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JBL.N - Q2 2021 Jabil Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 net revenue of $6.8b, GAAP operating income of $236m and GAAP diluted EPS of $0.99. Expects FY21 revenue to be around $28.5b and core diluted EPS to be approx. $5. Expects 3Q21 total Co. revenues to be $6.6-7.2b, core operating income to be $220-270m and GAAP diluted EPS to be $0.69- 0.89.

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PRESENTATION

Operator

Greetings, and welcome to the Jabil Second Quarter of Fiscal Year 2021 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Adam Berry, Vice President of Investor Relations. Please go ahead, sir.

Adam Berry - *Jabil Inc. - VP of IR*

Good morning, and welcome to Jabil's Second Quarter of Fiscal 2021 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 slides, please visit jabil.com within our Investors section of our website. At the conclusion of today's call, the entire call will be posted for audio playback on our website.

Before handing the call over to Mark, I'd now ask that you follow our earnings presentation with the slides on the website beginning with our forward-looking statements. During this 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 2021 net revenue, earnings and cash flows. 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, 2020, 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 Mark.

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

Thanks, Adam. Good morning. I appreciate everyone taking time to join our call today. I'll begin by offering a warm thanks to all of our people here at Jabil. Thank you for your commitment, and thank you for always making safety your top priority.

Stepping back and reflecting for a moment, it's hard to believe that 12 months have passed since we first encountered COVID. I think about sitting alongside Mike and Adam 1 year ago during our March 2020 earnings call, when clarity vanished and uncertainty ran wild. Yes, in typical Jabil fashion, our people did what they do. They dove in and gave their very best to combat the pandemic. They did so by looking after one another while taking outstanding care of our customers. It's a point in time that I'll never forget. It's a point in time that highlights the level of respect and admiration that I have for our team here at Jabil. Their attitude and their actions continue to impress, and for sure, there's no other team I'd rather be part of. Again, much thanks to all of our employees who simply make Jabil, Jabil.

Please turn to Slide 5, where we'll take a look at our 2Q results. Our second quarter came in well ahead of expectations, driven by stronger-than-expected product demand, solid execution and a well-balanced contribution throughout the entire company. The team delivered core earnings per share of $1.27 on revenue of $6.8 billion, resulting in a core operating margin of 4.2%.

I'm really pleased with our financial results for the quarter. Although what's quite interesting to me is the overall construct of the business in combination with the improvements we've made to our balance sheet. All in all, our performance during the first half of the year gives us excellent momentum as we push towards the back half of fiscal '21. It also set a firm foundation for further margin expansion as we look to FY '22. As customary, Mike will provide more detail around our second quarter results during his prepared remarks.

I'd now like to share a pie chart, which is indicative of our commercial portfolio. Slide 6 underscores the effectiveness of our approach and the base from which we operate. Today, our business is wide-ranging and resilient. This is especially true when any individual product-to-product family is faced with a macro disruption or cyclical demand. Furthermore, our current business mix provides a unique set of capabilities, innovative capabilities openly shared across the enterprise with speed and precision as we simplify the complex for our customers. It's a proven formula that's trusted by many of the world's most remarkable brands.

Moving to Slide 7. I'll address our updated outlook for the year. We now believe core earnings will be in the neighborhood of $5 a share, an increase of 25% from what we anticipated back in September with top line revenue coming in around $28.5 billion. This incremental revenue improves our portfolio as evidenced by another 10 basis point increase to core operating margin, which we now forecast to be 4.2% for the year.

Lastly, we remain committed to generating a minimum of $600 million in free cash flow, a testament to how we're managing our capital investments. As I wrap up the outlook, it's notable that our strategy is working, our path is well understood, and how we go about producing results is important.

On this last point, when we think about the how, we think about purpose: a purpose that guides us in our journey, a purpose which is grounded in a series of behaviors, behaviors, such as keeping our people safe, servant leadership, ensuring a fully inclusive environment and giving back to our communities around the world. I'm just so proud that our team is hitting the mark in all of these areas.

As we transition to my final slide, I want to once again say thanks to our team. Their efforts over the past 2 to 3 years have allowed us to reshape the business as we've targeted growth in select markets, markets that largely align with secular trends, a few example of these being 5G, personalized health care, electric vehicles, digital learning, cloud computing, clean energy and eco-friendly packaging.

Our team continues to develop deep domain expertise in concert with these secular tailwinds. I like the decisions we're making and what we're doing, and we do what we do while respecting the environment and safeguarding our workplace. We're committed to a workplace which encompasses tolerance, respect and acceptance. We encourage each and every employee here at Jabil to be their true self. We strive to make the world just a little bit better, a little bit healthier and a little bit safer each and every day.

