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JBL.N - Q4 2021 Jabil Inc Earnings Call

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OVERVIEW:

Co. reported FY21 revenue of \$29.3b. 4Q21 net revenue was \$7.4b, GAAP operating income was \$265m, core operating income was \$314m, GAAP diluted EPS was \$1.16 and core diluted EPS was \$1.44. Expects FY22 revenue to be \$31.5b and core EPS to be \$6.35. Also, expects 1Q22 total Co. revenue to be \$8.0-8.6b, GAAP operating income to be \$321-381m, core operating income to be \$365-425m, GAAP diluted EPS to be \$1.40-1.61 and core diluted EPS to be \$1.70-1.90.

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PRESENTATION

Operator

Greetings, and welcome to Jabil's Fourth Quarter and Fiscal Year 2021 Earnings Conference Call and Webcast. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Adam Berry, Vice President, Investor Relations. Thank you. You may begin.

Adam Berry - Jabil Inc. - VP of IR

Good morning, and welcome to Jabil's Fourth Quarter of Fiscal 2021 Earnings Call and Investor Briefing. We have a great session planned for you today. And as an organization, we're excited to provide you with a little extra detail about our business as typical for our September call. Over the next 60 minutes or so, we will review our strong fourth quarter and fiscal 2021 results, followed by yet another great outlook for fiscal 2022. As usual, you will hear from both Mark Mondello, our CEO; as well as Mike Dastoor, our CFO.

Along this journey, we'll discuss our approach to the end markets we serve, the uniqueness of our supply chain solutions and the innovation underway within our global network of factories. Additionally, throughout our presentation today, we will do our very best to help you understand what makes Jabil so unique and so special. And we'll kick that right off with the following brief video.

(presentation)

Adam Berry - Jabil Inc. - VP of IR

Such a great video. As we all know, the world is complex and only getting more so each and every day. But as Mark often says, our people are our greatest differentiator and that couldn't be more apparent as you visit our global network of factories and meet the roughly 260,000 people that make Jabil's foundation so strong. To our people, thank you again for all you do to help keep the world connected despite a seemingly never endless set of new challenges thrown your way.

Our foundation is solid. Through over 50 million square feet of manufacturing space and 100-plus sites, our people strive to make anything possible and everything better for over 400 of the world's most recognizable brands. Our agility and global scale enable us to respond quickly and flexibly to meet customer needs in key end markets, like mobility, industrial and semi cap, automotive and health care, just to name a few.

These wide-ranging end markets represent a diverse and thoughtfully designed portfolio that, over the years, has helped reduce volatility and improve the reliability of our financial results. To help illustrate our diversification strategy over the past few years, I'd now ask that you turn to the next slide, which shows our revenue growth and the end markets we serve.

As you may know, the EMS industry has long struggled with customer concentration, and this dynamic has created a lot of variability in operating performance from one year to the next. In 2016, our management team concluded that our model was missing an important characteristic if we were going to deliver upon our financial priorities consistently and sustainably. This important characteristic was product diversification.

So beginning roughly in the 2017 time frame, we embarked on a journey to grow and diversify our business in areas such as 5G, cloud, health care, packaging, connected devices, automotive and semi capital equipment. As a result of our efforts to diversify the business, revenue has grown rapidly. And since 2017, we have added more than \$10 billion in revenue across several key end markets. And it's important to note this growth has been very intentional and focused.

Moving to the right side of the chart, you'll see the composition of our \$29.3 billion in revenue, and you'll likely notice that no end market dominates our diverse portfolio. In each of these areas, Jabil partners with some of the world's most recognizable companies to accelerate their speed to market through product engineering, supply chain design and, of course, manufacture.

In health care, think of drug delivery systems, such as inhalers and insulin pens, diagnostics, medical devices, orthopedics and instruments that all meet exacting FDA standards. Our health care business serves programs and products with long stable life cycles of 10 to 20 years with high cost of change, thus providing stable earnings and cash flows.

In packaging, we design and manufacture highly engineered rigid plastic packaging for many leading consumer brands, bringing to bear capabilities in ideation, product design, material scientists and ecofriendly barrier technologies. Within mobility and connected devices, we generally focus on machining, tooling and molding of highly engineered plastic and metal parts, leveraging a strong product development skill set.

In areas such as digital print and retail, we're focused on 3D print, large form factor printing and retail automation. And in industrial and semi cap, 5G wireless and cloud and networking and storage, we participate in the design, product development, industrialization and manufacturing of some of the most sophisticated tech products on the marketplace today.

And then in automotive, the bulk of our business focuses on the electrification of auto supported by a nearly 10-year relationship with the world's leading EV company. So from mobility to retail automation to complex heavy industrial equipment, Jabil helps customers navigate large complex material supply chains while effectively managing change, mitigating risks and delivering quickly and efficiently.

In summary, our business has grown rapidly over the last several years to serve a diverse blend of end markets that today are benefiting from long-term secular trends. And again, this gives us the confidence and comfort to not only provide financial guidance more than one quarter out, but also invest in things like factory innovation. And when you drill down one level deeper, you'll again notice an incredibly diverse set of customers, representing some of the largest, most innovative and successful organizations in the world today. This by no means is a complete list of the customers we serve, but it's certainly impressive by any standard, especially when considering many of these customers rely on Jabil as the sole source for their products.

I'm sure most of you recognized some of our incredible partners such as Apple, HP, Ericsson, Amazon, Cisco, John Deere, Tesla and J&J. In all of our customer relationships, we're incredibly focused on delivering consistent value and reliable value from early in the product life cycle, like product innovation and design, to more mature products where we offer planning, automation, supply chain management and, of course, manufacturing.

At the end of the day, we build stuff at Jabil, and we do it really, really well. This leads me to our financial priorities as a management team. We're squarely focused on 3 areas: expanding operating margins, increasing earnings per share and generating strong cash flows. In fact, this focus has been further sharpened as we've embedded core margins, core earnings per share and free cash flow within our short-term and long-term compensation programs as we believe this effectively aligns management and shareholders. And over the next several minutes, we plan to provide you with a credible plan to improve all of these 3 metrics in fiscal '22.

Following me today will be Mike who joined Jabil in 2000 as a regional controller based in Hong Kong. Mike will walk you through our fiscal '21 results and our robust financial plan for fiscal '22. He will also spend some time highlighting our end markets and discussing some of the trends which should drive our business for many years to come. Then Mark, who joined Jabil in 1992 as a manufacturing supervisor, will share some of the value that Jabil provides to its customers through our people, our culture and our best-in-class manufacturing capabilities.

Before handing the call over to Mike, I'd now ask that you follow our presentation with the slides on the website, beginning with our forward-looking statement. During today's presentation, we will be making forward-looking statements, including, among other things, those regarding the anticipated outlook for our business in the first quarter of fiscal '22 and beyond. 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 Mike.

