentage of the sales price, right. So material costs continue to decline year-after-year. So just for revenues to be consistent year-over-year, we need more unit volume, right? And that's a tough environment for these players today, but again, still a significant amount of our revenue stream, and I think through '18 and '19, we'll see consistency in that regard. But still very, very important customers to us, and we continue to invest appropriately there. And I think we'll see some growth with 5G, whenever that comes to the marketplace, well positioned there. But otherwise, think of that as consistent over the time frame we're talking about here.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

I heard you asked an interesting question today I think the audience would appreciate, which is which environment do you prefer, one where commodity prices are rising or where your component costs are falling?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes. It's -- on the margin, probably we're falling. And probably that's -- I say that in the -- our -- we're paid for manufacturing, right. So a process -- and I'm making this up, but a process, let's say, it's \$1. We get paid for that process or throughput. Our margin -- excuse me, in a material market where prices are going up, our percentage margin falls, right, because you're paid a small amount of money on material handling, but you're paid for the actual manufacture of the product. So hence, in a rising commodities market, certainly, we don't see a huge impact to margin because that's a pass-through to the customer, and there's some degradation in the margin percentage. This is math essentially.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Okay. If we turn to the other part of DMS, as a percentage of your total company revenue, how much would consumer packaging and health care be combined?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Gosh, so where are we at? We're \$8 billion overall in that space, so it's, what? Where are we at, 20 -- 20%, 25% for that?

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Okay. So it's going to be pretty substantial.

**Forbes I. J. Alexander** - Jabil Inc. - CFO

It's a substantial number. And again, we don't break that out, but it's a substantial number. Obviously, our largest customer is in there, but it's a substantial number and growing, yes.



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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

And combined, those are growing kind of revenue in mid-teens, but profits are 20% plus?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes. 20%, again, leveraging the cost bases there, right? So what you find in health care in particular is that you have to put the capacity in place initially through a product ramp for that full volume of the program life, and at various stages, you're going through FDA approval. So once you clear those hurdles, then you ramp into it. So we're leveraging the capacity that's in place, and that's allowing us to drive the margin faster than company growth.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

So you bought Nypro back when?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Mid to late '13 -- late '13, yes.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Okay. So maybe it takes a while for that to ramp, but now you feel like you're in the sweet spot?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Absolutely, absolutely. From initial customer engagement to ramping a program, again, with the FDA approvals and such like, it's somewhere between 2, 2.5 years. So we've planted those seeds, and we've got that growth now, and we've got a good line of sight about growth '18 and beyond, yes. Pleased.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

And what are some of the leading health care-type products that you are producing?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Drug delivery systems, we do quite a bit of metering, also air pumps and metering. But I think it's the drug delivery systems that are tending to lead. So again, think of machining of plastics, molding of plastics from EpiPens, diabetes pens, inhalers, that type.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

On the consumer packaging side, I remember at the Analyst Day event, you talked about things like just how you make margin packaged and how it fits on the shelf and all this could really impact the return on investment to Procter & Gamble or whoever.



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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, yes. So it's highly reengineered rigid plastic packaging that we do. So from ice cream tubs, cream cheese tubs, to tops for detergent bottles, right? So as a consumer, we look at that, and it's garbage, right? You throw it in the trash, if you will. But to the brands, that is particularly important, whether that's in more label, the way their products are manufactured, their shape in terms of getting them prominence in the retail chain, right, so -- and brand loyalty. So it's a really interesting business, and lots of opportunity for growth there. It was a U.S.-centric business until maybe 18 months ago. We made the acquisition of Plasticos in Spain, which is doing very well, and that gave us a European footprint also from the European brands. So where appropriate, we'll look to add to that.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

So health care and packaging are kind of mid- to upper single-digit operating margins?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, that's correct. Yes, yes.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