One factor that makes good companies great is possessing a value system which allows them to solve problems over and over again. We embrace this way of thinking and welcome the challenges put forth by our customers.

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

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

Thank you, Mark, and good morning, everyone. As Mark just detailed, our second quarter performance was outstanding, driven by the combination of broad-based end market strength and associated leverage and improved portfolio mix and excellent operational execution by the entire Jabil team. We saw broad-based revenue strength across the business, most notably in mobility, cloud, health care, connected devices, automotive and semi-cap.

Given the additional revenue, I am particularly pleased with the strong leverage we achieved during the quarter, which enabled us to deliver a strong core operating margin of 4.2%. And finally, our net interest expense came in better than expected during the quarter due in large part to better working capital management, coupled with the proactive steps we've taken over the past year to optimize our capital structure.

Putting it all together on the next slide, net revenue for the second quarter was $6.8 billion, $300 million above the midpoint of our guidance range. On a year-over-year basis, revenue increased by $700 million, or 11%. GAAP operating income was $236 million and our GAAP diluted earnings per share was $0.99. Core operating income during the quarter was $285 million, an increase of 78% year-over-year representing a core operating margin of 4.2%, 160 basis point improvement over the prior year. Net interest expense in Q2 was $33 million, and core tax rate came in at approximately 23%. Core diluted earnings per share was $1.27, a 154% improvement over the prior year quarter.

Now turning to our second quarter segment results on the next slide. Revenue for our DMS segment was $3.6 billion, an increase of 26% on a year-over-year basis. The strong performance in our DMS segment was extremely broad-based as several of the end markets we serve are becoming increasingly critical, such as connected devices, health care, automotive and mobility. Core margins for the segment came in at an impressive 5.1%, 210 basis points higher than the previous year, an incredible performance by the team. Revenue for our EMS segment was $3.2 billion, also reflecting strong broad-based demand. Core margins for the segment were 3.1%, 80 basis points over the prior year.

Turning now to our cash flows and balance sheet. Cash flows provided by operations were $20 million in Q2, and capital expenditures net of customer co-investments totaled $152 million. We exited the quarter with cash balance of $838 million. We ended Q2 with committed capacity under the global credit facilities of $3.8 billion. With this available capacity, along with our quarter end cash balance, Jabil ended Q2 with access to more than $4.6 billion of available liquidity, which we believe provides us ample flexibility.

During Q2, we repurchased approximately 1.9 million shares for $82 million. At the end of the quarter, $254 million remain outstanding in our current stock repurchase authorization, and we intend to complete this authorization during the second half of FY '21 as we remain committed to returning capital to shareholders.

Turning now to our third quarter guidance. DMS segment revenue is expected to increase 19% on a year-over-year basis to $3.5 billion. This is mainly to strong end market outlook. EMS segment revenue is expected to be $3.4 billion, an increase of 1% on a year-over-year basis. It's worth noting our EMS business remains strong and healthy. The modest increase is reflective of our previously announced transition to a consignment model in the cloud business.

We expect total company revenue in the third quarter of fiscal '21 to be in the range of $6.6 billion to $7.2 billion for an increase of 9% on a year-over-year basis at the midpoint of the range. Core operating income is estimated to be in the range of $220 million to $270 million. Core diluted earnings per share is estimated to be in the range of $0.90 to $1.10. GAAP diluted earnings per share is expected to be in the range of $0.69 to $0.89.

Next, I'd like to take a few moments to provide an update on the long-term secular trends underway across our businesses, which we believe will drive sustainable growth across the enterprise in FY '21 and beyond.

In health care today, the industry is undergoing tremendous change due to rising costs, aging populations, the demand for better health care in emerging markets and the accelerated pace of change and innovation. Consequently, we're witnessing health care companies shifting their core competencies away from manufacturing towards innovative and connected product solutions. We're in the early days of outsourcing of manufacturing in the health care space. So on top of this, we're also seeing the impact of connectivity and digitization across health care. I expect these trends to accelerate over the next few years. Our deep domain expertise within the health care industry uniquely positions us to build technology-enabled products that help our customers excel in today's evolution of health care.

Another end market experiencing a rapid shift in technologies is the automotive market. Today, electric vehicles account for less than 2% of total vehicles in the market. Climate change, fuel efficiency and emissions are ongoing concerns, and regulatory policies worldwide are beginning to mandate more eco-friendly technologies. As a result, OEMs are making a substantial investment into vehicle electrification effort. Jabil's long-standing capabilities and over 10 years of experience and credibility in this space has positioned us extremely well to benefit from this ongoing trend.