Michael Dastoor - Jabil Inc. - Executive VP & CFO

Thank you, Adam, and thank you for joining us today and for your interest in Jabil. As Adam highlighted, our business model is fundamentally structured to deliver core margin expansion and strong predictable cash flows, and our capital structure has been optimized to maximize our flexibility. This flexibility has enabled us to reshape our end market portfolio over the last several years, and in the last 18 months, our strategy has been pressure tested. And our diversified, well-balanced portfolio performed extremely well evidenced by a solid Q4 and exceptionally strong FY '21 results.

In Q4, the teams in both segments successfully managed to navigate an incredibly dynamic supply chain environment. During the quarter, demand continued to be broad-based and robust, but revenue came in slightly lower than expected due to some incremental tightness in the supply chain, mainly in health care, industrial and cloud. This was partly offset by upsides in connected devices and networking and storage.

Despite this, our core operating margin performance in the quarter was quite strong coming in at 4.2%, approximately 10 basis points higher than expected, a testament to our team's execution in the quarter, solid cost optimization and our ever more resilient end market portfolio. In Q4, our interest and tax expense also came in better than expected, which when combined with the strong margin performance allowed us to deliver strong core diluted earnings per share in Q4, putting it all together on the next slide.

Net revenue for the fourth quarter was \$7.4 billion, up 1% over the prior year quarter. GAAP operating income was \$265 million, and our GAAP diluted earnings per share was \$1.16. Core operating income during the quarter was \$314 million, an increase of 23% year-over-year, representing a core operating margin of 4.2%, a 70 basis point improvement over the prior year. Net interest expense in Q4 was \$36 million, and core tax rate came in at approximately 22.3%. Core diluted earnings per share was \$1.44, a 47% improvement over the prior year quarter.

Now turning to our fourth quarter segment results on the next slide. Revenue for our DMS segment was \$3.9 billion, an increase of 9.7% on a year-over-year basis. The strong year-over-year performance in our DMS segment was broad-based with strength across our health care, automotive and mobility businesses. Core margin for the segment came in at 4.1%, 20 basis points higher than the previous year. Revenue for our EMS segment came in at \$3.5 billion, down 6.4%, primarily driven by our previously announced transition to a consignment model. Core margin for the segment was 4.3%, up 120 basis points over the prior year reflecting solid execution by the team.

For the year, our DMS segment revenue was \$15.4 billion, an increase of 17% over the prior year, while core operating income for the segment was up an impressive 49% year-over-year. This resulted in core margins expanding 110 basis points to 4.8%, reflective of our improved mix. In EMS for the year, core margins were also up strong, coming in at 3.7%, 100 basis points higher than the prior year on revenue of \$13.9 billion.

Turning now to our cash flows and balance sheet. Net capital expenditures for the fourth quarter were \$202 million and for the full fiscal year came in better than expected at \$793 million or 2.7% of net revenue.

We sometimes hear from investors seeking clarification on our net CapEx, so I'd like to take a moment to walk you through the components. As a reminder, our customers sometimes co-invest in plant, property and equipment with us as part of our ongoing business model. We often pay for these co-investments upfront, which are then subsequently reimbursed to us by customers. The line item acquisition of property, plant and equipment on our statement of cash flows includes the full upfront payment made by us. The reimbursements by our customers are reflected as a sale of assets in the line item proceeds and advances from sale of property, plant and equipment on our statement of cash flows. The net of these 2 items reflects our true spend and what we refer to as net capital expenditures. In Q4, inventory days came in higher than expected at 71 days, an increase of 3 days sequentially, driven by the previously mentioned incremental tightness in the supply chain. While these higher inventory days may continue in the short term, we expect it to normalize below 60 over the mid- to longer term.

The management team continues to be fully focused on this metric, particularly in the current environment. In spite of this, our fourth quarter cash flows from operations were very strong, coming in at \$762 million. As a result of the strong fourth quarter performance and cash flow generation, adjusted free cash flow for the fiscal year came in higher than expected at approximately \$640 million.

We exited the quarter with total debt to core EBITDA levels of approximately 1.4x and cash balances of \$1.6 billion. During the fourth quarter, we repurchased 2.9 million shares, bringing total shares repurchased in FY '21 to 8.8 million shares or \$477 million. This brings our cumulative shares repurchased since FY '13 to approximately 90 million shares at an average price under \$27, bringing our total returns to shareholders, including repurchases and dividends, to approximately \$3 billion, reflective of our ongoing commitment to return capital to shareholders.

In summary, I'm extremely pleased with the resiliency of our portfolio and sustainable broad-based momentum underway across the business, which has allowed us to deliver exceptionally strong results in fiscal '21.

Next, I'd like to take a few moments to highlight Jabil's unique position across multiple end markets benefiting from long-term secular trends and the convergence of technology in our day-to-day lives. We believe these trends will continue to drive sustainable growth and margins across the enterprise in FY '22 and beyond.

In health care today, on the next slide, 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 continue to be in the early days of outsourcing of manufacturing in the health care space.

Our strategic collaboration, which we have highlighted in previous years, has enhanced our credibility within the industry and has further enabled Jabil to benefit from this outsourcing trend. On top of this, we are also seeing the impact of connectivity, digitization and personalized care 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 which help our customers excel in today's evolution of health care.

Another end market experiencing a rapid shift in technologies is the automotive market. Climate change, fuel efficiency and emissions are ongoing concerns, and regulatory policies worldwide are beginning to mandate more ecofriendly technologies. As a result, OEMs are making substantial investments into vehicle electrification efforts. The bulk of our automotive business is focused on electrification of cars, which we believe still has plenty of room to grow. Over the next 3 years, we expect the fastest-growing area of our auto business will be in what's known as ACE, autonomous, connectivity and electrification. Today, electric vehicles account for a small fraction of total vehicles in the market, but the EV segment overall is growing rapidly and gaining a larger share of the total vehicle market. Jabil's long-standing capabilities and over 10 years of experience and credibility in this space have positioned us extremely well to benefit from this ongoing trend.

We are also extremely well positioned to build the infrastructure that will power tomorrow, be it cloud, semi cap, 5G infrastructure and the associated connected devices, or power generation and energy storage. 5G is expected to 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 the 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. In power generation and energy storage, we offer differentiated solutions across the entire energy value chain from energy generation, power conversion, transmission, storage and metering to the management of power inside of homes and buildings. In this space, we serve a diversified set of customers across numerous markets, including oil and gas, wind, power inverters and converters, smart meters, smart grid communications, building automation, home automation and energy storage.

As the convergence of technology in our day-to-day lives accelerates, demand for semiconductors has increased exponentially, which has generated a huge backlog in this industry. Jabil is well positioned to help customers in 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.

So what do all these trends translate to in terms of Jabil? You can see our revenue growth expectations by end market in the coming fiscal year. In FY '22, in spite of supply chain headwinds, we expect incredibly strong growth in automotive and continued solid growth in health care and packaging, industrial, semi cap, 5G wireless and cloud. Today, both segments are in great shape. We've repositioned our business to serve critical and long life cycle products while also providing the foundation for predictable, yet strong cash flows and margins.

