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Jabil, Inc. (JBL)

Goldman Sachs Technology & Internet Conference

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CORPORATE PARTICIPANTS

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Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

OTHER PARTICIPANTS

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Okay. Great. My name is Mark Delaney and I cover Jabil at Goldman Sachs. As many of you know, Jabil is a leading EMS company with more than $25 billion of annual revenue. With us today from Jabil we have Alex Parimbelli, EVP and CEO of the Enterprise & Infrastructure business; and Courtney Ryan, EVP of Corporate Development and Chief of Staff. Thank you both for being here.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

It's a pleasure.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

Thank you.

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QUESTION AND ANSWER SECTION

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

I thought we could start with a topic that's on a lot of people's minds related to China and the unfortunate health crisis going on in China. Jabil obviously has a lot of operations in the region. So maybe you can talk about what Jabil may be seeing from a two different – from a few different angles, one, operationally, how Jabil is responding to that unfortunate situation in China, and then also talk about if there's been any changes in the business environment because of it.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

Maybe I'll kick this off.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

Sure.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

Mark, I think we're controlling everything we can control pretty well. We feel very good about that. Our factories are open. We're in the process of bringing them up to speed. It's challenging. It's more challenging than a typical year for sure but our guys are really, really working through that and trying to navigate that well. We're working with local government authorities. We're getting real-time readouts. And we're powering through it. It's still pretty dynamic though. I think the thing we're a little bit more concerned about is what cascading effects it will have on the supply chain. So it's a little bit early to tell at this point what that means. But we're reading and reacting real time.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

Yeah. So our – the supply base is where we have a few trouble spots. And I would say that right now for a few critical commodities, we see supply base been up 50% – I mean been operating right now at 50%. And we will see – it's a situation which changes every day, so tomorrow morning we'll get another update it's going to be maybe 55%, 60%. So it's evolving, it's getting better but when it's going to be back to full normal, still TBD.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

One of the things that Jabil has as an EMS company is visibility into just the global component and global supply chains. I know when I visited the Jabil operations you guys have shown some of the supply chain monitoring capabilities that Jabil has which helps sell to your customers as one of the services you can provide. But just given the situation that we're in in China, are there any sort of component shortages or part – end markets or a certain area that you think are particularly worrisome that you [indiscernible] (00:02:38).

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Alessandro Parimbelli A
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

Yeah, absolutely. Yeah. It's a great point. Our tools allow us to know real time where the issues are popping up. We know exactly the location of all the suppliers real-time. We know which parts are repacked. So all of these allow us really to react real time and have a pretty good understanding about where the shortage is going to come from. So been really, really happy to be able to use this tool internally.

Courtney J. Ryan A
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

It's disruptive. And I think our assumption here is that the demand isn't perishable but the ability to fill the demand could fluctuate in and out over the next couple of weeks. Let's just see how it goes and read and react.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

Okay. Maybe we can stay on the topic of China about transition system, the geopolitical tension that has been in place for the last year or so which has deescalated a bit in terms of some of the tariffs having been reduced. One of the discussions investors have is what implications there may be for a company like Jabil and if your customers choose to regionalize supply chains a bit more maybe that's a share gain opportunity for Jabil longer term. Can you talk about to what extent you've seen supply chains and where manufacturing is being done, has that shifted at all and do you think Jabil has been able to gain any market share?

Courtney J. Ryan A
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

I think the idea of in-region for-region has been transitioning for a while. I think that shift has been happening over a number of years. That being said, it certainly accelerated over the last couple of years with the trade and tariff things, with the virus issues, with IP concerns, et cetera, et cetera. So I think that trend has accelerated. It's been around for a while though. It's been moving in a while just from a competitive balance point of view. We think we're really well positioned to deal with the demand anywhere in the world that is. We feel great about our footprint. And we're continuously working with our customers to figure out what the right best optimal place is to build their products. And we use the supply chain tools that you just referenced to help us navigate through that. Now, Alex has probably seen this real time with some of his customers.

