REFINITIV STREETEVENTS

EDITED TRANSCRIPT

JBL.N - Q2 2023 Jabil Inc Earnings Call

EVENT DATE/TIME: MARCH 16, 2023 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q23 revenue of approx. $8.1b, core operating income of $391m, GAAP operating income of $359m, GAAP diluted EPS of $1.52 and core diluted EPS of $1.88. Expects FY23 revenue to be $34.5b, core EPS to be $8.40 and 3Q23 revenue to be $7.9-8.5b, core diluted EPS to be $1.70-2.10, GAAP diluted EPS to be $1.50-1.90.

CORPORATE PARTICIPANTS

Adam Berry *Jabil Inc.*

Kenneth S. Wilson *Jabil Inc. - Executive VP & CEO of Jabil Green Point*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

Melissa Ann Dailey Fairbanks *Raymond James & Associates, Inc., Research Division - Research Analyst*

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

Ruplu Bhattacharya *BofA Securities, Research Division - Director & Research Analyst*

Shannon Siemsen Cross *Crédit Suisse AG, Research Division - Research Analyst*

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

PRESENTATION

Operator

Hello, and welcome to the Jabil's Second Quarter Fiscal Year 2023 Earnings Conference Call and Webcast. (Operator Instructions) As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Adam Berry, Vice President, Investor Relations. Please go ahead, Adam.

Adam Berry - *Jabil Inc.*

Good morning, and welcome to Jabil's Second Quarter of Fiscal 2023 Earnings Call. Joining me on today's call is Chairman and CEO, Mark Mondello; incoming CEO, Kenny Wilson; and CFO, Mike Dastoor. In terms of agenda, Mike, Kenny and I will be offering today's prepared remarks, while Mark will join for the question-and-answer session. 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 the Investor Relations section of our website. At the conclusion of today's call, a recording of the entirety will be posted for audio playback on our website. I'd now like to ask that you follow our earnings presentation with slides on the website, beginning with the forward-looking statement. 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 net revenue and earnings.

These statements are based on current expectations, forecasts and assumptions involving risks and uncertainties that could cause actual outcomes and results to differ materially. An extensive list of these risks and uncertainties are identified on our annual report on Form 10-K for the fiscal year ended August 31, 2022, 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, I'd now like to shift our focus to our second quarter results, where the team delivered approximately $8.1 billion in revenue, in line with our forecast. As you dig a little deeper, it's worth noting we saw strength in areas such as industrial driven by continued robust demand for renewable energy generation and storage, automotive driven by the transition to electric vehicles. And health care as large OEMs in that space continue to partner with Jabil to deliver best-in-class personal care.

Conversely, a portion of the year-over-year strength was offset by weakness in Semi-Cap and other consumer-oriented portions of our business. Putting it all together at the enterprise level, revenue grew by an impressive 8% year-over-year. Core operating income during the quarter was $391 million, an increase of 14% year-over-year, representing a core operating margin of 4.8%. This is up 20 basis points over the prior year and just ahead of our expectations from 90 days ago based on great operational execution within our EMS businesses.

Net interest in the quarter came in higher than expectations at $74 million. In the quarter, we also repurchased 1.7 million shares for $127 million leaving us with $975 million remaining on our current repurchase authorization. From a GAAP perspective, operating income was $359 million our GAAP diluted earnings per share was $1.52. Core diluted earnings per share was $1.88, a 12% improvement over the prior year quarter and slightly ahead of the midpoint of our range. Now turning to the segments. Revenue for the DMS segment was $4.1 billion, an increase of 8% on a year-over-year basis and in line with our expectations while core operating margin for the segment came in at 4.6% as expected as a result of strong returns in auto and health care, offset by weakness in consumer markets.

Revenue for our EMS segment came in at $4.1 billion, an increase of 7% year-over-year, while core margins for the segment was 5.1%, up 110 basis points year-over-year reflecting solid leverage on strong revenue growth. So in summary, a strong close to the first half of our fiscal year. As we sit today, I know the team here is extremely proud of the strides we've made to not only improve our business over the last several years, but also make it more strong and more resilient. This improved resiliency in our business was reflected in the Q2 results.

In a moment, I'll turn the call over to Mike and Kenny to provide some additional thoughts on our performance in the quarter and update our outlook for fiscal '23. And I think you'll see there's so much opportunity as we look towards fiscal '24 and beyond. Thanks for your time today. It's now my pleasure to turn the call over to Mike.