For FY '22, we expect both gross profit margins and core operating margins to improve 30 basis points over the prior year, mainly driven by our end market growth and improved mix of business. We also expect the investments to be made in areas such as IT, automation and factory digitization will drive improved optimization across our footprint, which will translate to higher margins. We expect these gains will be slightly offset by continued tightness in the supply chain, especially in the first half of our fiscal year.

However, we're incredibly confident in our team's ability to successfully execute in this market given our track record over the last several years. Key to executing amidst an incredibly dynamic environment is our expertise and the investments we made in our IT and supply chain. We've got the tools and technologies that allow us to progressively manage with analytics and data some of the most complex supply chains in the world. This has certainly been evident over the last 2 years. Let's hear from our supply chain leaders and how they're executing for our customers.

(presentation)

Michael Dastoor - Jabil Inc. - Executive VP & CFO

I would like to take a moment to thank the entire supply chain team from the leaders we just heard from to our teams in our factories who have helped our customers navigate through some very complex supply chains.

Turning now to our CapEx guidance for FY '22. Net capital expenditures are expected to be in the range of \$830 million or 2.6% of net revenue. This will come through a combination of both maintenance and strategic investments for future growth. Let's talk about our maintenance CapEx for a moment. We now have 100 sites in more than 30 countries. At this scale, our factories require approximately \$500 million in annual maintenance investments. Areas of investment are inclusive of IT and data analytics, automation and factory digitization, which will drive innovation across our footprint. This, along with upgrading of our equipment sets based on appropriate cost benefit analysis, will improve first pass yields and help reduce ongoing maintenance costs.

We are also investing in strategic growth in targeted areas of our business that are expected to deliver strong margin expansion and free cash flow. The bulk of our strategic growth CapEx will be in the health care, automotive, 5G wireless, power generation and energy storage, semi cap and ecofriendly packaging end markets. All of this positions us well to deliver higher margins as highlighted earlier in my margin waterfall slide.

Our improved profitability, strong operational performance and disciplined investments have yielded significant cash flows over the last few years, which has allowed the company to strategically invest in higher return areas of our business. Moving forward, we expect to continue generating strong cash flows in spite of higher working capital associated with our robust growth in targeted areas I highlighted earlier. This is possible as a result of earnings expansion, along with our team's disciplined approach and ability to execute. In FY '22, we expect to generate adjusted free cash flow of \$700 million. As I mentioned earlier, we've intentionally targeted higher return areas. In doing so, we're focused on end markets that offer higher profitability and good cash flow dynamics. This discipline has translated to much higher returns on invested capital.

Moving forward, we will continue to prioritize investments in areas of our business with higher margins, which we expect will translate into strong returns. Another key aspect of delivering higher returns and delivering long-term value to shareholders is ensuring our capital structure is appropriately balanced and optimized. Over the last few years, our team has done an outstanding job of building a solid and flexible debt and liquidity profile with current maturities appropriately staggered and at very attractive interest rates. We ended FY '21 with committed capacity under the global credit facilities of \$3.8 billion. With this available capacity, along with our year-end cash balance, Jabil ended the year with access to more than \$5.3 billion of available liquidity, which we believe causes forges ample flexibility. And importantly, we are fully committed to maintaining our investment-grade credit profile.

Turning now to our capital allocation framework. In fiscal '22 and beyond, we expect to generate significant free cash flow. Given this dynamic, I thought it would be appropriate to reiterate our capital allocation priorities and at a high level how we plan to deploy our capital over the next 2 years. As a reminder, in July earlier this year, we announced a \$1 billion buyback authorization from our Board of Directors over the next 2 years. Our capital return framework beyond organic investments will continue to prioritize commitment to our dividend, share repurchases and a combination of targeted M&A and capital structure optimization. Moving forward, we are comfortable with our ability to generate strong cash flows and will remain balanced and thoughtful in how we allocate our capital.

Turning now to our first quarter guidance on the next slide. DMS segment revenue is expected to increase 10% on a year-over-year basis to \$4.7 billion, while the EMS segment revenue is expected to be \$3.6 billion, consistent with the prior year. We expect total company revenue in the first quarter of fiscal '22 to be in the range of \$8 billion to \$8.6 billion. Core operating income is estimated to be in the range of \$365 million to \$425 million. GAAP operating income is expected to be in the range of \$321 million to \$381 million. Core diluted earnings per share is estimated to be in the range of \$1.70 to \$1.90. GAAP diluted earnings per share is expected to be in the range of \$1.40 to \$1.61 (sic, see slide 6, "\$1.41-\$1.61"). The tax rate on core earnings in the first quarter is estimated to be approximately 25%. As we transition to my final slide, you can really begin to see the earnings power of a diversified and balanced Jabil.

Today, our business serves a diverse blend of end markets in areas that provide confidence in future earnings and cash flows. We have deep domain expertise complemented by investments we made in capabilities, all of which gives us confidence in our ability to deliver 4.5% in core margins in FY '22 along with \$6.35 in core EPS and \$700 million in free cash flow. And importantly, our balanced capital allocation framework approach is aligned and focused on driving long-term value creation to shareholders.

I'd like to thank you for your time today, and thank you for your interest in Jabil. I'll now turn the call over to Mark.

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

Thanks, Mike. Good morning. I appreciate everyone taking time to join our call today. I'll begin by saying thanks to all of our employees here at Jabil. Thank you for hanging in there during these trying times, while never compromising the safety of our people. Your attitude is amazing and your stamina is incredible. It was your collective body of work that drove the terrific results we just posted.

Results you delivered while overcoming COVID quarantine mandates, supply chain challenges, factory inefficiencies and in many cases, a lack of face-to-face interaction. Fiscal '21 came in well ahead of plan, resulting in a core operating margin of 4.2%. All in all, a really nice year across all fronts.

Today marks our fourth annual investor session, a session where we take a little extra time to lay out the groundwork for the upcoming year. As you heard earlier from Adam and Mike, our business is strong and what we're doing is working. Much of our progress comes from the construct and the pedigree of our company.

So let's start with our approach, beginning with diversity, equity and inclusion. We know that each employee is critical to our success and has the right to be treated with dignity and respect each day and every day. At Jabil, we operate our business in 30-plus countries. We employ people that don't look the same, don't talk the same, people that practice different religions, have different sexual orientations, people with physical limitations and neurodiversities. We understand that the current diversity of our team simply makes us better, but we have so much more work to do, and we're holding ourselves accountable through actions. An example of the type of actions we're taking is the addition of our internal DE&I council, which was established in 2020, a 9-person council which guides us and advocates for the broader Jabil.

We also co-chaired an external DE&I certification program, a program attended by 165,000 participants, of which the vast majority earned their formal certificates. And one other example is around the upcoming 2022 Special Olympics, where Jabil is a premium sponsor for the U.S. games. And the best part of our partnership with Special Olympics is that it offers our employees the opportunity to spend time with the athletes and their coaches. So in summary, our team continues to safeguard our work environment and does so with the acceptance of individual differences.

