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PRESENTATION

Operator

Greetings, and welcome to the Jabil Second Quarter of Fiscal Year 2019 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Adam Berry, Vice President, Investor Relations. Thank you, sir. You may begin.

Adam Berry - *Jabil Inc. - Senior Director of IR*

Good afternoon, and welcome to Jabil's Second Quarter Fiscal 2019 Earnings Call. Joining me on today's call are Chief Executive Officer, Mark Mondello; and Chief Financial Officer, Mike Dastoor.

Please note that today's call is being webcast live, and during our prepared remarks, we will be referencing slides. To follow along with the discussion and view the slides, you will need to be logged in to our webcast on jabil.com. At the end of today's call, both the presentation and a replay of the call will be available on Jabil's Investor Relations website.

Before we begin, I'd like to remind all listeners that during today's conference call, we will be making forward-looking statements, including, among other things, those regarding the anticipated outlook for our business such as our currently expected third quarter and fiscal year 2019 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 in our Annual Report on Form 10-K for the fiscal year ended August 31, 2018 and other filings. Jabil disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

With that, it's now my pleasure to turn the call over to CEO, Mark Mondello.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Thanks, Adam. Good afternoon. As always, I appreciate everyone taking time to join our call today.

I'll begin by extending a warm thanks to our people here at Jabil, for their hard work and never-ending commitment to our customers. Also, I'm proud of the fact that keeping our people safe is the top priority for all. Thank you.

Now turning to Slide 3. Let's take a look at our second quarter results. We had another excellent quarter as the team delivered core operating income of $191 million on revenues of $6.1 billion, resulting in core earnings per share of $0.64, $0.03 above the midpoint of our guidance.

During the quarter, we experienced robust revenue in our EMS segment. This strength was driven by our cloud, retail and industrial sectors. Within our DMS segment, the results were terrific. Core operating margin came in at 4.5%, a 110 basis point improvement year-on-year, this despite weak demand in our mobility sector, another testament that our broad-based diversification strategy is taking hold and it's working.

Overall, I'm really pleased with the quarter and the results posted for the first half of the year. As is customary, Mike will provide more details around our results and our forward guidance during his prepared remarks.

Moving to Slide 4. You'll find the priorities of our management team. The first area is constructing market and product diversification, which we believe drives a higher degree of reliability in terms of our financial results. The second is to ensure successful ramps of our new business, businesses where our team maintains a high degree of confidence in their ability to deliver, and once delivered at scale, assure this $2.4 billion book of business has the most favorable outlook financially. And third is driving outstanding financial performance across the company with a commitment to free cash flow and margins as we look towards fiscal year '20. These 3 areas receive constant focus and attention from our leadership team and form the platform from which we execute our strategy.

Next, on Slide 5, you'll see a pie chart which offers you an update of our current business portfolio. I love how this looks. With each passing year, the blend of our revenues become better balanced and far less dependent on any single product or product family. So why is this so important? Quite simply, greater diversification increases the reliability of our earnings and our cash flows.

Turning to Slide 6. You'll see an update on our new business awards. Our healthcare and 5G wireless wins are both up $50 million since September, a 15% increase. Our wins in the cloud space are now up 30% to 40% since the beginning of the fiscal year. And our automotive business wins remain on plan. For me, this is good news all the way around.

I'd now like to turn your attention to Slide 7, where I'll take you through a subset of our targeted new business awards, starting with the progress we've made with Johnson & Johnson. But before I speak to the slide, I'm just so pleased to welcome our new team members in Torres and Albuquerque. The first 2 factory sites transitioned to Jabil as part of this strategic collaboration. And I'm happy to report that our Wave 1 integration was completed during the second quarter and completed on time. Thanks to everyone involved for making this a reality.

The teamwork between Jabil and Johnson & Johnson has been sensational. Our healthcare team will continue to support and protect the J&J brand (inaudible). We remain confident (inaudible).

Now please turn to Slide 8, where I'd like to talk about why Jabil is actively participating in the cloud space. To start with, Jabil's value proposition is centered around an efficient model, a model which helps eliminate what I'd refer to as historical supply chain disaggregation. In addition, this model greatly reduces overall invested capital throughout the entire network.

Second, Jabil has put together an experienced engineering team specific to cloud, a technical team that engages early and often in the design for digital product integration and product enhancements, allowing for supply chain simplification and flexibility.