Turning now to 5G. 5G will transform the way we live, work, play and educate. As the underlying infrastructure continues to roll out, 5G adoption is accelerating. Jabil is well positioned to benefit from both the worldwide infrastructure rollouts and with devices which will be needed to recognize the full potential of a robust 5G network.

5G is also accelerating secular expansion of cloud adoption and infrastructure growth. This, coupled with the value proposition Jabil offers to cloud hyperscalers, is helping us gain market share in an expanding market, evidenced by the significant growth over the last 3 years. The value proposition that continues to resonate with our customers is our design to test capabilities, which incorporates engineering, manufacturing and eco-friendly decommissioning of servers, all within co-located facilities. This is incredibly powerful as accelerating cycle times, security and transparency at every step the hardware life cycle become continually more important to our U.S. domiciled hyperscalers.

Shifting now to packaging. We are uniquely positioned to benefit from the global shift to smart and eco-friendly packaging. As consumers become more informed about the environmental impact of plastic waste, demand for sustainable packaging solutions is accelerating.

And then finally, within semi-cap, the demand for semiconductors has never been higher with the accelerated convergence of technologies and the associated data generation and storage needs. Nearly every part of the economy runs on silicon today. Jabil serves the semi-cap space with end-to-end solutions spanning the front end with design and complex fabrication equipment along with the back end with validation and test solutions.

In summary, I'm extremely pleased with the sustainable broad-based momentum underway across the business, which has allowed us to deliver much better-than-expected results in the first half of FY '21. As we turn our attention to the back half of the year and beyond, we fully expect the long-term secular tailwinds that are driving our business to continue. This, coupled with our improving portfolio mix and lower interest and tax expenses, has given us the confidence to meaningfully raise our FY '21 estimates for revenue, core operating income, core margins and core earnings per share. We now expect core operating margins to be 4.2% on revenue of approximately $28.5 million. This improved outlook translates to core earnings per share of approximately $5. And importantly, despite the stronger growth, we remain committed to delivering free cash flow in excess of $600 million for the year. We've been working extremely hard as a team to grow margins, cash flows and positively impact our interest and tax. I am very pleased with our team's exceptional execution of our strategy on all fronts.

With that, I'll now turn the call over to Adam.

Adam Berry - *Jabil Inc. - VP 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 information. We appreciate your understanding and cooperation. Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is from Ruplu Bhattacharya of Bank of America.

Ruplu Bhattacharya - *BofA Securities, Research Division - VP*

Congrats on the strong results. I had a couple of questions. Maybe, Mark, first question on the EMS side. You're guiding now to $13.4 billion. That's almost $1 billion higher than the previous guidance but the operating margin is still guided at 3.6%. So just curious, I mean, why isn't the operating margin target for that -- for this year for EMS moving up a little bit more. Just -- if you can just talk about the puts and takes on that.

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

Yes. Thanks, Ruplu. I feel good about where the margin -- if -- I think, you're right. When we look at the overall corporate margin for the year, we think we'll be around 4.2%, and EMS will be in the range of, I would guess, 3.6%, 3.7%. I look at that relative to fiscal '19, if I go back that far, and I think EMS in '19 was around 3% all in. Last year, we were below that. And I acknowledge that was a COVID year with excessive COVID expenses. But I feel pretty good about that business overall. I think we're doing the right things in cloud. I look at that business today in terms of a mix of legacy business, some businesses that we've gotten a bit of a nudge or help with COVID.

But most importantly, Ruplu, I think about things that Mike was talking about in his prepared remarks in terms of trends that we think are going to be around for a while, things like 5G, electric vehicles, cloud computing, clean energy. So I feel good about the year. We continue to make OpEx investments as well in the EMS segment, but I think we're on a good trajectory. I don't -- of the things I obsessed about or worry about, the condition of the EMS business for the next 2, 3 years isn't one of them.

Ruplu Bhattacharya - *BofA Securities, Research Division - VP*

Okay. Okay. And that makes sense. Just on the mobility side, I want to ask a general question. I mean are you concerned or how concerned are you about any configuration changes that might come up in the rest of the year? Can you maybe, at a high level, just talk about how prepared Jabil is this year versus in prior years about handling mobility-related volatility that can come up in the rest of the year?

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

I don't want to speculate on any configuration changes or anything like that. Our relationship in that space with our main customer there is super solid. And when I just think back about the last 2, 3 years of execution, I've got, again, very little doubt in our ability to execute on the mobility side, configuration changes or not. So again, not an area that I'm losing a lot of sleep over.