A second aspect of our approach pertains to the area of ESG, where we aim to always do what's right. Much like our effort with DE&I, our behavior around ESG is grounded on actions. An example of one of our actions is our greenhouse gas emissions, where our goal is a 25% reduction by 2025 and a 50% reduction by 2030.

Another set of actions that we have underway are directed towards our heightened focus on mental health, a topic that impacts most all of us, either directly or indirectly. And one final action worth mentioning is our commitment to giving back. Our employees will look to complete 1 million volunteer hours in aggregate during calendar 2022. What a positive difference this will make throughout the communities where we work and we live. As you might sense, DE&I and ESG are important elements of who we are, and they set the foundation for our approach.

Next, I'd like to talk about our solutions and how they're enabled by our structure, our investments and our customers. Our structure enables our collaboration, which allows us to move with precision and speed. Our investments enable our execution which allows us to take the ordinary and apply the extraordinary. And our customers enable our obsession, which allows us to solve the complex.

So not to be overly simplistic, but at the center of Jabil's core, we build stuff. That's just what we do. Therefore, we'll continue to be aggressive with our investments in the areas of factory automation, robotics and machine learning. And to help illustrate how we apply and leverage these investments, I'd now like to share a short video.

(presentation)

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

Thanks, JJ. Thank you, May. What powerful messages. And to all of our employees that spend long hours on our factory floor day in and day out, thank you. Thank you for taking great care of our customers.

As we move to our next slide, you'll see a colorful pie chart which illustrates the current makeup of our commercial portfolio. Today, our business is diversified and diversified at scale. This provides Jabil a real competitive advantage when we consider the performance and balance of earnings.

I'd now like to go a degree deeper into the makeup of our business. These 8 sectors exhibit the diversified nature of our revenue, with each sector having a material contribution to our results. We've been very diligent in pursuing the end markets we serve. We've also spent significant time successfully positioning the company to capture possible tailwinds offered by various secular trends. This portfolio is a wonderful mix of cash flows and margins. And for sure, the composition of our business is a catalyst for our FY '22 outlook.

As we now look at our plan for fiscal '22, you can see the earnings power of the company. We look to deliver a core operating margin of 4.5% on revenues of \$31.5 billion, a 30 basis point expansion when compared to fiscal '21. This translates to \$6.35 in core earnings per share or 13% earnings growth year-on-year.

In wrapping up our fiscal '22 forecast, I'd like to note that our strategy is well understood across the company, and what needs to be done is crystal clear. If we take our FY '21 results and our FY '22 guidance and step back just a bit, this aperture suggests that what we're doing is in fact working. This slide offers a fantastic backdrop to our ongoing story. All in all, I feel good about where we've been, but I feel even better about where we're going.

Moving on from our financials, I'd like to talk a bit about our purpose. As a management team, we have a purpose that serves as our ultimate guidepost. Our purpose enables our path and does so with an emphasis on caring, integrity and proper intentions. Speaking of our path, our path forward is formed by the beliefs shown on this slide. For FY '22, we'll trust in these beliefs as we work to deliver to our commitments. For me, we'll measure our success based on financial performance. But we'll also measure our success based on keeping our people safe, customer care and improving in the areas of ESG and DE&I.

If our team accomplishes all of the above, it will be another year of humble achievement. One additional thought as I wrap up my prepared remarks. As we consider our outlook for fiscal '22 and the current trajectory of margins and cash flows, it's clear that our journey is nowhere near complete.

In closing, we've made tremendous progress as customers and shareholders remain at the forefront of our actions. To our entire Jabil team, thank you for making Jabil, Jabil. Most importantly, I want each of you to always be your true self without fear or anxiety, without harm or recourse. I'm honored to serve such a trustworthy team. With that, I'll now turn the call back over to Adam.

Adam Berry - Jabil Inc. - VP of IR

Thanks, Mark. As planned, we shared quite a bit over the past hour. To summarize, we began by describing how Jabil has undergone deep and sustainable improvements to its business model. And we highlighted the solid foundation upon which Jabil sits today. Then Mike walked you through our financial results and outlook, which demonstrate the strength of our portfolio, which has been structured to navigate varying fluctuations in demand while also benefiting from long-term secular tailwinds. And finally, Mark shared with you our unique approach, solutions, portfolio and path forward. These truly are exciting times at Jabil. I'd like to thank you for your time, and we appreciate your interest. Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from the line of Adam Tindle with Raymond James.

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

Mark, you talked about diversification into secular trends, auto, health care, cloud. And I couldn't help but notice reference customers like Tesla, J&J and Amazon. I was just wondering if you could maybe talk through the new customer acquisition efforts, the sales motion to perhaps leverage this reference customer list. And if you could maybe tap into pipeline and timing because I couldn't help but notice over 40% auto growth expected in fiscal '22. I'm wondering if maybe there's some new logos in there.

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

Thanks, Adam. I want to get into -- we just -- over the years, we may be right or wrong, we have a reluctance or hesitancy to dig too deep into new wins and new customer wins. A lot of that is at the beck and call of the customers themselves. I'd say this. Just very rough math, right? If you look at kind of fiscal '19 to fiscal '20, we grew our top line at scale like 7%, 8%. So in '19, we're just a hair over \$25 billion. We took the company to like \$27 billion in '20. That was a COVID year, as everybody knows. Then we go from '20 to '21, we had another \$2 billion of revenues. That's another 7%, 8% growth at scale. And now if you take a look at the outline that Mike and I provided, outlook for '22 is, call it, \$31.5 billion. That's another 7% or 8%. The vast majority of those gains from, say, fiscal '18 to fiscal '22 are organic in nature. And I would say that our organic pipeline continues to remain awfully robust. Again, we gave a lot of thought to the outlook and how we wanted to guide '22. We wanted to be sure we handicapped it appropriately for things like the ongoing supply chain issues.

So I -- and when you think about the growth rates on both Mike's -- I think Mike had 3 areas where growth rates were double digits. Automotive and transport or transportation was one. I think digital print and retail was one, and then the health care area. So -- and then right behind that, we had other areas of growth of the 8 sectors that were strong single digits. So I think maybe a way to think about that, Adam, is, I would say, our organic pipeline today on a gross basis is probably \$4 billion, \$5 billion. Again, as we think about fiscal '23 and the maturation and how long it takes to kind of germinate all those organic opportunities. But if we were to divvy that up, I think the -- I think what you'd see is, is we got pretty good growth across the board or at least 6 of the 8 sectors.

And I do think, I think I feel like the grossly overused term in the world today is the secular trends. It seems like, it's kind of like back in the day with IoT and digitization and other things, I think it's used a lot. But I think Mike did a really nice job of hitting some secular trends that, at least for our business where we sit today, are very, very real. And we think will -- all things being equal, will provide some nice tailwinds for us for the next 3 years.