In terms of revenue for this space, Jabil's revenue will be in excess of $1 billion this year. And with our asset-light service model, I strongly believe this business will provide healthy free cash flows going forward.

As we transition to my final slide, Slide 9, I think about where we're headed and the tremendous progress we've made in the past few years. Our business is solid and in good shape strategically, operationally and commercially.

In terms of fiscal '19, it's worth noting that our semi-cap equipment business was weak during the first half of the year, but we operated it to plan as we anticipated this weakness at the start of the year. We also believe that demand in semi-cap would begin to normalize in the June-July timeframe this year, but that's not going to happen. We're now planning for a more normalized recovery in early 2020. With that said, mid to longer term, we remain quite bullish on this sector, largely based on our sound positioning in serving this market.

As for our mobility sector, demand remains weak for the balance of the fiscal year. So all this begs the question, what actions are we taking and why do we have confidence to not only deliver core earnings somewhere in the neighborhood of $3 a share but also upping our target for free cash flow from $350 million to $400 million for the year, a 15% increase or said differently, a 60% improvement from fiscal '18.

So action number one, we believe we'll see further margin expansion from our base business; two, execution and incremental efficiencies associated with our new business wins, especially in the areas of healthcare and cloud; and three, we'll continue to delever our balance sheet, specifically around the inventory buildup, which was driven by the initial bow wave of growth.

In closing, I like the decisions we're making and the approach our team is taking. As I look beyond fiscal '19, the focus of our leadership team will be squarely on generating free cash flow and expanding margins.

Thank you, and I'll now turn the call over to Mike.

Michael Dastoor - *Jabil Inc. - Executive VP & CFO*

Thank you, Mark, and good afternoon, everyone. I'm extremely pleased with our second quarter performance. During the quarter, both segments executed exceptionally well and delivered strong consolidated results, providing yet another proof point that our diversification strategy is working.

Net revenue for the second quarter was $6.1 billion, an increase of 14% year-over-year. GAAP operating income was $154 million, and our GAAP diluted earnings per share was $0.43. Core operating income during the quarter was $191 million, an increase of 7% year-over-year, representing a core operating margin of 3.1%. Net interest expense during the quarter was $55 million, $5 million above previous expectations on higher levels of intra-quarter borrowing, driven mainly by 2 factors: first, the timing and scale of our ongoing new business ramps; and second, during the quarter, we continued to opportunistically repurchase our shares.

Our core tax rate for the quarter was 27%. Core diluted earnings per share was $0.64. As Mark highlighted, we integrated 2 facilities associated with our strategic collaboration with Johnson & Johnson Medical Devices Companies. As a reminder, the majority of cash outlay and expense related to this collaboration is in the form of working capital and integration-related expenses. In Q2, we incurred $13 million of acquisition and integration-related expenses.

Now turning to our second quarter segment results. Revenue for our DMS segment was $2.3 billion, down 7% year-over-year. This was mainly due to weaker-than-expected mobility demand. Despite lower levels of revenue, core margins were 4.5%, an increase of 110 basis points over the prior year. The strength in core margin was mainly due to improved profitability in the balance of our DMS businesses. This impressive performance in the face of lower mobility demand highlights the progress we've made in our diversification efforts. For the quarter, DMS represented 37% of total company revenue.

Revenue for our EMS segment increased by 33% year-over-year to $3.8 billion. As Mark indicated, our teams did an excellent job ramping new wins, which contributed to our robust year-over-year growth.

From an end-market perspective, retail, industrial, 5G and cloud all performed well in the quarter, offset by continued weakness in semi-cap, as expected. Core margins for the segment declined 100 basis points year-over-year to 2.3% due to continued softness in the semi-cap space and costs associated with our ramping new business awards. EMS represented 63% of total company revenue in the quarter.

Next, I'd like to outline our updated expectations for revenue in fiscal year '19 by end market. Within DMS, today's outlook suggests lower revenues, driven by continued weakness in mobility, partially offset by improved strength in healthcare. As a reminder, mobility cuts across mechanics and edge devices and accessories. Given this new outlook, we now expect margins for DMS to be 3.7% on the year, a 20 basis point improvement from a quarter ago on slightly lower revenue of $10 billion.

Turning to EMS. We now expect stronger revenue in 5G, wireless and cloud, offset slightly by the protracted recovery in the semi-cap space, which is reflected in lower enterprise sales. While we still expect our semi-cap business to be profitable for the year, the continued weakness has lowered our EMS margin expectations by 20 basis points to 3.3% for the fiscal year on slightly higher revenues of $15 billion.