Alessandro Parimbelli A
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

Yeah. No. Absolutely. The trend continuously points to a regionalization of the supply chain. And as like Courtney said, it's IP protection but also climate change, it's trade. Really the next gen supply chains are going to be more regional compared to what they are today which would allow supply chains to be more reactive, more resilient. That's really a trend that we don't think is going to go away. It's going to continue.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

I thought maybe we could dig a bit more specifically into the enterprise and infrastructure business since Alex we have you with us today and that's the business that you're responsible for. It's been a few years now since Jabil specifically [ph] E&I (00:05:34) used to get its own revenue split every quarter. But I think at last update, that was a roughly $5 billion per year business in terms of revenue. Can you just give a rough estimate? Is that still a reasonable framework for investors to think about or is it materially lower or higher than that now?

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Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.
A

Yeah. $5 billion was a long time ago.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC
Q

Yeah.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.
A

I must say. Yeah. We have seen that but over the last three, four years a huge growth in the E&I business, and I would say that it's almost double today. And when you look at the cloud and the 5G ramps, just that amount for this year, we kind of guided about $4.6 billion.

And semi-cap has also grown tremendously for us. And then you still have the rest of the business which is the enterprise which is really not growing. It's kind of declining mid-single digit. But that's kind of – [ph] it's good dynamic (00:06:28). It's a business that we want to grow which is accretive for the company.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC
Q

I just want to make sure I got that number right. Adding $1.6 billion of revenue, that was the combination of hyperscale and 5G or that was just hyperscale?

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.
A

$1.6 billion, you said?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.
A

I thought you said [ph] $4.6 billion (00:06:45).

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.
A

Well, I said $4.6 billion

Mark Delaney
Analyst, Goldman Sachs & Co. LLC
Q

Okay. So you're...

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.
A

We have 5G and cloud today, so $4.6 billion...

Mark Delaney
Analyst, Goldman Sachs & Co. LLC
Q

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Okay. Got it. Okay.

Alessandro Parimbelli A
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

...is the total.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

Okay.

Alessandro Parimbelli A
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

We already had some wireless business, but today it's $4.6 billion.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

Got it. Okay. And hyperscale has been a very nice growth driver for Jabil. You talked a little bit about some of the range of capabilities and your ability to respond quickly within region, but maybe elaborate a bit more on what Jabil is doing and how big could this business become longer term.

Alessandro Parimbelli A
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

Yeah. You've got to point to the nature of the data center hyperscale business. The business is getting [ph] up (00:07:24) – the footprint is expanding radically. The amount of data centers that people have now is way higher especially with a trend to put data centers close to the edge, so – which basically means that the complexity of orchestrating the supply chain is increasing immensely. Jabil has the ability to compress the lead times to orchestrate the supply chain and really allows really to – with our global footprint to really reach data centers across the globe in a way more efficient manner. And this, at the end of the day, save working capital. Couple this with the need for IP protection, a lot of our innovation today is [ph] expanding internally (00:08:08) to the hyperscalers and there is a strong need to protect our IP, especially in the context of a, I wouldn't say, trade war but in the context of US versus China IP protection.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

And in terms of the future growth for Jabil within hyperscale [ph] does and our (00:08:28) customers, is it more about growing with the customers you have which is obviously a growth – an end market that has seen some nice growth overall or do you think Jabil can pick up new hyperscale customers and grow that way?

Alessandro Parimbelli A
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

Our target and our desire is to continue to expand with the current hyperscalers but also at the same time continue to diversify and have a stable supply base in hyperscale market.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

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And then you had mentioned 5G as another important part of your business. The most recent set of earnings reports from several of the semiconductor companies in particular, I've spoken to a recent pause in 5G deployments and they've cited different reasons for that. But I'm just curious if you can give us a sense about what Jabil is expecting for the timing of different 5G deployments.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

Yeah. We do think 5G deployments are going to start to restart a little bit during this year. But I think I want to point out that our [ph] business signature (00:09:34) include 4G and 5G and really the combination of the two has not changed significantly for us. Maybe 5G has paused a little bit but 4G continue to be deployed and customers continue to [indiscernible] (00:09:51) fiber network with additional base stations. So for us, it is somewhat stable. We may see a pickup later on when the deployments are going to restart. But for us, it hasn't – for us, really what really matters is the total CapEx spending that the big carrier deploy in the industry. That is more significant number for us [ph] to track (00:10:14) our revenue.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

I think Jabil has been gaining share within the telecom space over the last couple of years. Some of the European base station OEMs that historically didn't typically show up on your top 10 customers right now will show up. So has that share gain story, is that pretty fully played out in telecom or do you think there's opportunity for more share gain in telecom?