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

Got it. That's helpful, Mark. And just maybe as a follow-up, Mike, I wanted to touch on normalized free cash flow. I know you're guiding to \$700 million for the year. How much is related to supply constraint or working capital? Because I think if I back into your net income guidance, it's over \$900 million. So wondering how to think about normalized free cash flow.

Michael Dastoor - Jabil Inc. - Executive VP & CFO

There is an element of supply chain constraints and the impact on inventory that's included in that \$700 million. I think you've got to look at it from a growth perspective as well. We're growing revenue by \$2.2 billion over '21 to '22. That comes with associated working capital as well. So for us to go from \$640 million to \$700 million in spite of us growing revenues by \$2.2 billion or 8%, is pretty healthy. And I think the management team is fully, fully focused on free cash flow. So I feel good. We're looking at working capital. We're looking at CapEx. So it will be \$700 million. Can it go higher if things loosen their grip a little bit on the supply chain constraints? Absolutely. But at this stage, \$700 million is a pretty strong free cash flow number, I think.

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

Adam, if I could interject, I think, and listening to Mike respond to that, if you do think about the growth, we've been on largely organic, the working capital needs and then you do think we've gotten a little bit fluffy on inventory based on the supply chain challenges. As that stuff kind of plays out through fiscal '22, if we could imagine fiscal '23, there's an opportunity in fiscal '23 for us to deliver even stronger cash flows.

Operator

Our next question is coming from Steven Fox with Fox Advisors.

Steven Bryant Fox - Fox Advisors LLC - Founder & CEO

Mark, you guys took a much earned victory lap on the diversification story with the presentation. So I was just curious, as we think about diversification going out maybe 2, 3, 4 years, how do you think your mix changes? And what would the impact be on operating margins? And then I have a follow-up.

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

I don't know. To try to speculate how it changes, I would tell you that we have no intention of -- we've been on a journey for 5, 6, 7 years. We've talked repeatedly about the fact that back 6, 7 years ago, and I think Adam alluded to it, which I really liked in his prepared remarks in terms of historically in our industry -- and the industry has changed substantially. But EMS companies would get overweighted on, on a single customer. And I think with that comes risk. I look at the job our team has done and it's unbelievable in this one area for sure.

And you look at that pie chart that we put up during the presentation. We think diversification is so important again, just because it absolutely drives resiliency. How that might look -- how might that look 3, 4, 5 years from now? I can tell you that it will look however it needs to look for us to continue to drive margins and cash flows. And when you look at our business today and you go back to that pie chart in the presentation, there are some slices of that pie chart that deliver both margin and cash flows. There's some parts of that pie chart that deliver very strong cash flows and support margins. And then there's other parts of that pie chart that deliver really good margins and support cash flows. So when I think about the collective pie, if you will, boy, it has us positioned really well. And I do think that hangs with us for the next 2, 3, 4 years.

Steven Bryant Fox - Fox Advisors LLC - Founder & CEO

Great. That's helpful. And then just secondly, at the risk of using the word secular trend, but the 5G trend is pretty strong. But your connectivity and mobility markets, it doesn't look like you're looking for much growth this year. I was just curious if you could tie those points together and explain that a little bit more.

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

Yes. I think there's a couple of things going on there. We're -- depending on whether you're looking at a proxy of kind of '19, '20 to '21, '22 or you're looking '21 to '22, one thing that we've transitioned to in that sector is a consignment model. Again, that should have -- that will play out by the end of '21, early '22. So -- and then overall, I think one of the things that's going on in that marketplace is, I think we're doing a very, very good job in terms of our solutions and services to hyperscalers and cloud. But the other thing that's going on there is the -- we were a very, very material partner in terms of wireless infrastructure.

And so in some of that as infrastructure comes forward, there's going to be kind of a swap out or a conversion from legacy 2.5G, 3G, LTE, et cetera, to 5G. So on a net revenue basis, maybe the growth rates won't be as reflective as maybe what you alluded to is. For sure, 5G cloud-based infrastructure, I would agree with you in I think it is a secular trend. But in terms of Jabil's portfolio, there's going to be kind of a swap out or a conversion of hardware. So I don't -- I forget the number that Mike put up, but I think the growth rate in that area was like strong single digits, which, by the way, we really like. But I think that's the main reason for it. We are positioned very, very well for anything to do with wireless 5G cloud infrastructure type of secular trends, we're positioned very, very well.

Michael Dastoor - Jabil Inc. - Executive VP & CFO

And Steve, if I could just add a little bit on the mobility piece. We've been pushing for diversification as a company. We've been pushing for diversification from a product standpoint. We think we're getting there. We're being extremely disciplined on CapEx and on our free cash flow. So I think the mobility piece, the lack of growth there is something we watch very carefully, and it's something we're actually pushing towards.

Operator

Our next question is coming from Jim Suva with Citigroup.

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

Regarding the challenges in the supply chain, kind of where you sit today, is it kind of stabilizing a little bit or getting incrementally better or incrementally more challenged? And the reason why I ask is, hopefully, COVID at some point gets behind us. But you also now hear discussions about power outages in China and rationing of power and things like that. Are those impacting you? Or how should we think about that? And relative to your outlook, is it kind of the same amount of cushion? Or are you building in a little bit more?

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

Thanks, Jim. I don't know where to start with that. I would say we've -- as we've indexed through '21, you take a look at -- every single quarter, Mike and I get together along with Steve Borges, Mike Loparco, Kenny Wilson, our ops group, and we kind of hold hands, look hard, hard at the business. And then risk adjust accordingly, give guidance and then work really hard to deliver to our guidance and our commitments.

I think we did that really, really well, Q1, Q2, Q3. And in fact, we kind of topped off revenue to the upside in each of those quarters. Q4, if I look back on that, maybe we should have risk adjusted a little bit differently back in June. But boy, we certainly felt good about our guide. And then what happened, Jim, is literally 2, 3 weeks after our call in June, the supply chain issues inside of our 4Q just we saw incremental tightness, and I think Mike used that term. And I think that term is very reflective of exactly the kind of the situation and the way the world looked to us as we marched through most of the fourth quarter.

As we sit today and we gave a lot of very, very careful thought in terms of our outlook for '22, the \$31.5 billion that we have in our outlook for '22, again, a 7%, 8% upside, the \$6.35 in core EPS, again, a substantial uplift to the \$5.60 or \$5.61 for '21. The cash flows. And then I think as important or more importantly than any of those is the 4.5% margin and the trajectory in margins. We spent a lot of time talking through COVID variants. We spent a lot of time talking through every single element of supply chain risk, and we did our best to handicap that.

So I -- when does the fever break on that? It's really hard to tell because I think it's going to be a combination of the demand and the supply side. Does demand start to soften a bit? Does the supply start to strengthen a bit? And there's a significant amount of variables there. The way that we think about it is, we think our first quarter and second quarter of fiscal '22, we're going to still see tightness about equivalent to what we saw in the last 2 months of '21. So very tight supply in components Q1, Q2 of '22. We think that -- our estimate is -- and as Frank McKay said in our supply chain video that you just saw, I think our team is rated well to have strong opinions on the supply chain because of the 400 customers we serve, our geographic landscape and just the amount of overall parts we buy.