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

Thanks, Adam. Good morning, everyone. Q2 marked a solid close to the first half of the fiscal year. Through the first 2 quarters of FY '23, the team delivered strong year-over-year growth in revenue, core operating income and core earnings per share, while also expanding core margins by 20 basis points compared to the first half of FY '22. Growth year-to-date has been headlined by areas of our businesses experiencing long-term secular growth trends, offset slightly by some of our more consumer-centric markets and Semi-Cap.

The team's impressive performance through the first half of our fiscal year despite what continues to be an extremely dynamic macroeconomic environment underscores the strength of our diversified portfolio and the improved resiliency of our business. Next, I'd like to begin with an update on our cash flow and balance sheet metrics as of the end of Q2, beginning with inventory which came in higher than expected, mainly due to timing and continued component constraints on the automotive supply chain.

The team did a good job offsetting a portion of our inventory levels with inventory deposits from our customers. Net of these deposits, inventory days was 69 in Q2. We continue to be fully focused on bringing this metric down further in FY '23 and beyond targeting net inventory days ranging between 60 to 65 days in the medium term and expecting to normalize in the 55 to 60 days range in the long term. Our second quarter cash flows from operations came in at $414 million, while net capital expenditures totaled $304 million. With this, we ended the quarter with cash balances of $1.2 billion and a total debt to core EBITDA level of approximately 1.1.

Turning now to our third quarter guidance on the next slide. We expect total company revenue in the third quarter of fiscal '23 to be in the range of $7.9 billion to $8.5 billion. At the midpoint, this anticipates DMS and EMS revenue will both be $4.1 billion. Core operating income is estimated to be in the range of $363 million to $423 million. GAAP operating income is expected to be in the range of $336 million to $396 million. Core diluted earnings per share is estimated to be in the range of $1.70 to $2.10. GAAP diluted earnings per share is expected to be in the range of $1.50 to $1.90.

Net interest expense in the third quarter is estimated to be approximately $80 million and for the year to be in the range of $295 million to $300 million, which is higher than we forecasted in December due to more conservative interest rate and working capital assumptions. As inventory levels normalize, I expect these interest costs to gradually decrease over the mid to long term. Tax rate on core earnings in the third quarter is estimated to be approximately 19%. Moving to the next slide, where I'll offer an update on the end market demand assumptions and how these translate to our FY '23 revenue expectations.

At a high level, our year so far is playing out consistent with our assumptions in December. The industry continues to benefit from outsourcing of manufacturing as a macro trend due to dynamics such as onshoring closer to end consumers, complex supply chain dynamics and greater content due to ever-increasing design complexities and products. We continue to expect areas of our businesses benefiting from strong long-term secular growth trends like electric vehicles, health care, renewable energy infrastructure, 5G and cloud to drive solid year-over-year growth.

An area where our outlook has improved since December is in our industrial business where we see robust demand for renewable energy infrastructure, which we expect to drive double-digit year-over-year revenue growth. Electric vehicle demand also continues to remain extremely strong as we continue to gain share in an end market with strong robust growth as we navigate product manufacturing life cycles and ramps at different stages in their maturity curves, constrained by a tight component supply chain. We expect a portion of the solid growth from our secular markets to be offset by lower demand in our consumer-facing markets and in Semi-Cap.

In summary, we feel the outlook for our business is solid and expect the secular demand across many of our end markets to remain strong. Considering this updated demand picture, let's now turn to the next slide to get a view of our updated guidance for FY '23. We expect our improved mix of business will drive incremental operating leverage, thereby giving us the confidence to raise our core margins by 10 basis points to 4.9% for FY '23 on revenue of $34.5 billion. We continue to anticipate core EPS will be $8.40, which is reflective of our improved core operating income, offset by higher interest expense.

Importantly, for the year, we also remain committed to generating an excess of $900 million in free cash flow. Overall, our performance during the first half of the year gives us excellent momentum as we look to close out another strong year and drive the company to core margins beyond 5%. And with that, I would now like to turn the call over to Kenny.