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

Yeah. We continue to invest in the space. Our investments in 5G will certainly materialize in a higher share going forward. We are not obsessed [ph] with that (00:10:49) share. We're obsessed with profitability and doing a good job for our customers.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

I want to get to E&I margins and profitability in a second. But sticking with the end markets for the time being, if I could, traditional enterprise networking and storage is the other part of E&I. And you mentioned [ph] it's (00:11:08) declined low to mid-single digits if I heard you correctly. The business has seen some cyclical pressure just kind of – because of some of the macroeconomic trends that are going on with some of the big hardware companies I've spoken to over the course of the year. I think we'll get an update from one of the big ones later today. But maybe just talk about your expectations for that business from a cyclical perspective, are you seeing any signs of life in the enterprise space?

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

So, I think it's a bit difficult because we don't work with everybody inside the space. So maybe our experience is more indicative to the [ph] cosmo set (00:11:47) that we have. But in general what we see is that there are more and more workloads being moved from on-prem into the cloud space. And so, clearly, the more you move workloads to the public cloud, the more [ph] drop (00:12:05) and work there is on the cloud side and less from enterprise side.

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Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then the last area I wanted to touch on E&I is storage, and just talk about how diversified your portfolio may be and is Jabil exposed to the next-generation flash storage architectures?

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

Yes, we are. We work with the two largest players in the storage space. So we clearly are exposed there. And we participate and we continue to work with [indiscernible] (00:12:34) our customers.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

And you had mentioned profitability, the broader EMS segment has seen some, which E&I is a portion of – the broader EMS segment has seen some nice pickup in EBIT margin. I know there's a lot of work that Jabil has done to get there. But in your business, specifically, maybe just talk about how you feel about the profitability trends and margins.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

Yeah. So we are growing the segments which have a higher profitability. Clearly, the growth from semi-cap has been a big contributor to increase the margins. Clearly, semi-cap is accretive to the margins for EMS. And – but yeah, we are really, really focused on providing value for customers, making sure customers are willing to pay for the value that we provide and we are less obsessed with the growth per se, the revenue growth.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. I know you have to balance that profitability versus growth dynamic, but did you have a blended revenue growth target that you can share for the E&I business?

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

Yes. We are targeting mid-single digit. We think some areas are going to accelerate and some areas are going to decelerate. But in aggregate, if you ask me a number, that's a pretty good number.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful. Maybe we can transition to some DMS questions and Courtney, I was hoping I could direct some of those towards you.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

Sure.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

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Healthcare has been an important focus for Jabil. The last time that it was sized, I think it was $2 billion to $3 billion per year of revenue. But it's a growing end market. So just hoping to get a sense for how big the medical business is for Jabil today?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

So, yeah. I think we've commented that the healthcare and packaging business together should be in the vicinity of $4 billion and healthcare is by far the dominant piece of that. Okay? It's – Id' take you back maybe on a little bit of a journey. In 2013, our healthcare business was circa $0.5 billion or something like that. We did a deal and bought a company called Nypro and in large part because of the attractiveness of adding consumable healthcare products and capabilities to our existing durable capabilities.

And that combined business has grown nicely over the years. And of course, last year, we announced this J&J partnership that we can get into in a little bit more detail if you want. But that added another, at full ramp, about $1.5 billion of business to our healthcare space. So really excited about how that's moved over the last five, six, seven years. It's achieved great scale. I think we're – I think we're the largest healthcare contract manufacturer in the business these days. And the business is performing very, very well.

My colleague Steve Borges who runs that business and his extended team are doing a great, great job with it.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Part of your responsibilities are in corporate development and M&A. And so maybe you can talk a little bit about the J&J deal and what led to that deal and just what's attractive to that specific opportunity for Jabil.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

The J&J deal is a – first of all, I give J&J a lot of credit for having the foresight to approach this and think about it long term. It's a long tenured deal. We've talked about that. The intent is to transform the supply chain over a number of years to a flexible, efficient – hyper-efficient type of supply chain. J&J was like I said, had the foresight to think about it long term. And we were able to structure the deal in such a way that it didn't require us to buy copious amounts of assets upfront, but instead invest in working capital and rebadging employees and whatnot and kind of gradually ramping that business over time. And that's going really, really well right now. I think J&J is quite happy with it. The integration has gone to plan. I think we feel really good about it. And this year the business will be just north of $1 billion. And once we get to full volume going into next year it will be about $1.5 billion.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