And I think you're now kind of at over -- is it over 50% of profits from these sort of nontraditional EMS-type businesses?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, yes. And that -- think about the EMS business as plastics and machining and molding and tooling, right? So yes, we've come along way from the traditional EMS business over the last 10 years, yes.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Now Flex has gotten a lot of notoriety for their relationship with Nike. Are you planning to do anything in sort of clothing? Or is it possible we could see a adidas deal or something out there in the future?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Never say never. I think these are industries that are ripe for disruption, and we're a manufacturer. We're very good at manufacturing and process improvement. What's interesting is you're seeing the collision there of electronics, printed electronics, sensors, be it apparel, be it shoes, be it 3D printing of shoes, be it the automation of these processes. So certainly, opportunity and something we keep an eye on, but nothing imminent, no imminent deal or anything of that nature. But it's really quite interesting how we're seeing the collision of these -- of technology with some more traditional industries and processes. And I think there's opportunity over the years ahead for sure.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

You mentioned 3D printing, and I think you've set up a -- kind of a services business to help your customers understand how to use 3D printing. Is that right?



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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, yes, a little bit. And that's centered really around our Blue Sky facility here in California, San Jose, but with the goal of expanding that. And it's really around prototyping or -- today, but letting customers understand 3D printing is here, it's available, and we can get you to market faster, right? So -- and again, an example might be 48 hours or 24 hours, I can give you a printed concept of the component or the assembly of the device that you were looking to build up and go to market versus maybe 48 days previously, building tool sets and such like. So it's really pretty fascinating. I don't think we're at volume yet. The industry generally is not at volume in terms of speed. That's going to be really centered around the material that's laid down. But it's pretty fascinating. We get a lot of attention from our customers, helping them understand the art of the possible, if you will. And of course, we do use 3D printing within some of the manufacturing processes today. We're using that in some health care areas, that aids us in our manufacturing processes as well by cutting down tooling times through tools by having 3D-printed it, additional channels and tooling channels, if you will, and mold. So it's pretty fascinating, and I think there's opportunity both for us in terms of manufacture of 3D printers but also to use this within our processes as well and assist our customers.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

There seems to be a change in the EMS business in terms of your ability to design more of what you manufacture. How many kind of design professionals, engineers do you have on staff? And what percentage of what's your manufacturing are you getting involved in the design of?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. That varies by industry, right? Some areas in the industry are industries that are much more mature. So you think about this as an à la carte menu and customers have that choice. But yes, we've got many hundreds. We have a design group called Radius. This is based out of each of our now 4 Blue Sky Centers globally that we've interfaced with our customers in some of that design piece. We then have what I call design for manufacturing, which we've always had, but we're being tapped on more and more for that in terms of taking products and really ensuring the efficiency of build and sustain miniaturization of some of those products. So yes, it's many, many hundreds globally with 4 -- we call them Blue Sky Centers situated around the globe also that support that.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

In covering IBM, they always said that their services competition was basically insourcing. I assume that's largely the case for you as well. Are you seeing companies begin to outsource manufacturing more? As it's accelerating, which industries are you seeing that in?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. So there's maturity in -- the maturity in terms of the telecommunication, network and storage, the more traditional businesses. What we're seeing is more and more companies are not -- going straight to outsource rather than just setting up manufacturing themselves. I think there's still pockets within industrial, certainly within Europe and here in the U.S. where there'll be opportunity for more outsourcing. We'll see how long that takes. Many OEMs still pride themselves as being manufacturers and engineering corporations, but I think with the advent of technology and sensors, the digital world, if you will, that we're moving into, I think there's more and more opportunity for our space. Are OEMs going to continue to reinvest, all right, for that next cycle? We'll see, but I'm certainly encouraged that there's more opportunity for outsourcing today.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

One of the questions I get regarding your higher-margin businesses is, over time, won't your customers figure out that they're higher-margin businesses for you and drive the prices down? Or won't other contract manufacturers get into those businesses?