I think that things will start to maybe move in a better direction as we get into the back half of '22. We're by no means suggesting that the supply chain is back to normalized levels by the back half of the year. But again, just to be repetitive because I think it's that important, Q1, Q2, we've kind of handicapped those with the same level of tightness that we experienced in July and August as we rounded out FY '21. We think things will get a bit better as we get into the back half of '22, if demand holds, and we're working through this solely on the supply side, then I would think that we don't see normal conditions in the supply chain until we get into maybe the first half of '23, the way things sit today.

The one thing, Jim, and I think Mike said this in -- during his prepared remarks when we showed the supply chain video. For us to have delivered a year in '21, where top line was up 7%, 8% in this marketplace, it's congrats to the entire team. But boy, the job our supply chain folks have done in the last 6 to 8 months is outstanding.

Operator

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

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

I think I heard in the prepared remarks something about a change in the compensation program to focus more on operating margins, cash flows and EPS. Mark, you're guiding about 30 basis points improvement in operating margin overall for fiscal '22 and also to \$31-plus billion in terms of revenues. But going forward, should we take this as an indication that there's more focus now on margins versus revenue growth? And in that vein, can you remind us what is the long-term range for margins for DMS as well as the EMS segment? I mean you're projecting 5% operating margin for DMS for fiscal '22. How much more upside do you think there is in that segment? And the same question for EMS, I mean, 3.8% margins in fiscal '22. How should investors think about the long-term range for that segment?

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

Okay, Ruplu, there was a lot there. Let me process for a second and figure out which order I want to try to address that. So if I forget something, bring me back because there's a lot of content in a short question. Let me start with compensation. So I think we're a company led by our Board and highly, highly supported by myself and Mike, where we have a huge belief in pay for performance. And I don't know if Adam said change in comp or alluded to comp, and I don't -- I wasn't listening that closely to that portion of his prepared remarks. But for sure, I think what Adam was communicating is, when it comes to our leadership team and our management team, we absolutely want a significant amount of our compensation tied to the commitments we're making to shareholders and customers.

And we've had that mindset for many years. I think that what you would see in the forward proxy, if I had to guess, is you'll see another year where the commitments that we're making to everybody on this call and our shareholders, specifically, in terms of the 4.5% margin, the \$700 million in cash flow and then the \$6.35 in EPS, I think you'll see those firmly embedded in our compensation plans.

In terms of where margins might go, I think, again, as we've talked about many, many times, starting 2 years ago, there's just a -- there's an intense focus on we love the portfolio that we have. I'll say it again. Being well diversified with some of the greatest brands on the planet across 8 different sectors has given us a foundation inside the company that we love. And with that foundation, it's -- I don't know, a goofy analogy would be building a house. You can have a really nice kitchen and really firm walls. If you don't have a firm foundation, it doesn't last very long. And I think I bring that up because our commercial portfolio, the way it exists today, is really the foundation of the company.

And then you add to it some of the things that we talked about in prepared remarks. You look at our structure, you look at our team, you look at our approach. Those would be the walls and the trust is in the roof of the Jabil house. And from that, I think that we took margins up. We took -- when we were building the foundation, our margin ranges were around -- the core op margins were -- as an enterprise were around 3.5%. And we came into '21, in fact, it was a year ago now where we made a commitment and gave an outlook to everybody to say, we think we can deliver 4% this year, and we end up delivering 20 basis points higher than that at 4.2%. And now what we're sitting is, is saying, okay, we think we can stretch that 30 basis points in '22 to get to 4.5%.

And again, I would suggest that all that's around just the foundational strength of the company, again, as well as solutions approach, structure and team. And then I said something in my prepared remarks around I think we've got more to do and maybe there's 2 parts of that comment. For sure, we've got a lot of hard work ahead of us to deliver what I think is a very appropriate outlook for '22. So therefore, that's kind of derivative number one of my comment on we got more to do. But a big part of why I made the comment on more to do has to do with fiscal '23 and '24. And I would like to see us and hope that we can keep the positive trajectory on margins and drive margins past the 4.5%.

In terms of DMS. DMS, I don't know. I don't want to get into that breakdown now. I think your math is correct. And I validated the math on one of the blue green slides that -- I think the one I showed that we think diversified will be 5% this year. Giving a range to that, I don't know. We kind of have thoughts in our head and -- but I look at the diversified groupings of businesses that Kenny and Steve run, and we've taken that from 3.7% in '20 to an outlook now of 5%. I think that expansion is tremendous.

And then you look at our legacy business that's run by Mike Loparco and his team, and we've taken that from 2.7%, and that's all of EMS. That's our former high velocity business, et cetera, et cetera. And now we've got an outlook of 3.8%. I don't know if we get there in '22, but we keep doing what we're doing on the legacy kind of EMS side of our business, which, by the way, I think I'm doing it a huge disservice to even use the word legacy because the business that we're running on the EMS side of the house today is distinctly different than it looked 5 years ago. But if things went right there, I don't see any reason why we can't run the electronics side of our business at 4%. So again, you kind of do the math on a weighted average basis and all that, and I think you get margins higher than 4.5% going forward.

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

Great. I mean I appreciate all the details on that. For my follow-up, if I can just ask Mike, I think you guided another \$330 million, I think, for growth CapEx this year. Can you remind us like based on your existing infrastructure, how much revenue can that support today? And then once you have that \$330 million of investment, what would be the max revenue that your infrastructure would be able to support?

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

Sure. So the thing -- we look at it from a different perspective. We look at it from an end market perspective because different end markets have different CapEx requirements. It's not just about existing capacity and forward-looking capacity. I think we've been on a journey. We're continuing on this growth path, the secular trends are very much alive and doing well in Jabil. So our growth CapEx in that \$300-plus million range is what will drive our capacity going forward as well. But it's all over the place, Ruplu, is the simplest answer. It's -- I can't put my hand on a particular, what this capacity lapped or this will take us to x dollars of revenue.

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

Ruplu, maybe I could interject. I think I know where you're going with some of that, but one of the things that we had some shareholders climbing all over us 5, 6 years ago on having strong opinions around our capital allocation, use of cash and some other things, and that's how shareholders should be and will be. As I look at the landscape today, I don't know of a time where we've ever been more diligent in use of cash both internal capital investments, OpEx investments and then returns to shareholders. So here we sit in the current landscape. A few weeks back, we announced \$1 billion -- another \$1 billion buyback. I think capital returns to shareholders will always be part of our plans -- in our plans, especially for the next number of years.