Operator

The next question is from Adam Tindle of Raymond James.

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

Mark, I wanted to start with a question on operating margin and acknowledge it's been very strong so far. Two-parter just on near term and long term moving forward. So first, on near term, your Q3 guidance implies that total company operating margin is going to be down maybe somewhere around mid-3% range or so and then back up to around 4% or so in Q4 based on the EPS guide, if I got that correct. It doesn't look like that's volume-related because revenue is going to be flattish during this time. So maybe just more color on drivers of the Q3 dip and rebound in Q4.

And secondly, you mentioned, longer term, as you exit this year with a 4 handle, the trajectory that, that puts you on as you think about fiscal '22 and beyond because you said you wanted to build on that.

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

Yes. Thanks, Adam. Q3 is always a little bit of a divot for us. And as much as we take a lot of, I don't know if the word is pride, we feel really good about the overall mix of the business, what we've done in the last 2, 3 years. But again, we always see a little bit of a soft spot in terms of enterprise level, in terms of op margin. I think you're right. Enterprise margins for Q3 will be around the 3.5% range. And again, I compare that to last year, which maybe it's nonsense because of COVID, but it's up substantially year-on-year.

I'm going off of memory, but I got to believe that if we went back to fiscal '19, we'd be up year-on-year in terms of Q3 to Q3 as well. So none of it has anything to do with reflection of the business other than for certain parts of our business, as you know, Q3 tends to be more of an investment quarter on an FX line than the other quarters. The thing that I'm focused on more than anything is beginning of the year. So we've had -- we've stung together, I don't know, Adam, 4 or 5 years where the overall enterprise op margin line has been bouncing around 3.5%. That's as we've really been focused on adding good quality growth to the company. And September, we gave an outlook that said, for the year, we'd do a 4 handle on op margin. 90 days ago, in December, we took that up to 4.1. Now we're taking that up to 4.2. So I feel -- I'm more focused on that trajectory than the quarter-on-quarter results.

And in terms of your comment, forward-looking beyond '21, we'll give more detail around that in the Investor Day in September. I had said something in my prepared remarks today around the fact that we're very focused on continuing a positive direction with margins as we get into fiscal '22, and that would be relative to the 4.2 that we hope to post this year.

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

Got it. And maybe just as a follow-up for Mike. You talked about being able to -- or the plan to generate over $600 million of free cash flow this year. Wondering if that's also something that you can build on, like Mark's comments on operating margin as we think about a go-forward basis. Or are there CapEx investments to achieve that operating margin improvement? And maybe you can just tie in your capital allocation priorities as you answer that question.

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

Thanks, Adam. Yes, definitely, free cash flow will -- I think, we've said more than $600 million for this year as we continue into FY '22, I expect that to continue to grow. Well, again, we've said this before, CapEx is something that we've been extremely disciplined on in that 2.9%, 3% range. So free cash flows next year, again, we'll give guidance in September, but I expect that to go up on a similar run rate as it's done in FY '21.

As it relates to capital allocation, Adam, we continue to be sort of well balanced. We continue with our buybacks. I talked about our buybacks. In my prepared remarks, we have $254 million left of our authorization. We intend to complete that authorization in Q3 and Q4 or in the second half of the year. So that shows that we're extremely committed to the buyback program, and that will continue into '22, '23. I don't want to preempt anything. But I'm sure we'll be continuing that progress from a buyback standpoint. Most of the -- I think we laid out a few quarters ago the capital allocation percentages. Roughly half is into buybacks, dividends. Some of it -- the balance of it goes into debt -- sort of debt restructuring and the balance would be opportunistic sort of M&A as well. So well-balanced capital allocation continues going forward, Adam.

Operator

The next question is from Jim Suva of Citigroup.

James Dickey Suva - *Citigroup Inc., Research Division - MD & Research Analyst*

Good results. If I look at your updated guidance, on the buy segment, am I correct that the 5G wireless and cloud is the one that kind of is giving you the most surprise there? And if so, are any of your segments or all of them or any of them experiencing semiconductor shortages? Or are you able to procure all the components and items needed?

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

Thanks, Jim. I assume you're talking about our 8 sectors on the blue-green slide.

James Dickey Suva - *Citigroup Inc., Research Division - MD & Research Analyst*

Yes. Correct. Correct.

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

Yes. So I'm not quite sure what you mean in terms of surprise, in terms of the uplift for sure. So I don't know that it's a surprise to us that we're seeing strength in 5G and cloud. Back in December, we knew that there was going to be some component shortages and constraints, but we've been very bullish on the 5G wireless infrastructure and cloud area of our business. So whether it's a surprise or not, it's certainly an area where we continue to see strength. And I think that's largely both on the 5G side and the cloud side. Our services and our solutions are being well accepted and embraced out in the marketplace. So I feel really good about that area of the business.