In terms of margins, the – last year it was just starting to ramp I think around breakeven to the business from a profitability perspective. How should we think about margins this year as it grows that roughly $1 billion or a little over $1 billion of revenue, and then what's the long-term margin potential?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

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Yeah. This year, the margins in that business will be in the 2.5% to 3% range. So they are currently dilutive to our DMS margins. That being said, as we ramp the business over the next year or two, we think that margin profile moves north of 5%.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's a nice margin to have in the EMS industry. The medical industry has long product life cycles to begin with. But talk about what ability Jabil has to win the follow-on orders with J&J as you think about the long-term relationship there.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

I think it's important to note that we had a 12-year relationship with J&J before we did this deal, okay? So it's not a new relationship per se. There's been great continuity over the years. In terms of our ability to win follow-on business, look, we've got great investments in digitization in healthcare. So if my colleague, Steve, were on the stage with me today, he'd tell you that north of 50% of the design work we're doing is about digitization of devices in healthcare, okay? And I think that's a unique capability that very few people in our industry can provide, by the way, not just on durable devices, but also consumable devices.

I think the other thing that companies like – J&J included, but more than J&J appreciate are the investments that we're making in new process technologies like additive, so 3D printing. The ability to rapidly customize medical products is something that – investments that we think will pay off long term.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

I wanted to get to the 3D printing and since you brought it up maybe we can touch on that more broadly and not just for medical. But how does Jabil see 3D printing fitting in with its capabilities? And do you see 3D printing longer term as a high volume manufacturing technology?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

It's hard to say on the last point. Will 3D printing become increasingly mainstream? I think our answer is yes. It certainly will. The question is how long will it take and where specifically is it positioned. Is it going to cannibalize all the manufacturing we do today? Absolutely not. [ph] Not a chance (00:19:44).

But 3D printing, where we're seeing it move from what yesterday was sort of more prototyping into today is more production is in industries that are maybe safety critical industries. Industries whereby 3D printing enables a different kind of design. In aerospace for example, you can lightweight products using 3D printed technologies. You can reduce the part count significantly using 3D printing technologies which again, helps the system perform more efficiently. Same thing in healthcare.

So we're seeing it move mainstream in the aerospace and healthcare markets faster than we're seeing it move mainstream in other places. But it'll continue to move in a variety of different markets. It's an important long-term technology and we've been investing in it in several years and I would point out that we're investing in it in several different positions in the supply chain as well.

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We make 3D printers for a number of customers. We perform 3D printing services of course for a number of our customers. And we also have invested in the raw material science, polymers and we've got the ability to custom engineer polymers specifically for use in 3D printing.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's very interesting. Back in the DMS segment, mobility is one of the other big businesses that Jabil has. Can you just talk about what 5G could mean for your mobility business and could that potentially lead to a big acceleration in revenue for Jabil?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

I think our working assumption right now is that, there'll be some increase in volumes next year. That being said, I don't think we're projecting any kind of a [ph] stressed cycle (00:21:40) here. People talk about that. I don't think that we're assuming that. But will volumes pick up? I think we're hopeful that they will.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

When you say next year, you mean fiscal 2021?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

Yes. I mean in the back half of this year. Okay, kind of our – yes, our fiscal 2021.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Yes. Okay. One of the things within mobility that Jabil had spoken to is around its casing business. And on one of the recent earnings calls, the company talked about trying to reduce capacity. But you also said you think your units are going to grow because you're picking up share. Maybe square that out for us how do you take capacity off and grow the business at the same time?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

So, we announced an $85 million restructuring program targeted predominantly at our mobility business. We took stock of what our capacity looked like. We think there was too much capacity in mobility business generally, outside of Jabil as well. There's too much capacity in the industry for the new normal. On top of that or in parallel with that, our operations had been getting increasingly efficient and more productive. And so we see the opportunity to take some square footage off line without affecting our actual capacity. Okay. So, it just made a lot of sense given the productivity improvements and the kind of the excess floor space that was out there in the world to make that move this year. And again I think so far the early returns are favorable. We think it's the right thing to do.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