And then I think about the processes we have inside the company today in terms of the diligence to which we allocate capital internally. And again, these won't be exact numbers, but it will be directionally correct. We're going from maybe historic where our CapEx investments might have been 3.2%, 3.3% of revenue, I think Mike had a chart there somewhere that shows CapEx as a percent of revenue down at 2.6%. And I see no reason why we might not even drive that a little bit or drive that a little bit lower. But the other thing that we look at is, with that CapEx investments, with our EBITDA, et cetera, et cetera, again, the \$700-plus million of free cash flow, and I believe Mike also shared a slide talking about our real ROIC on all-in investments is upwards of 30%. So we feel pretty good about how closely we're watching each and every penny in terms of both OpEx and CapEx investments.

Operator

Our next question is coming from Shannon Cross with Cross Research.

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

I just -- the inflationary pressures that are out there right now and how you're looking at managing them, whether it's headcount or commodities or logistics as you look to next year as well as going forward, how much do you think is transitory and how much you think is here to stay?

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

Yes. Thanks for the question. It's a complicated one, isn't it? Think about half of the smart people that you listen to suggest it's transitory and half of the smart people you listen to believe something different. I think the way -- the way we're handling it inside the company is, we showed -- I'd start with, we showed 3 videos and one of the videos was around kind of the factory investments, automation, factory productivity. And I think factory productivity is something we continually focus on.

When you think about the construct of Jabil today, you're talking about a company that has, I don't know, 55 million square feet of factory space all around the world. So driving productivity, driving cost optimization, it's just what we do. It's integral to what we do. It's -- and a lot of that effort year in and year out is to offset wage increase, inflationary costs. It keeps us competitive. It allows us to offer customers cost reductions when appropriate. We eliminate waste. But the other thing that's happening with all of that is the fact that a big part of those efforts are also helping with our margin expansion.

So again, I think it was my response to either Jim or Ruplu, we will continue to obsess about taking great customer -- great care of our customers and at the same time keeping our people safe. That's at the forefront, along with the purpose that I talked about in my prepared remarks.

If we do that, then I think the financial returns come along with that. But one of the things that adds a little bit of complexity to it is the dynamics around inflationary costs. I think that we've done a good job having long conversations around what we think those could be, how much of that will be offset by the factory productivity and cost management. I think we've been very aggressive going into '22 in terms of our base cost because that's directly inside of our control. And again, I think that's fully embedded in our FY '22 guide. What we're trying to do is, we're trying to do our part in serving our customers in an environment that, at least currently, has inflation embedded in it. Whether that goes beyond '22 or not, I don't know.

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

Okay. And then just one specific. I'm just wondering, the 13% growth in digital print and retail, is that just a return to normal? Or what's driving that?

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

I don't think it's return to normal. I think our digital -- let me make a comment that will be inaccurate in some ways, but it will give you an idea of what I'm trying to get at. A number of years ago, when we would talk about print as a business or a sector, you would think about print. So you think about putting ink on paper and this out and the other. And by the way, that's still a very important aspect to that business. But when we look at digital print and retail today, there's a reason that we use the term digital. I think I said earlier, it's an overused term and so maybe we're overusing it too.

But I think it's so appropriate in this business sector from the standpoint of when we look at what's in that sector today, along with whether it be any type of office printing or large form factor printing, I also think about digitization and mobile printing. I think about scanners and printing in terms of factory efficiencies. If inflation is here to stay, factory productivity, warehouse productivity, retail productivity is going to be hugely important. Because dollar for dollar, all of that effort is going to help to offset passing on inflationary cost to customers, which for those businesses and those customers is going to be huge in terms of them protecting their cash flows and margins. So we're doing a ton in that area.

And then the other area is Fred McCoy and his team who oversee that sector of our business, they're doing a bunch of amazing things in terms of kind of the transformation going on in the retail space in terms of automation. And again, overall productivity optimization and efficiencies, where the retail space connects with the consumer. So those are the areas that are driving growth in that sector.

Operator

Our next question is coming from Paul Chung with JPMorgan.

Paul Chung - *JPMorgan Chase & Co, Research Division - VP & IT Hardware Analyst*

So you called out health care where you're seeing an acceleration from kind of a small penetration rate of in-sourcing. So given the kind of attractive margin profiles there, do you expect to see continued structural step-up in margins as we look further out beyond '22 as this trend accelerates, given it's kind of your second largest segment today? And then I have a follow-up.

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

Sure. So are we going to see a step up in margin? I don't know. What I believe is, I think that there's a really good opportunity for a step up of margins. If we continue to do our job and the macro holds, blah, blah, blah, I think we're not done at enterprise level margins at 4.5%. And I think that you stated it. It's interesting, isn't it, that in FY '22, our health care and packaging business is now our second largest sector. Oh, by the way, that sector has doubled in size in like 3 or 4 short years.

So I think this gives me a nice opportunity to give a shout out to Steve Borges and his whole team, what they've done there and then the contributions we're getting from our consumer packaging team. I think that -- maybe Mike or Adam alluded to this. I think that there's a -- maybe a newer found trust between the most awesome health care brands out there, whether it be diagnostics, whether it be pharma, whether it be med device, I think that -- whether it be, by the way, personalized health, personalized health care, on-body diagnostics and tracking, I think that there's a newer found trust with the capabilities that a company like Jabil has today, which again are night and day compared to what we were doing 6, 7 years ago.

I think that trust will open up more and more conversation around opportunities where maybe they'll look a little bit like what we did with JJMD. I think the other thing that plays well for us there is if you can imagine maybe hardware businesses that maybe we take our experience in connected devices and sensors and things like that, and we start leveraging those parts of our business, along with our wireless expertise, et cetera, et cetera, again for personalized health care, on-body health monitoring and again, individual medicine, I think that also is going to drive continued growth in the health care space for us.

Paul Chung - *JPMorgan Chase & Co, Research Division - VP & IT Hardware Analyst*

Okay. Great. And then, Mike, on free cash flow, you've hit highest level in 4 fiscal years, despite some higher-than-usual working cap drag, nice guide for '22, and you mentioned some baked-in supply constraints there. So assume kind of some working cap drag continues, if you could talk about the puts and takes in operating cash and your view on timing of normalization.

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

Yes. I think the -- like I said before, I really feel comfortable with the \$700 million free cash flow guidance that we provided for '22. I think that, that discipline in our working capital, discipline in our CapEx, all of that continues. Our earnings potential is extremely strong. Our revenue is growing by a couple of billion dollars. And that comes with some level of associated working capital. I think over time, as supply chain constraints normalize, I expect the \$700 million to go higher if that happens sooner rather than later. So it's -- I think at this time, it's appropriately sort of derisked at the \$700 million level. It can go higher if supply chain constraints ease earlier. And I think that sort of growth level would be possible beyond '22 as well.

Operator

Our next question is coming from Matt Sheerin with Stifel.

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

Yes. I wanted to get back to an earlier question regarding your strong guide for automotive for FY '22, particularly against the backdrop of global production cuts due to the chip shortage. So is this more of a function of new program wins with existing or new customers and is primarily around EV? Or are there other growth drivers there such as autonomous, safety and entertainment or infotainment. And any color you could add would be great.