Turning now to our cash flows and balance sheet. During the quarter, our days in inventory increased sequentially by 5 days. This increase is mainly due to the following factors. First, as mentioned earlier, we integrated the first 2 Johnson & Johnson Medical Devices facilities at the end of February. As a result of this, we recorded inventory with limited revenue. Second, we had higher levels of inventory at the end of the quarter to support the anticipated ramps in the second half of the year. These factors, coupled with the ongoing tightness in the components market, negatively impacted inventory days. As we move through the balance of the year, we expect our inventory levels to moderate from Q2 levels.

Cash flows provided by operations were $199 million in Q2, and net capital expenditures totaled $171 million. As a result, free cash flow for the quarter was $28 million. Core return on invested capital for Q2 was 16.5%. We exited the quarter with total debt to core EBITDA levels of approximately 2.3x and cash balances of $749 million.

Turning now to our capital return framework. Since the inception of our capital return framework in June of 2016, we have repurchased 47 million shares, bringing our total returns to shareholders, including repurchases and dividends, to approximately $1.4 billion. In Q2, we repurchased approximately 6 million shares at an average price per share of $24.35. These repurchases fully utilize our $350 million repurchase authorization. Moving forward, we remain committed to a balanced capital return framework, inclusive of shareholder return and investments.

Turning now to our third quarter guidance. DMS segment revenue is expected to decrease 12% on a year-over-year basis to $2 billion, while the EMS segment revenue is expected to increase 27% on a year-over-year basis to $4 billion.

We expect total company revenue in the third quarter of fiscal 2019 to be in the range of $5.7 billion to $6.3 billion for an increase of 10% at the midpoint of the range.

Core operating income is estimated to be in the range of $150 million to $200 million, with core operating margin in the range of 2.6% to 3.2%. Core diluted earnings per share is estimated to be in the range of $0.47 to $0.67. GAAP diluted earnings per share is expected to be in the range of $0.19 to $0.46. The tax rate on core earnings in the third quarter is estimated to be in the range of 27% to 28%.

As we enter the second half of FY '19, I'm confident in our ability to efficiently manage working capital and generate strong cash flows. The asset-light nature of our cloud business, coupled with the anticipated improvements in inventory days and disciplined capital expenditures, gives me confidence in our ability to deliver higher adjusted free cash flows approaching $400 million, along with $3 in core EPS on $25 million in revenue for the year.

Over the longer term, we remain committed to delivering shareholder value through strong margins, free cash flow and earnings growth as our diversification strategy further unfolds.

I'll now turn the call back over to Adam to begin Q&A.

Adam Berry - *Jabil Inc. - Senior Director of IR*

Thanks, Mike. As we begin the Q&A session, I'd like to remind our call participants that per our customer agreements, we will not address any customer or product-specific questions. We appreciate your cooperation. Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Steve Fox with Cross Research.

Steven Bryant Fox - *Cross Research LLC - MD*

Two questions, please. First, looking at your comments on retail mobility. I mean, those 2 markets are basically consumer-facing at the end of the day. You have different outlooks, one is getting better and one seems to be getting worse. So I was wondering if you can maybe give us a little bit of color in terms of what is macro versus what is maybe Jabil-controlled versus supply chain issues, et cetera. And then as a follow-up, in terms of the upgraded outlook for cash flows, I guess, my conclusion will be it's mainly driven by inventories, Mike, but maybe you can provide some color in terms of how much is maybe J&J versus other things you're doing, that'd be helpful.

Michael Dastoor - *Jabil Inc. - Executive VP & CFO*

Steve, so I'll answer your second question first. Cash flows, we feel good about for a couple of reasons. The first one, actually, is the asset-light nature of our cloud business. As mark pointed out, our cloud business has gone up again. It's looking really good. It is extremely light on working capital. It's extremely light on capital expenditure, and it's got some real good free cash flows attached to it. And the second piece is what you mentioned, improvements in inventory days.

Steven Bryant Fox - *Cross Research LLC - MD*

Okay. And then I'm sorry, just before, Mark, you chime in, on the asset-light nature of the cloud business, so that basically reflects that the growth prospects are better than you previously thought and so the cash flow coming off of that is better also.