Kenneth S. Wilson - *Jabil Inc. - Executive VP & CEO of Jabil Green Point*

Thanks, Mike. I am pleased to be joining the call today. It is truly humbling to reflect back 23 years to when I joined Jabil in our manufacturing facility in Livingston, Scotland. Since then, I have been afforded the opportunity to grow and lead several areas of our business. Most recently, I had the privilege to live and work in Asia, leading our Jabil Green Point organization, which has played a major role in building out multiple key capabilities that continue to be leverage across the company.

Going forward, I'm excited to lead Jabil as CEO, alongside a team of extremely talented and long-tenured industry leaders. I would like to share a few thoughts on what you should expect from us going forward. As Mark mentioned 90 days ago, think of this as evolutionary, not revolutionary. It is our term to carry the torch and prepare our organization for future growth. First, we have a customer-centric organization, always have been, always will be. As such, we will continue to work tirelessly on behalf of our customers and shareholders to deliver long-term value.

Second, we will continue to cultivate our unique culture, which attracts, retains, empowers and enables our people, allowing their true self to turn up to work every day. Third, we will remain focused on increasing margins and delivering sustainable free cash flow through a combination of enhancing the mix of our business and excellent operational execution. It's my belief that this, in turn, will allow us to earn an appropriate return on investment for the value we provide. Moving on to our business. Today, we see incredible tailwinds driving our business forward.

For instance, this year, we are seeing robust growth in our industrial business in areas like renewable energy generation and storage. In automotive, the team continues to navigate multiple complex program introductions, increasing both our scale and addressable content per vehicle. And in health care, we continue to win new business in areas such as digital health and precision medicine as the industry outsource trend accelerates.

The success we are seeing in these areas is a key proof point of our team's ability to leverage multiple capabilities across this per end markets as we continue to diversify our service offerings. Moving on to the year. I'm pleased with the momentum underway in the business. We expect good growth and operating leverage, which gives us the confidence to raise our expectations for core margins to 4.9% for fiscal '23. At the same time, we remain highly focused on delivering more than $900 million in free cash flow. And when I think about Jabil beyond fiscal year '23, there is a tremendous amount of opportunity ahead. Between the mix of business and the growth trends underpinned by our long-tenured management team, I'm confident that we can drive the company at above 5% core margins with sustainable strong cash flows.

This will afford us tremendous flexibility in our capital allocation. In the coming years, we will remain focused on executing buybacks when they produce strong returns for shareholders and remain committed to a dividend. As it relates to M&A, you will see us continue to focus on capability building deals consistent with the past several years. And finally, we will ensure our capital structure is optimized and remain committed to maintaining our investment-grade credit profile. In closing, I feel it is appropriate to send a message to our people here at Jabil.

I've spent over 20 years at our company, and I'm excited to be a leader. I will strive to make you proud. At Jabil, our people are our greatest asset. Our strength is in our ability to bring together a collection of people from diverse backgrounds, different experiences and multiple generations and moved into a culture that across the world is both consistent and a true differentiator. Being no doubt that all that matters every day is that you give away your best, focus on performance and strive to be the leader or coworker you wish you had. In summary, bring your true self to work each and every day without anxiety or fear of recourse. I am truly grateful to each and every one of you for all that you do. I will now turn the call over to Adam.

Adam Berry - *Jabil Inc.*

Thanks, Kenny. Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

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

Ruplu Bhattacharya - *BofA Securities, Research Division - Director & Research Analyst*

Kenny, good to have you on Board and on the earnings call. Let me start by asking you a question on automotive. Jabil's revenue from automotive has been pretty strong, and you've been manufacturing components like you said for EVs for a long time. However, this space may get crowded over the next 2 to 3 years, I'm thinking about media reports indicating at least one large Taiwanese EMS company looking to manufacture EVs. So when you look over the next 2, 3 years, do you think Jabil has a competitive advantage in this space that can sustain over the medium term? And how much of your auto revenues today are from EVs? And do you see that percent growing over the next few years?

Kenneth S. Wilson - *Jabil Inc. - Executive VP & CEO of Jabil Green Point*

Thanks for the message, Ruplu. I really appreciate it. Yes. So as you know, the EMS, the automotive industry when you do automotive business, you've got to be -- it takes you a while to get qualified. The programs run for 5, 6, 7 years. You also got to be able to leverage that capability consistently in multiple geographies across the world. So that kind of plays to our strength. And we see that -- for sure, we think there's enough opportunity and enough heeding for multiple different suppliers or competitors.