In terms of supply constraints, I would say that -- we talked about this a bit in December. Let's say, 9 months ago or so, there was demand drops everywhere based on COVID. I think that people took a lot of their demand signals, cut them abruptly. And then at least our conversations with our customers, very few people anticipated the rebound that we've seen, which largely started August-September time frame and, a bit to our surprise, has continued to be very strong through early stages of 2021. And on the supply side, again, all of that drove constraints.

One good piece of information, I think, to share is any type of supply constraints, whether it be around resin, whether it be around silicon, whether it be around passives, whether it be around mechanicals, all that's handicapped into our numbers. And I would actually say that we took a fairly deep handicap to that for Q3 and Q4. So I feel, if anything, maybe there's some slight upsides to what we've put out today, assuming that the supply constraints don't worsen.

The other thing I would say is, I think, the procurement team at Jabil is just simply the best team in the business. And if I think about our scale, if I think about our holistic approach to demand planning, whether that cuts across health care or mobility or EMS business or automotive, our team's knowledge of the marketplace, the knowledge of the commodities, knowledge of technologies and then the long-standing relationships we have, is really allowing us to navigate what otherwise is a tough component market at the moment. So I feel we're getting along and getting by quite well, all things considered on a relative basis.

Operator

The next question is from Steven Fox of Fox Advisors.

Steven Bryant Fox - *Fox Advisors LLC - Founder & CEO*

Two questions, if I could, please. First, Mark, could you just give a little more color on where the health care solutions business is on its margin journey and how it did in the quarter, maybe referencing back to when you first did the J&J deal and what you were thinking for next year?

And then secondly, just so I'm clear, based on what you just said about constraints and potential inventory builds, Mike, you're talking about still doing $600 million in cash flow -- free cash flow. Is the difference between prior thinking just basically higher EBIT offset by more inventory investments? Or are there other puts and takes?

(technical difficulty)

Operator

Please stand by, the presentation will begin again momentarily. This is the operator. The presenters have been rejoined.

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

Steve, somehow you cut off.

Steven Bryant Fox - *Fox Advisors LLC - Founder & CEO*

Sorry for breaking the conference call. Did you hear any of my questions? Or should I repeat?

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

If you could repeat them, that would be great.

Steven Bryant Fox - *Fox Advisors LLC - Founder & CEO*

Yes, sure. So first question, again, was on the health care area. So if you can provide some color into how it performed during the quarter, both top line and margin, and where you are on the margin journey, referencing back to when you first did the J&J deal.

And then secondly, I'm just trying to understand -- make sure I understand the cash flow target staying at $600 million-plus. You have higher EBIT, but it sounds like higher inventory investments. Is that basically the puts and takes versus 90 days ago? Or is there anything else?

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

Yes. Thank you. So on the health care side, I think, we're -- I think, we continue to hit it on all cylinders. Steve Borges and his team run that business. We started talking about the JJMD relationship. I don't even know how long ago now, 2, 2.5 years ago. We kind of laid out a roadmap there. And our health care team has executed nearly flawlessly to the roadmap that we laid out. So feel good about that. And then the business around the JJMD, and I talked in my prepared remarks about different trends, and the team is really focused on things like core health care, like personalized health, like digital health.

We announced sometime during the quarter another relationship that has everything to do with technology around auto injection and auto injectors. And so I just look at the technology, the investments that our health care teams are making and feel really good about that. Our health care and packaging business, Steve, last year, I think, was in the neighborhood of $4.1 billion, $4.2 billion. And I would guess as we exit this year, health care and packaging will be bumping up against $5 billion. And I think we'll continue to see good solid growth in that area for the next 2 to 3 years.

In terms of the $600 million of cash flow, it's another number that I feel really good about. And on the surface, maybe it's a little bit confusing because EBITDA is going up and margins are going up. So why wouldn't cash flow go up? We have been working diligently to continue to shape the portfolio. Our #1 focus as a leadership team is cash flows and management over the next 2, 3, 4 years. I think if we ever get to a point where, as a leadership team, we decide not to grow the company, that would be a perilous thing to do and makes no sense to us as long as we're adding good quality business, again, attached to secular trends that allow us to continue to expand margins as we look at '22 and '23.