Michael Dastoor - *Jabil Inc. - Executive VP & CFO*

That's correct.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Yes, I think that's true, Steve. Hey, this is Mark. So I don't -- I guess I don't drive the same connection you do, Steve, on connecting retail to mobility. I think mobility tends to be much more narrow-focused than retail. I look at retail as much more broad and much more retail infrastructure than I would on the mobility side. I don't -- I can see how you can call them both consumer but for us, they're very different businesses.

Steven Bryant Fox - *Cross Research LLC - MD*

Okay. So is there any color specifically around retail then in terms of what's driving the growth besides what you just said?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Not yet. I'd just say it's broad-based retail infrastructure type of business.

Operator

Our next question is from the line of Ruplu Bhattacharya with Bank of America.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

I was wondering if you can give us your thoughts on DMS margins for the May quarter. Typically, you have a ramp in the mobility business, but your -- the Nypro business is doing well. So any guidance, any color there would be helpful.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Yes, Ruplu. So I'd suggest that Q3, the May quarter is still going to be an area of some investment. But I think with what we're seeing in healthcare and packaging as well as kind of non-mobility in that area, I'd expect margins to be better this year, year-on-year. Last year, for DMS, I think the third quarter was around a percentage point or so, maybe a little bit better. This year, I would think it would be somewhere maybe 2x that. And then if I look at DMS in terms of back half of the year collectively, I think that margins overall and maybe a better way to look at it would be absolute profit dollars for DMS second half of '18 to second half of '19 would be up 6%, 7% over last year.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Okay, that's actually very helpful. My second question is just on free cash flow. Can you give us, going forward, what would be your estimate of CapEx in fiscal or '20, '21, any guidance there? And should we expect -- is it reasonable to expect increasing cash flow in subsequent years? Or do you anticipate any significant investment having to be made in the subsequent years?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

I'm not going to get into CapEx for the next couple of years because that's a body of work that's in process. I think in the September call, I said something about free cash flow for fiscal '21 to be around $600 million. This year, we think it's going to be in the neighborhood of $400 million, and I think in FY '20, it's going to be somewhere in between.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Okay, great. I mean, that's helpful. And my last question is on Nypro seasonality, does that change with the J&J acquisition?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Maybe slightly, but I would kind of model that much the same.

Operator

Our next question is from the line of Adam Tindle with Raymond James.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I just wanted to start with DMS and the decline in revenue, maybe start by acknowledging quite an impressive job on maintaining margins during this. But how long do we see the revenue decline persisting? I mean, the miss in the quarter was over $1 billion in terms of run rate versus your expectations, and the year-over-year percentage declines are greater in Q3. But I think if I heard the comments on FY '19, it seems like a pretty big snapback in Q4 for DMS. I know you've got J&J ramping, but just hoping that you can maybe work through some of the revenue declines and the cadence of that, and then maybe also speak to how you kept margins intact during this time. Would have thought you'd be battling some pretty big underutilization.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Thanks for the question, Adam. There was a lot of pieces to that. Let me try to shake that up and maybe this is a simplistic way to look at it. I think if you take a look at our guide for the third quarter and you kind of look at the whole year, I think DMS year-on-year is going to be relatively flat '18 to '19. And I think you've got one big put-and-take there, which is mobility is weak and everything else is at or above plan. So I feel really good about the composition of our DMS business, especially as we exit overall '19. In terms of -- we saw some decline in DMS in the second quarter. How did we end up delivering margins 110 basis points greater than last year? It's really, again, the composition and the diversification of DMS. As I look at that business today, tomorrow, next quarter, the end of the year and going into '20, it's just a much different business with really good diversification.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay, that's helpful. Maybe one then shifting gears on EMS. I know you've had costs that you've been incurring in the first half of the year. But adding those back, I think margins there would still be down pretty noticeably. Revenues growing quite healthily. You said cloud's ramping fast, and I think that's supposed to be higher margin than the core. Maybe just walk through the moving parts in terms of what we're missing when we're observing the first half EMS operating margin to where you think it's going to go.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Are you saying EMS? You are, right?