So yes, we are pretty confident that we've got a value proposition that's going to see us continue to grow our business in automotive in the longer term. In terms of -- in the EV space, if we look at our total automotive business, it's in the order of 80% to 90% of our business now is kind of EV and autonomous. So I think you should expect -- we're pretty confident that we're well positioned. We've got business with most of the large OEMs, and we're very, very confident that's going to grow and continue across multiple geographies in the future.

Ruplu Bhattacharya - *BofA Securities, Research Division - Director & Research Analyst*

Okay. Kenny, for the details there. For my follow-up, let me ask a question to Mike. So you beat the midpoint of your fiscal 2Q EPS guide by about $0.04. And you're raising the operating margin outlook for fiscal '23 looks like by 10 bps, but you kept the full year EPS guide of $840 million. So my question is, Mike, when you look at the remaining year, at the second half of the year, do you see a weaker operating environment in the second half? Or is there some conservatism in the guidance? Just if you can give us your thoughts? And also, EMS had a very strong margin performance in fiscal 2Q. Do you think that's (inaudible) going forward?

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

Well, if you look at EBIT, EBIT has grown from December by about $25 million, but on the other side of the coin, interest costs have gone up as well. Our business, our operating business, our secular trends, all the end markets that we perform in, that's actually going really well. Performance is stronger than we have anticipated. So we've taken EBIT up. Unfortunately, we've had a slightly higher level of inventory, mainly due to couple of reasons.

There's timing where inventory came in at the end of the quarter. The opposite side of that shows up in AP. So I'm not that worried about that piece. But the auto supply chain continues to be tight. We sort of anticipated it improving over the quarter and the rest of the year. We're not seeing that. So it's not getting worse, but it's not getting any better either. So there's inventory. And then on the interest side, obviously, the short end of the interest rate curve, has steepened over the last 10, 12 weeks, notwithstanding the last 3 or 4 days, the short-term borrowings that we have to finance our working capital has gone up as well.

So it's a little bit of a positive story and that our underlying business is performing really well. We're having some level of temporary issues with inventory and interest rates. If you look at the other side of that, when we come out of this at some point in time over the next 3, 4 quarters, interest rates, interest costs, everything should subside at our inventory levels should be much better as well. So right now, our inventory is in that 68, 69 days sort of the net inventory that we've announced. The expectation is for it to be in the 60, 65 days in the medium term. And I actually expect it to go down to 55, 60 days in the long term as well. So plenty of positive momentum to come at some point in the future as well, Rob.

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

Ruplu, this is Mark. If I could add a comment, listening to Mike's response, with everything we got going on, the macro the way it is today, if you think about the back half of the year and again, adding to what Mike said, our DMS margins for the second half are going to be in the range of 5%, which is right where they thought -- we thought they would be in September.

And by the way, that's with consumer getting hit pretty hard, at least temporarily. The EMS margins for the second half of the year are going to be in the range now of about 5%, maybe even slightly stronger, that's going to be 30, 40 bps higher than where we thought we'd be in September. And the enterprise margin for the second half of the year is now also going to be in the range of 5%. That's 10, 20 bps higher than what we thought it would be back in September. And then if you kind of take that tangentially in a different manner, we've got margins from 22% at an enterprise level of being 4.6% and as you alluded to in your question, we're going to be up 30 bps at an enterprise level year-on-year. So all things considered, the business has been run and executed really, really well.

Ruplu Bhattacharya - *BofA Securities, Research Division - Director & Research Analyst*

Okay. Mark, congrats on the strong execution.

Operator

Next question is coming from Steven Fox from Fox Advisors.

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

Two questions, if I could. Just one follow-up on the auto details that you provided. When we think about the really tremendous growth you've had the last 2 years, I assume it slows next year. How do we think about sort of the impact this growth has had on margin mix, et cetera? And as it slows, what's the impact to margins overall? And as a second question, I was just curious if you could expand on the comment about outsourcing accelerating in digital health and precision medicine, like any further color around what that means for Jabil?

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

Steve, are you saying or suggesting, I couldn't quite hear you correctly. Are you saying automotive is going to slow next year?

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

Well, I'm assuming hitting 50% growth again for the third year in a row might be difficult, but I could be wrong on that.

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

Okay. I didn't know. I just wanted to clarify, I don't know if you're asking in terms of a macro slowdown, slowdown to Jabil, slowdown in absolute dollars or slowdown on our CAGR growth rates, so?