What do you think led to that excess capacity within mobility because over the last sort of three to five years as metal casing has proliferated across more smartphones and the metals have become harder, physically harder,

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the machine times went up. And so I thought that had been using up a fair amount of capacity. So did we just get too out over the skis or it's more about just efficiencies were generally found across the industry?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

I think it's probably a little bit of all of that. I think you also saw over the years a number – across a number of phone manufacturers that casings evolved from metal casings, the glass on both sides and so the design themselves have changed and evolved and the production has gotten more efficient all at the same time. So again, I think we saw the opportunity to make a move on that and we did.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Diversification has been a focus for Jabil within its DMS segment and the company has a goal to have no more than 10% of profit from a single Jabil product, so a product like casings from a customer. Where does Jabil stand on that effort?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

We think we made great progress. I mean, the work is not done for sure, but we think we made great progress. If you kind of go back four or five years, our largest customer was a 20% customer and we know who that is, and we were fairly concentrated in a really narrow range of product lines. So the last three or four years for Jabil have been about diversifying inside of that product line, diversifying inside of that customer kind of into other products, and diversifying outside of that customer into other areas like cloud, like healthcare and whatnot.

The work is never done, but we think last year was probably a pretty good proof point at how far we've come. You saw Apple pre-announce last year for the first time, and I don't know how many years that their phone volumes were going to be down, and then you also saw a tremendous decline, somewhat unexpected decline in some of our semi-cap business and Alex's business, and yet Jabil was able to weather those storms successfully. And four, five years ago, I think that might not have happened.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

The last area in DMS is packaging. You said this is smaller than the healthcare business, but talk a little bit about the growth potential, growth profile and margin range for the packaging business.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

It is quite a bit smaller than our healthcare business right now, but we're equally as excited about it. Our position in packaging currently is mostly in the rigid plastic packaging side of things, so not corrugated, not glass, none of that. It's in rigid plastic packaging. So, most of our customers are CPG companies, the big CPG-type OEMs. And there's a lot of work going on in packaging in the materials space, developing more sustainable materials and that's happening across the board. And I think that's exciting. It's a good opportunity for us.

But what's really, really exciting for us, really exciting, is the potential we have to disrupt the packaging industry by integrating sensing products into kind of yesterday's [ph] old state (00:26:28) packaging in a way that allows these CPG companies to reconnect directly with consumers. And we've – we're getting lots and lots of interest in the ability to do that kind of thing, and that's why we're so excited about it.

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Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

There's a metric that Jabil shared several years ago now when you acquired Nypro, it was 2013 or something, but I think the metric was something like 80% of the sales at a store is based on the packaging.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

Yeah. P&G used to have [indiscernible] (00:26:59) still use it, it's kind of the moment of first truth, right? Your eyes lock on to a package, and that plays a big part in your buying decision. But I think that's probably changing over time. But nonetheless, the ability to make packaging more interactive is pretty compelling.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

I want to touch on some strategic topics and I was really happy to have you here and given your role in corporate development, but one of the things that's discussed in the industry is the potential for more consolidation in the EMS industry. Jabil has done some targeted transactions, acquired Nypro, for example; the J&J assets within medical. But what's your outlook for larger scale M&A and if you think that could occur, how many [ph] do you anticipate (00:27:45) in that?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

So we always look at M&A opportunities kind of – our reference point is our plan of record, right, as is always the case. So our plan of record today is almost entirely organic. We're not assuming that we're going to do any big deals. That being said, we always look at them. Always. I mean, always looking at industry roll ups, always looking at unique combinations. And as we sit here today, it's hard for me to get excited about a roll up strategy in our industry because I think we have the capabilities that we need to be successful and grow the business.

And so, our acquisition strategy these days are more targeted for a reason. They follow the lead of our divisional CEOs who are out there identifying unique capability gaps that we need to fill. We're typically out looking for smaller deals that might have some asymmetric upside. And that's what we get more excited about right now. Is there the potential for large scale acquisitions down the road? Of course. I can just tell you that that's not really in our field of view right now.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

One of the problems with the large scale EMS transactions that took place 10 or 20 years ago is that there's a lot of customer overlap in those transactions. And so, if you're a big hardware company and two of your suppliers merge, you say, I want to make sure I have diversification in my supply base. I'm going to take some of the revenue and give it elsewhere and so there's revenue dissynergies. There's been a lot of change in the EMS industry, right, Jabil is a lot bigger in medical. You have a packaging business and your competitors are doing similar things. So certainly, [ph] curious (00:29:30) about everything you said that it's not on the nearer-term road map. But do you think that the EMS companies are different enough from each other now that you maybe wouldn't run into this dissynergy problem that you had 15 years ago when companies tried to merge?