So if I take you back to the beginning of the year, we said we'd do $26.5 billion, $27 billion in revenue. Now we're bumping up against $28 billion, $28.5 billion. And so with that -- with the additional top line, with the way the team's managing working capital, with the way the team's managing CapEx, and then Mike alluded to the fact that we're going to complete our buyback authorization by August 31 the year, so I think we're being well balanced in terms of both capital investments, OpEx investments and shareholders. I feel good about the $600 million-plus. And then we'll give an update to what I think you should anticipate as stronger cash flows as we get into the Investor Day in September.

Operator

The next question is from Paul Coster of JPMorgan.

Paul Coster - *JPMorgan Chase & Co, Research Division - Senior Analyst, Alternative Energy & Applied and Emerging Technologies*

You talked earlier of improved -- a platform for better margins in the future. And they're already improving. And I'm just wondering, Mark, if you can talk about how much of this is structural in the industry itself and how much of it is under your control. What is it you are doing today that makes you feel sure that you're locking in higher margins in the sort of medium term?

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

I don't know that it's structural to the -- to our industry. Yes, I hope so. I think if our competition can lock in higher margins, that's always good, but we're pretty inwardly focused, Paul. I think about, first and foremost, we obsess about customer care and customer solutions. And I think if we don't get that out of order, Paul, and we continue to obsess about our customers and what they need and solving their issues, the financials are following.

If I step back and I look at this fiscal year, I was noticing something over the weekend. This will be -- along with the margin trajectory, I think, this will be the first year we've ever had in the history of the company, if we execute, and that's a big capital I-F, but if we execute, we're going to string together 4 consecutive quarters where every single quarter is at or exceeds $1 per share. And that just kind of jumped off the page. But in terms of margin expansion, you asked about, is it structural, I think so. That's our plan. And that's what will allow us to take margins up from the 4.2% as we get into next year.

And I think about everything from our balance sheet, if you take a look at -- and again, now I'm coming at it a little bit more from an EPS perspective. But since you asked the question around is it structural, our balance sheet continues to improve. Net debt is going down. Interest expense is going down. Overall, liquidity has gone up. And then I take a look at the business and I look at things like, I think we have very, very good overhead and overhead costs. I think about overall demand. I think about the secular trends that we've talked about. And sometimes, that's a really, really overused term, but we are truly embedded in so many of those markets which I think are going to be around for the next 2 or 3 years.

And then the whole COVID thing, it's not behind us yet. But with the vaccine being here, we hope to have 70%, 80% of our employees globally have access to the vaccine. Over the next 6 to 8 months. It's just -- and then I think lastly, and we've been talking about this for 10 to 12 quarters is the mix of our business is as healthy as it's ever been. So I think you shake all that stuff up together. And again, I take a look at the last couple of years, margins have been around 3.5%. I think that there's a real opportunity here for us to, on a structural basis, increase margins by 100 basis points as we look forward off of that 3%, 3.5% base.

Paul Coster - *JPMorgan Chase & Co, Research Division - Senior Analyst, Alternative Energy & Applied and Emerging Technologies*

Well, maybe the follow-up then, Mark, is what is it that you're not doing? Are you able to -- it sounds like you had the choice of not doing some business because you could be satisfying your customers, delighting them even, but it could be bad business that you're doing ultimately from a margin perspective. So can you talk to us a little bit about how you shape the portfolio and what you do at the front end to prevent low-margin business coming in and hurting the overall business model?

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

I think it starts with absolute clarity of communication to the troops internally. I can tell you this. I've been with the company a long time. Where I screw things up is when I have stuff in my head with the leadership team and we don't communicate it to the group. What I can tell you on the reciprocal of that is when the group understands where we're going and why we're going there and what our purpose is, there's no better team. There just isn't. And so people understand that there's 2 things that we're focused on for the next 2, 3, 4 years, and that's continued expansion of cash flows and continued expansion of margins.

So -- and I -- and by the way, our portfolio, we kind of refer to it as a portfolio for a reason. We have some business that might be a little softer on the margin side but, based on terms, based on the business itself, have tremendous cash flows. And we have other businesses that have tremendous margin but maybe the working capital is a little richer. We have some of that in our health care space and other areas. But when you blend all that together, boy, I think there's just a picture here that we're just starting to paint. And again, we feel pretty good for the next 2 to 3 years.

To answer your question directly, we're just going to stay away from bad business. And that could mean a variety of things. But I think internally, people are pretty clear on what we're going to go after. Certainly, if we can go after business where there's going to be positive trends going forward, it's good news for everybody. But I think the organization is pretty clear about the type of businesses we're not going to go after.

Operator

The next question is from Shannon Cross of Cross Research.