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

Yes. I was talking about your specific growth rate market.

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

Yes, that's -- I think that's fair. We've come off of -- I don't remember the exact numbers, but I think '21 to '22, the business grew north of 40%, '22 to '23 if things hold, it will grow north of 40%. I don't think next year, it's going to grow north of 40%. But I think if I had to speculate, I think of our 8 sectors, I think automotive and transport will certainly be towards the top in terms of growth, '23 to '24 on a relative basis. I mentioned on Ruplu's question on how the margins -- I think, again, when we look at the back half of the year, we're really, really satisfied with overall margins and really satisfied with margins taking it up 10 bps for the year.

Intertwined in that, though, is we have a ton of activity going on in auto EVs at the moment. And there's a lot of that activity that hasn't reached maturity yet, and we expect it to do so in '24. So almost independent of whether the growth is 10%, 20%, 30% next year. I think the activity and the efforts we're putting into that space at the moment are going to have a good result and a good outlook and outcome in '24.

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

And then in terms of the health care outsourcing accelerating?

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

I think we -- we've been saying this since we did the JJMD deal, and then we got hit with COVID. I think philosophically, we're directionally correct in our hypothesis around opportunities to be able to capture more and more outsourcing in the personalized digital overall health care space. As you know, it's a very, very let's just say, formal marketplace.

So decisions are very well thought as they should be with a lot of patients being involved. But nothing's changed at all in terms of our overall thoughts and commentary we've been making the last couple of years in terms of how that market looks for us and how we're positioned for that market. I think timing has been a little bit slower than we anticipated, but nonetheless, the trajectory of that is still in really good shape.

Operator

The next question is coming from Melissa Fairbanks from Raymond James.

Melissa Ann Dailey Fairbanks - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I've got 2 questions. They may be related, so I'll just ask them both at once. It's great to see you raise the full year revenue target for industrial and Semi-Cap. You did mention the strong growth in renewables. I was wondering if you could give us an update on your expectations for the other businesses in that segment, Semi-Cap and elsewhere? And then as a second, very nice move higher on the operating margin target for EMS, as Mark highlighted, what's driving that upside?

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

Okay. I'll start, and Mike and Kenny can chime in. I think the beginning of the year, we thought industrial Semi-Cap would be, I don't remember the exact numbers, but say around $4.2 billion, $4.3 billion. We've got that now indexed around $4.5 billion. The nice thing is we are seeing and again, this is just another statement of how important it is to lean into the diversification of the business today. But we're seeing some overall weakness in Semi-Cap.

Again, down the road, we think that, that makes a nice recovery. Even with that combined industrial Semi-Cap compared to September is going to be up $200 million and maybe a little bit more than that. I think a big part of that is we are absolutely seeing benefit from the Inflation Reduction Act. So when we think about the portion of our industrial business that leans hard into solar, hard into clean energy, renewables, that's beneficial. And we -- as we think about FY '24, we think there'll be continued benefit there. What was the second part of your question?

Melissa Ann Dailey Fairbanks - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Just wondering if that's kind of what's driving the higher operating margin target for EMS, just a mix up? Or is there is internal efficiencies or what else?

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

I would say, if you're talking about the OI line year-on-year, boy, it's one of the best financial metrics we have in the company. I would say, it starts with the composition of the team led by Fred McCoy and his whole team. The job they're doing on an execution basis is tremendous. If you think about some of the catalysts for sure, the Inflation Reduction Act, overall industrial are strong. Parts of wireless infrastructure and cloud remains strong. And then again, on the income line, I would say, it's a combination of just tremendous execution, customer care and again, our -- the overall EMS portfolio, although we report it in 4 different sectors, just has an endless number of customers, and I think that diversification plays into that as well.

Operator

Next question is coming from Paul Chung from JPMorgan.

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

So just on the manufacturing footprint in Mexico and North America. Are you seeing some increasing competition from some of the Asian competitors and any resulting price-based competition there? And if you could expand on some of the competitive advantages you have here in North America, just seems some favorable growth trends? And then I have a follow-up.