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Yes, EMS.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Yes, I was a little bit confused because I think you lost me a little bit. We've been really consistent with EMS in the September call then the December call. I think we've been talking about EMS op margins for the first half of the year to be around 2.4%, 2.5%. That still holds, and we talked about that in the last couple of calls. It's largely just around the costs related to ramping a $2 billion book of business and positioning it well for fiscal year '20. So none of that's changed. The only thing that's changed in our EMS business since September largely is our cloud business is growing a bit faster than we expected with really nice free cash flows attached to it. And then our enterprise business, if you're to look at the, for lack of better word, the green and the blue slide, the beginning of the year, I don't remember exactly where we're at but let's just say enterprise was somewhere around $5.5 billion. We see that business today being about $4.8 billion, $4.9 billion. That's largely due to semi-cap equipment. I covered that in my prepared remarks. And we thought that business would snap back a bit in early 2020, with recovery starting in kind of the June-July timeframe this year and now, we won't see the recovery beginning until 2020. So again, that impacts a bit overall, but we're still looking at first half margins being kind of right on top of what we thought they would be. And then as you kind of look at the math of our guide for Q3, EMS margins should be back up over 3%. And as you look at the fourth quarter of this year, even with a sustained weakness in semi-cap, those margins would be back up over 4%. So I feel really, really good about that business overall.

Operator

Our next question is from the line of Jim Suva with Citi.

Jim Suva - *Citigroup Inc, Research Division - Director*

A lot of focus has been on the DMS, but I had a question more on the other segment, the EMS side. The upside there was quite material and impressive, especially relative to your guidance in the EMS side again. Is that where the Johnson & Johnson facilities come into play? Or can you help us understand about -- the upside was just so big, do they come in earlier than expected, ramp better than expected or was it more of these consumer and cloud businesses that did better than expected? Or help us maybe level set about here's the biggest, second biggest and third biggest.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Okay. So a couple of things. The EMS upside for the quarter, and I assume you're talking about Q2, was in the range of about $275 million, Jim. The composition of that was -- had nothing to do with Johnson & Johnson. Johnson & Johnson is in our healthcare business, which is a subset of our DMS business. The upside on the EMS side was a really good blend of really nice business for us. It was a blend of a cloud business that we like a lot; there was a component of retail in there, which I talked about earlier, I think Steve was asking a question around that; and then our industrial sector. So for the quarter, those are the 3 areas that drove the upside.

Jim Suva - *Citigroup Inc, Research Division - Director*

Got you. And then a quick follow-up. On the Johnson & Johnson side, are those transitioning kind of according to the tempo that you wanted? Are they taking a little bit longer? Are they accelerating a little bit faster? Just trying to get the cadence because it sounds like you've got 2 of them under your roof now. And if I remember it (inaudible) your ballpark 12, 14 or maybe you can just help me update because there's more than just 2 sites.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

You're correct. There's more than 2 sites, and the first wave was 2 sites completed on plan and then there'll be further sites transitioning over. And so far, so good, in terms of us operating to our expectation around that deal. We continue to be very excited about it. And it is complicated, but the teams are executing perfectly.

Operator

The next question is from the line of Matt Sheerin with Stifel.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

A few questions regarding the cloud business, which has been ramping nicely and looks like a really good runway opportunity. Could you just talk about, number one, on how diversified is your customer base there? Because obviously, we've seen other competitors with heavy exposure, 1 or 2 customers, which has led to some lumpiness in the business and some margin pressure. So could you talk about that? And then as you continue to win opportunities, how positioned are you from an infrastructure and scale position in order to take on new business without incrementally adding CapEx?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Yes. So again, I'll say it again, we're pretty excited about the business. I'm not going to get into customer composition, we typically don't do that with any sectors. In terms of do we have the scale, capacity and whatnot, the model works, again, very, very well from a cash flow perspective because our model is, again, asset-light and extremely scalable on a variable cost basis. So if we deviate from that model, we'll let you know but that's our intent as we continue to drive the business.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

And could you just elaborate on that asset-light model? Does that mean -- I know that the inventory turns very quickly because a lot of it is sort of assembly and integration. But is there confined inventory, that customer zone, whether it be memory or other things that are volatile were you not involved?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

I'm not going to get into that.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. Okay, fair enough. And then on the 5G ramp that you've seen there, do you see that like competitors that you're sort of in the early stages and you could see accelerated growth over the next few quarters as we get into more global ramps?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Yes. I think we -- I could be mistaken but I think we showed on our new business wins, I think we took 5G wireless up about $50 million, which, again, is a good illustration of where we're positioned and headed in terms of 5G infrastructure. I think we're in a really, really nice position there and we think that's a business that's going to be around for quite some time.

Operator

(Operator Instructions)

Our next question is from the line of Ryan Krieger with Wolfe Research.