Shannon Siemsen Cross - *Cross Research LLC - Co-Founder, Principal & Analyst*

I wanted to dig a bit more into the 5G wireless and cloud outlook, the increase. I'm just curious, specifically, maybe you can give some more details on what's driving that. And what I'm trying to figure out is, is this demand that would have come in the future but is being pulled in now as people start to ramp 5G? Or are you seeing market share gains? And I don't want to say, actual end market growth because, obviously, the market is growing. But how much of it is being driven by increased end demand overall? And then I have a follow-up.

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

Shannon, I'd say -- and I don't want to be -- and I don't want to be offensive by not getting into details. I would say this with a high degree of confidence. For sure, we're seeing secular trends and trends that are very positive in terms of cloud and, finally, what looks to be reasonable plans in terms of the 5G wireless rollout. So that's going to be helpful. And we think that's here to stay for not a number of months but a number of years.

And by the way, we think that's going to have all kind of tangents tied to it as well once the 5G rollout gets underway in terms of derivatives to other parts of our business. And then I think I complement that with saying, there's just been good acceptance of our solutions and our services in the space, both on the design side, I think, Mike alluded to. He was using some fancy terms around what we call kind of design to dust and repurposing older servers, and he did a nice job explaining it. It sounds a little, I don't know, overly technical or whatever.

But we've got -- when we talk about the design side all the way to repositioning and disposing of older hardware kind of front to back, I think, Shannon, the solutions we have in that space, again, it's still what I would call early days, but it have been received quite well. And I would also suggest that there is some market share wins in there as well.

Shannon Siemsen Cross - *Cross Research LLC - Co-Founder, Principal & Analyst*

Great. That was helpful. And then my second question is just on stimulus. If you think back to last summer and maybe what you -- I know it's somewhat hard to determine how much benefit you guys saw directly from stimulus. But how are you thinking about it when you gave us the guidance for this year in terms of the checks that are going to be hitting in the next few weeks?

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

Yes, thanks. Let me break up the back half of '21 with '22 and '23. I can't make sense of the U.S. equity markets anymore because I don't know how they got detached from fundamentals in so many ways. I just think that when you put $4 trillion of stimulus into the system and there's dollars everywhere, they got to go somewhere. I think that stimulus will be a bit of a driver for the next couple of quarters, maybe into 1Q of '22. But the nice thing is, so as we navigate '21, I see two things. I see certain parts of our business being driven by what I would call COVID-type behaviors. Some of those will dissipate. Some of those will maintain. I see certain parts of our business that are stimulus-related.

In certain parts of the United States right now, you go and you try to buy a truck, a car, an appliance, whatever it may be, there's backlogs everywhere, and I think that's stimulus-related. But as the impact of stimulus and the impact to COVID start to attenuate a bit and fall off a bit, I think what's right behind that is kind of no-kidding, no-nonsense secular trends.

And again, Mike talked about it, I talked about it in our prepared remarks. And I think those specific trends certainly will be a driver for our business the next 2, 3, 4 years. So it's not like I'm sitting here going, geez, when stimulus abates, when COVID types of hardware either go away or reduce, that there's not going to be other elements that continue to give us a little bit of an uplift. So I don't know if that helps or gets at your question, but that's how I see it.

Operator

The next question is from Matt Sheerin of Stifel.

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

Yes. Mark, your commentary across end markets, extremely positive. One area that you're still guiding down year-over-year is networking and storage. It looks like you took that up a little bit from $2.3 billion to $2.4 billion but still down. Could you tell us what you're seeing in that market? Is this still weakness in on-prem spend and expectations of that improving as the recovery continues post COVID?

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

Yes, sure. So the network storage business was around 2.8 in fiscal '20. September, we took that all the way down to 2.2. And again, that's a reflection of a couple of things. It's a reflection of some of the legacy business maybe starting to lose footing and lose a little traction out in the marketplace. Number two is, again, as we continue to think about our portfolio for fiscal '22 and '23, there are certain areas of that business that, when we think about our overall invested capital, might not make sense for us any longer. But the nice thing is from the September time frame to the December time frame to today, we've actually been on a trajectory back-up.

So that's nothing more than, a, we have tremendous relationships with certain customers in that space, and we'll continue to serve those customers, serve them well. And as long as they'll have us and appreciate the value we provide, we're all in. And so again, I think about 2.8 in '20, dipped down

2.2 in the last, I think, December. And today, we've taken it back up by $200 million roughly. And I would just look at -- I'd look at network and storage as a very key element of our 8-sector makeup. And I would say that even though in some of those businesses' margins might be tight, cash flows are quite good. So it's a very good complement to the other 7 sectors.