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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes. Let me deal with the contract manufacturing side. I think pricing is rational. I think there's enough business to go around the 4 or 5 of us here in the U.S., a couple of Asian suppliers. So I'm not concerned about that. Customers and pricing generally -- you go through product life cycles, and you go through pricing cycles. I've been in this space 26 years, 35 in electronics, and we tend to go in product cycles. It seems to be 4 years for some reason, I don't know why, but if I map it out. And there's a new technology. There's a new product. And as you come down the price curve, you come back up. So less worried about that, and I think the margin profile of this businesses, and you've seen this in this space as a whole really come up over the last 2, 3 years. Pricing is rational. I think our customers are continuing to see the value we're now bringing. You referenced design, some of the new technologies that the space in general is delivering, so not overly concerned about dealing with margin pressure for the longer time.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

I know that you're hoping to diversify away from Apple as a 24% customer, although I think that's probably difficult to do in a good cycle, which it looks like we're on the cusp of. But if Apple came to you with a whole bunch more business, would you take it or are you really looking to limit the exposure?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

It's -- you never say never, but we'd certainly like to grow other parts of our business faster. They're a very important customer to us, will continue to be an important customer. But as I say, we like to continue to grow other parts of the business and continue to diversify our overall portfolio.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

I want to check on the impact. Unfortunately, you've been impacted by a couple of hurricanes, I guess, in Tampa and then in Puerto Rico. What's the status there?

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

So Irma hit (inaudible) Tampa or just to the side of it, there was actually minimal impact, thankfully. We were without power for 3 or 4 days, but no significant impact, and [St. Petersburg] where our headquarters is there and some minor manufacturing. More impact in Puerto Rico where we have a health care facility there. Thankfully, all our employees are safe and accounted for. We are running operations down there off generators today. I don't know how sustainable that is long term as the country essentially or the state looks to bring its power grid back. But that's all factored in our guidance for the year. We have managed to take some of that tooling out and get production off in -- from other facilities to support our customers. So we continue to keep an eye on that, but that's all factored into our guidance for the year and don't expect there to be any material dislocation there.

**Steven Mark Milunovich** - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

I guess there'll be some insurance coverage of costs.

**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Yes, yes, that's right. Everything's fully covered. We may see some mismatch in terms of asset write-off versus insurance monies come in by a quarter or so, come with the kind of contingent gain, if you will. But yes, we shouldn't see any material impact to the bottom line or top.



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**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

In terms of revenue loss, inability to manufacture?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

I'll just say we started to move some production, but it's not a major dislocation. Of course, there was a -- it was a reasonable-sized facility. It's not overly material to our \$19 billion, \$20 billion-type year.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Okay. Your CapEx, I think, is going up \$100 million to about \$700 million this year. Is that a number that we can see kind of flattening out? Or do you think that's going to continue to rise?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

No, I think we should see that flatten out. What we'd -- I'd said a year ago is about \$1.8 billion over the 3 years. We spent, what, \$540 million last year, \$700 million in this year, so growing \$250 million. So we see that \$550 million to \$600 million for next year.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

And that's where the free cash flow potentially comes back?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

Yes, and it comes back, yes. Okay, absolutely, yes.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Okay. That's about all I had. Any questions from the audience? We've got a couple of minutes. None. Any parting comments you would like to make to investors in terms of what they should be focusing on?

**Forbes I. J. Alexander** - Jabil Inc. - CFO

I think in terms of -- yes, it's -- we feel very comfortable with the guide we got out there for this fiscal year, \$2.60, very focused on delivering \$3 as we move through into '19 and actually to continue to keep focus on our working capital management. Obviously, a lot of questions around our CapEx, but we're committed to the types of levels I've been talking about. On our shareholder return policy, which is in full flow, and we'll deliver roughly \$1 billion by the end of fiscal '18. So business is in great shape, really pleased with the EMS business, diversification continues to take hold broadly across the company, and very well positioned for \$3 in fiscal '19.

**Steven Mark Milunovich** - UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst

Terrific. Forbes, thank you very much.



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**Forbes I. J. Alexander** - *Jabil Inc. - CFO*

Thanks so much, Steve.

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