Ryan Krieger

This is Ryan for Steve Milunovich. And so I just wanted to go back quickly to the strength in the EMS, just for some clarification. How much of that was due to better demand versus revenue ramping quicker than expected? And then I have a follow-up also.

Mark T. Mondello - *Jabil Inc. - CEO & Director*

I would say (inaudible) revenue coming in a little bit faster on the new wins, and 30% was kind of, what I would call, standard business-as-usual.

Ryan Krieger

Okay, great. And so you briefly discussed diversification, which has obviously been a key narrative. Can you talk a little bit about where you are in your diversification roadmap? Do you feel you still have a ways to go? And then also, is there a point where too much diversification could actually start to put pressure on the business?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Yes, I love where we're at, especially compared to just 3, 4 years ago, I -- why I think it's so important is I think the word diversification can be very broad. There's a lot of times that companies might talk about diversification in different markets and it's viewed as a negative, especially from large institutional investors where they'll look at it and say, "look, just stick to your knitting and let me decide where I want to invest." We use the term a bit differently. Everything we do is around manufacturing, manufacturing services, engineering technology and supply chain management. So all of our businesses tie together beautifully, and there's great synergies with the portfolio that we have. We really look at diversification more across everything that fits into that bucket: technology, engineering, supply chain management, et cetera. The better diverse we are in terms of product, product family and end markets, it just drives much better reliability on the company in terms of cash flow and earnings. So it's a journey. I don't know where we sit. I think I've said it multiple times. Ideally, I'd like this to be a $30 billion, $32 billion, $34 billion, $36 billion company where no product or product family is more than 5% of our cash flows or earnings, and that's what we're striving to do.

Operator

Our next question is from the line of Paul Coster with JPMorgan.

Jeangul Chung - *JP Morgan Chase & Co, Research Division - Analyst*

This is Paul Chung on for Coster. So first, can you just expand on the state of component constraints? Looks like they're kind of normalizing somewhat. Do you expect to see inventory turns accelerate in the second half and maybe some working cap benefit this year from the inventories?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Maybe I'll take that in reverse order. So I think we'll see our balance sheet normalize in terms of days of inventory over the next 6, 9 months. And in terms of the component market itself, we've seen pockets of that ease. I think we'll see the components market start to normalize in the back half of calendar '19 and early 2020.

Jeangul Chung - *JP Morgan Chase & Co, Research Division - Analyst*

And then any update on tariff noise? Are your customers kind of taking actions to move operations? Or is everyone still really in wait-and-see mode? And if something does come soon, can you move quickly to kind of accommodate moves?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

I would say that the activity in the last year has been up and down, ebbed and flowed. I think we've been very helpful to a significant amount of our customers in terms of game plans, and some have been proactive and some are taking a wait-and-see. If people want to act on it, I think I said this in the December call, we are very well positioned to accommodate them. So I think it's kind of a wait-and-see for a lot of us in the next 6 to 8 weeks. It seems like decisions keep moving to the right but again, overall, with our global footprint, the way our IT systems are, et cetera, we're really well positioned to assist customers if need be.

Jeangul Chung - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then my last question. So at CES, you were showcasing your supply chain analytics, lots of value-added features. So have you started taking steps to kind of monetize this service? And can we expect to see some margin contribution from the service maybe over the next 6 to 12 months?

Mark T. Mondello - *Jabil Inc. - CEO & Director*

Yes. Paul, I don't want to get into too much on that. I think -- I don't know that we want to take what we think is a really, really nice tool that helps our customers and certainly helps us run our business really efficiently across '25, '26 and what's going to be higher revenues and monetize it. I think first and foremost, we want to be sure we have a very real tool that allows us to run our business as efficiently as possible. And I think that's where our focus is going to be, and we really, really like the tool we have. We like the additions that we're making to it, but I think most importantly, taking good care of our customers, increasing our own margins and running a really efficient business is kind of job 1. If we ever think about monetizing it, we'll certainly talk about it.

Operator

It appears we have no further questions at this time, so I'd like to turn the floor back over to Mr. Berry for any additional concluding comments.

Adam Berry - *Jabil Inc. - Senior Director of IR*

Thank you for joining us today. This now concludes our event. Thank you for your interest in Jabil.

Operator

Once again, ladies and gentlemen, this does conclude today's teleconference. Again, we thank you for your participation, and you may disconnect your lines at this time.