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

Well, I think you said it well. I think it's all of the above. I mean it seems so incongruent that we can sit here in this environment and offer up a presentation, which suggests that our auto and transportation sector is going to go from \$2 billion, \$2.2 billion in '21 and be over \$3 billion in '22. It maybe lacks logic in this environment. But I think you said it well. I think, a, I'd start with, we worked with Chad Morley and his team that run that sector and gave a lot of thought to how to handicap or risk adjust that for '22. We went through a lot of discussion points around supply chain risk. And for sure, there's risk around silicon and semiconductor supply chain headwinds in automotive as everybody on the call knows. But in doing that, we also looked at kind of our current relationships, new customer relationships. And again, I think a couple of the positive variables there is, we started down a path probably 3.5, 4 years ago, where we overindexed hard towards autonomous driving and maybe more accurately electrification of vehicles.

I think Mike had a slide during his presentation, and there's this acronym ACE that Mike alluded to. I have you go back and look at that particular slide because I think it's -- for a single slide, there's a lot there, and it's very illustrative of the areas that we're focused on, both from an engineering standpoint, a capability standpoint, a design standpoint. So you take that slide, you combine it with some of the marquee brands that I think actually Adam showed on a slide under automotive and transportation. And I think you shake all that up, and that gives -- that's what gives us the confidence that automotive and transportation sector will be over \$3 billion in '22.

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

Okay. Great. That's very helpful. And then just for my follow-up. Regarding your outlook for the networking and storage segment, which you're modeling down. Is that a function of end market outlook? Or a function of you deemphasizing some programs as you're continuing to focus on higher value add, higher margin areas?

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

It's both. And I don't want to at all suggest that networking and storage customers aren't higher value-add. I think that even though we're indexing networking and storage down, I think, from what was like \$2.7 billion, \$2.8 billion in '21, down to like \$2.6 billion in '22, that's not a reflection of most of our customer relationships in that area. That sector is still extremely material for us. And more than anything, that sector, although margins arguably are very tight in that sector for us, it comes off of some of the long-lasting legacy brands. The cash flows on that sector are very good. And again, it has a very, very integral part to our overall composition and forward-looking for '22 and '23 in terms of appropriate contributions to the overall financial returns of the company. So I think that kind of gives you an idea of why that might look like it looks.

Operator

Our next question is coming from Mark Delaney with Goldman Sachs.

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

A number of companies have talked about trying to improve the resiliency of their supply chains going forward in terms of inventory management strategies, adding new suppliers. And so I think there'll be opportunities for Jabil as a result of that. Can you talk about to what extent you're expecting to see any benefits from some of those supply chain resiliency efforts in fiscal '22? Or is the supply chain still so tight in '22 that it's going to be hard to implement any of those sort of improvements and that's perhaps more of an opportunity for Jabil in fiscal '23 and beyond?

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

I think in the near term, there's little to no opportunities because we're scratching, clawing, fighting day in and day out just to get the parts we need to build the products to hit our commitments. So in the near term, it's kind of hand-to-hand combat and very tactical in nature. Oh, by the way, if we're going to be in hand-to-hand combat and it's going to be very tactical in nature, I'll take our supply chain team every day. So again, I think that's kind of the foggiest on the horizon right now. And I think I alluded to it earlier, I think we're in that stage.

Certainly, the first half of '22 could be a little bit longer. What I then think happens, assuming that the macro holds and assuming the world is still somewhat round and assuming that, because of that, there's still decent demand, then maybe there is a little bit of an uptick as pipelines are getting filled, as people think about supply chains, again. I don't think it will be a good idea if the reaction to all of this, but we've been through this before. We went through the tech wreck, we went through the financial crisis, we've been through these ebbs and flows. I think there'll be maybe a period of time where there'll be a rebuilding of inventory and maybe that provides kind of a small degree of upside over a small time frame.

But I think that -- I don't think building inventory and having redundancies here and there are a good solution. I think a better solution is, is we invest, I don't know the exact number, but we invest, call it, \$250 million, \$300 million of OpEx a year. And a portion of those investments are around very sophisticated supply chain tools, data analytics. And I think Jabil continuing to invest in tools like that, so that we can go back and challenge customers in terms of historical behavior, forward-looking forecasts and do it with kind of, again, data analytics and a higher degree of sophistication from an IT standpoint.

I think tools like that will become more and more valuable. And then you add to it the fact that we're going to connect those tools to what we're doing in our factories in terms of machine learning, robotics and automation. And you think about that inside of a company like Jabil that will be bumping up against \$34 billion, \$35 billion in scale, factories all over the globe, I think the way we're thinking about that, boy, we're going to be really well positioned to help a lot of the customers we serve in terms of how to further optimize supply chains going forward.

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

That's helpful. And for my second question, was on the EMS segment margins in the fourth quarter. The company already spoke to the reasons for the strength in margins on a year-over-year basis. But I was hoping you could touch on the reasons for strength on a sequential basis. Revenue was slightly down quarter-to-quarter, but margins were up nicely. Maybe it's the same reason around the inventory strategy with cloud, but perhaps it's something else on a quarter-to-quarter basis? And if so, I was hoping to better understand what it may be.

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

Yes, sure, Mark. I think the year-on-year comp is distorted because Q4 of '20, we were still wrestling around with COVID stuff. And I think all our metrics in '20 were distorted to the downside. This isn't intentional, but we've kind of -- the way -- this is more coincidental than anything. So the way the construct of Mike's and his team's electronics business stacks up is, is the -- it just aligns with the fact that our 4Q ends up typically being stronger for that part of our business. And that's not an intentional thing. That's just -- that's how -- we run our business from a bottoms-up makeup. So I think what you're seeing -- I think what you saw in the fourth quarter was just a repeat of, again, another strong 4Q by the electronics side of our business.

And in fact, if you kind of map what we said for '22, we kind of gave you everything you need to map out Q1. If you think about the fact that we believe -- and I think we gave you the full year. So I think revenue for '22, first half to second half is going to be about 50-50 for the company. You'll probably be able to get to some math that says, once again, we think our electronics business in terms of margin will be stronger in the second half of '22 and probably strongest in the fourth quarter.

And again, that's really just a makeup of customer sectors and markets and it happens to fall into our fourth quarter. What I'm more interested in, for sure, is we have an electronics business that if you just go back to, I don't know, like fiscal '19, the electronics part of our business, the way we define it today was in the 2.9%, 3% range all in. And I'm most interested in our ability to try to get that part of our business bumping up against 4% margins.

By the way -- and -- the numbers that we just -- we offered during the presentation, which also has a high degree of satisfaction, if we can execute, is I think we gave you numbers that would suggest that, that part of our business is going to grow nearly 5% on the top line. And so with that growth, at that scale, if we can get that part of our business bumping up against 4%, boy, that does wonders for our overall portfolio.

Operator

Thank you. Ladies and gentlemen, we have reached the end of our question-and-answer session. And this does conclude today's teleconference and webcast. We thank you for your participation, and you may disconnect your lines at this time.

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