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

A

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I think that always depends on what combination you're thinking about. There – potentially, I'm with you on that, but I think it all depends on what combination you're talking about frankly.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Well, one of the reasons the companies are a little bit different from each other is focus on new end markets or nontraditional end markets, medical, automotive, packaging. There was a news report out a few weeks ago about Hon Hai and Fiat Chrysler potentially partnering to build electric vehicles which struck me. I typically don't think of Hon Hai as doing something in the automotive space. I have a couple of questions I wanted to get to along the lines of this. But maybe first you talked about automotive and doing something in the full size, building cars entirely, is this something Jabil would ever consider doing?

[indiscernible] (00:30:33)

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

I think it is a step which is too far off from our core. I think we are really, really happy with our automotive platform. We continue to grow the electric content vehicle electrification. We have three areas that [indiscernible] (00:30:53) is just amazing regards to the unit of cars being sold. So we are really, really happy with our strategy there. So we – at least we don't contemplate at this stage to just make that big of a jump honestly.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

And the follow-up I wanted to ask was on the automotive landscape. One of the concerns investors have had is that with so many EMS companies trying to do these nontraditional markets that the margins which are significantly more attractive than other parts of the EMS industry that that gets competed away over time. It hasn't happened. I mean that's been a concern for a decade and margins have stayed very good in areas like automotive. But I saw this Hon Hai news story and it just made me wonder is there an increasing competition that Jabil has started to see in automotive.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

So we really focus on the value they could provide to customers. And honestly when you provide value to customers, they are willing to pay for the value. So for us, it's business as usual. We haven't seen a dramatic change in the competition space.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

And then I think one of the other benefits, too, is and correct me if I'm wrong, but some of these non-traditional end markets still have a high percentage of manufacturing that's done in-house and so there is – it's not necessarily competition one EMS company versus another but it's potential [ph] savings for your (00:32:05) customers.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

A

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Absolutely. Why they do this transaction is because they achieve an economic benefit. And not only that, but in similar cases, our customers really are not focused on manufacturing. Manufacturing is a business that in some ways is out of fashion with the big companies and so they don't even have the skill set anymore to do manufacturing. Clearly, I'm talking in generalities.

But clearly, that is a trend why people – it's not just an economic benefit, but also is how can I invest in the future of manufacturing. Right now, if you look at the cost of IT and what is possible with IT, automated factories, digitizing factories is something that can create a lot of value for both us and our customers.

So if manufacturing is not your core competence, you're not going to invest there. You're not going to invest there. You're going to be left behind. So that's also one of the reason why OEMs comes to a company like Jabil which is really, really focused on innovating from the manufacturing, automation, digitization. Our CapEx and OpEx in this space are actually quite significant and we are proud of that. It's money well spent.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC
Q

We have just a couple minutes left. I wanted to see if anybody in the audience has a question. Otherwise, I will ask the last question. Well, actually I wanted to bring up automation. So, your point there dovetails nicely into my final question. What percentage of Jabil's manufacturing would you say is automated today and where do you see that going over the next say three to five years?

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.
A

Yeah. I mean it is very, very difficult to define it as a percentage. I would say that I don't see any line without any – some form of automation in our factories. But I really want to point to the importance of IT. It's not just automation. It's also digitizing the factories. It basically means putting people, be able – for people to communicate with machines, being able having machines to communicate to each other. These are also large OpEx investments that we are making. It's not just the automation side.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Great. Well, we are out of time. Alex, Courtney, thank you both for being here.

Alessandro Parimbelli
Executive Vice President & Chief Executive Officer-Enterprise and Infrastructure, Jabil, Inc.

All right. Thank you.

Courtney J. Ryan
Executive Vice President, Corporate Development/Chief of Staff, Jabil, Inc.

Thank you.

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