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

Okay. And then just a question regarding your packaging initiatives, particularly the eco-friendly initiatives, you just announced a big paper bottle solutions investment and plan. Could you talk more about that, the opportunity? And how important is that in terms of a growth driver for Jabil?

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

Well, it won't be much of a growth driver this year. We have to be very, very, very selective in our M&A. We are committed to returning capital to shareholders. But at the same time, and I made this comment around growth, if we ever get to a point where we're not growing the company, then shame on us. But we have to do so in a margin-friendly cash flow-friendly way, which is, I think what I hope this year's results will start to prove out.

And as part of that, the good news is, almost all of our material growth is organic, which is the best growth to have by two magnitudes. But we will continue to complement that with select M&A activity. And for us to put some dollars in play with the acquisition you're talking about is a wonderful company with wonderful people and great leadership, a company called Ecologic. We are very excited about the platform that they've developed.

And we always ask ourselves the question, when we're looking at acquisitions, we start with culture alignment, we start with capability and competency. And then what are we going to do with the business when we own it strategically, we have a wonderful roadmap internally around sustainable packaging. And this is kind of a second or third step for us. We believe that we'll be able to take that technology. And as we look towards fiscal '22, '23, give that technology its due in terms of further R&D, and then giving that technology exposure to maybe bigger brands that we support based on our balance sheet, our scale and our relationships.

Operator

The next question is from Mark Delaney of Goldman Sachs.

Mark Trevor Delaney - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

The company is doing very well on margin and guiding to 4.2% for this year despite what I would think are some temporary cost headwinds related to the supply chain environment, including shipping costs or some of these component shortages that the whole industry is having to deal with. Can you talk about how much of a headwind the company may be seeing from some of those supply chain types of costs this year? And if we were to add that back, do you think that's more representative of the underlying margin levels that the company can hopefully build off of going forward? Or are there any other temporal factors that we should be thinking about that's influencing margins this year?

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

Yes. Thanks, Mark. Geez, I said earlier, we've certainly handicapped the business for Q3 and Q4, and I think our handicap has been appropriate. So I think that in and of itself might suggest that if we didn't handicap the business, maybe margins would be 4.3% for the year. I wouldn't get much ahead of that. But I also mentioned earlier, Mark, the method. The method to our madness in terms of supply chain management, it's wonderful.

And just listening to others, either a few customers, suppliers or folks in our industry, we're navigating this thing beautifully. And it's a tough deal. But the impact to us, I think, will be minimal on a relative basis. And again, as we sit here today, we had a debrief from our entire procurement team last week, and we feel like this thing will start to show levels of relief as we get into 1Q of '22 and for sure, as we get into calendar '22. So to frame out that time frame, call it, September-October-November time frame, we'll start seeing relief. And then I think things will be back to more normal conditions, call it, January, February, March of '22.

With that said, again, we gave the guidance we gave to today for Q3 and Q4 and it's something we feel confident in. And as I mentioned earlier, when you look at margins, 4.2 for the year, I think, we're going to continue the effort to have an upward trajectory of that as we get into '22, even with considerations of near-term supply chain issues.

Mark Trevor Delaney - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

That's very helpful. My follow-up question was on the EV opportunity, and automotive has been a growing business for Jabil and an area, I realize, that Jabil has a lot of capabilities in already. Foxconn is moving to diverse -- or brought it out its business and doing full electric vehicle architectures and even final car assembly. I'm interested if that's the type of business that Jabil would also consider expanding into within the automotive and EV space.

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

I think it's far as to think that we're all set up automotive factories. The capital intensity of that is enormous, and I don't want our people focused away from what we do really, really well, which is sensors, components, subassemblies for the entire automotive space, and thank you for the compliment on that. We do have a very good track record in automotive. One of the strategic decisions we made 2.5, 3 years ago was -- is all hands-on in terms of really focusing hard on electrification and EV not just with automobiles but all the transportation. And I think that decision is paying dividends to us.

When you think about the term electrification, that would suggest right in our core, and the R&D dollars and the investments we've made in that area have been substantial. So I feel pretty good about how we're positioned there, and we'll see how that plays out for '22 and '23. If I had to speculate and make a little bit of a guess today, I think, today, we look at that, the 8-sector chart in FY '20, automotive transport was about $1.7 billion; September, we took that up to $1.9 billion. We're sitting here today saying it will be a bit over $2.2 billion. And I would -- if I had to venture a guess today, I would say that the trajectory of that sector as we move through '22 is going to continue to be up and to the right.

Operator

This now concludes our call. Thank you for your interest in Jabil. You may disconnect your lines at this time. Thank you for your participation.