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

We always see competition. I feel without -- I don't really want to get into quantifying it. I just think -- we're a U.S. domiciled company. And if there was ever a geography that I feel really, really good -- again, I think we compete really well all over the globe. I feel very good about our ability to compete in the Americas. We've always -- we have a long-standing track record in how to run, execute and offer great customer care out of Mexico and the U.S. in terms of getting into the competition of who they are it's the same competition we have all over the globe. If you're inferring that over the next coming years, maybe overall growth rates might be quite good in North America and Mexico. If you're theory on that or your inference on that is correct, we're very, very well positioned both in U.S. and Mexico.

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

Got you. Nice home-field advantage. And then on connected devices and mobility here, are we kind of seeing a bottom here in guidance revisions? And can we start to see maybe rebounding order flow as we head into second half of calendar year? Just your thoughts on those key markets and how kind of margins also evolve?

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

You're welcome. For us, mobility, if I think about FY '22, if I think about our outlook in September and if I think about where it is today, mobility hasn't changed much. It's plus or minus $100 million on nearly a $4 billion base. So mobility is kind of turning out about how we thought it would and both on an absolute scale and a relative scale to September in FY '22, and there's a lot of puts and takes there.

Our overall consumer business though, is we -- it's weak compared to '22, it's weak compared to what we thought in September. Has it bottomed? Not sure. Let's see what happens. There are so many moving parts. You've seen what has happened this week in the banking industry. We'll see what the interaction is both from the government, both from the Fed. So again, the nice thing is, is our consumer business is well diversified. In terms of the sector or end market as a whole, I don't know if I would have enough insight to suggest it's bottomed or not, I would say that we've taken a very significant hit in consumer.

I think our outlook for the back half of the year is rational and with that, we're taking the year up in terms of margins by 10 bps, and we feel really, really good about that. And again, I think it's illustrative of the composition of the overall company today.

Operator

(Operator Instructions) Our next question is coming from Shannon Cross from Credit Suisse.

Shannon Siemsen Cross - *Crédit Suisse AG, Research Division - Research Analyst*

Speaking of turmoil in the banking system, we're still here.

Kenneth S. Wilson - *Jabil Inc. - Executive VP & CEO of Jabil Green Point*

Congratulations.

Shannon Siemsen Cross - *Crédit Suisse AG, Research Division - Research Analyst*

Thank you, yes. To all the clients out there, we are alive and kicking. So just a couple of questions. On the EMS margin, you attributed the improvement to scale leverage. Can you elaborate more on that? And then maybe just talk about how you see scale versus mix versus cost optimization playing through as you look forward on operating margin? And I have a follow-up.

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

Let me clarify, you're talking about the margin expansion in EMS?

Shannon Siemsen Cross - *Crédit Suisse AG, Research Division - Research Analyst*

Yes.

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

Yes. I don't think I -- maybe I said it and maybe I forgot already, but I don't think I suggested that it's solely around scale and leverage. It's -- I think it's mainly around the fact -- I think it's composition of the business, and I think it's about the experience and the execution of -- in terms of our overall company, I feel this way. Our -- there's no team in the industry -- in our industry that has the experience and just the overall approach that our EMS team does. So I think leadership matters, I think the team matters.

I'm giving you mixed thoughts because the results are very good, but it's not like a coincidence. I think it's a combination of the leadership team. We've restructured that organization a bit. We took some costs out at the beginning of the year that Mike talked about back in December, the composition, the overall diversification, our opportunity to continue to gain share in areas that we want to gain share in. We've also made some very tough decisions on maybe some relationships that weren't performing as well.

And by the way, in general, I think that in our industry, scale gives us a huge competitive advantage for lots of different reasons and not just scale for the sake of scale, but add to that our geographic reach, our geographic know-how and then weave into that the sophistication of our IT systems, the investments we've made on the manufacturing floor which is hundreds of millions of dollars over the last 3 or 4 years in automation, AI, robotics, data analytics, I think all that plays, Shannon.

Shannon Siemsen Cross - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then, I guess, as you think about capital allocation, obviously, shareholder -- or sorry, share repurchase remains a key focus. How are you balancing the opportunity, say, in auto where obviously, there's significant growth potential versus returning cash to shareholders? What's -- I know you go through probably just a returns-based analysis. But how are you sort of thinking about it holistically and potential for, I don't know, small acquisitions as well?

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

I don't want to answer this. I think I'll waive the Jabil flag a little bit. I believe, in my opinion, and I've had lots and lots and lots of debates with sell-side, buy-side folks. I think from June of 2016 through today, we never get it right, we never get it perfect, and we'll never be exactly aligned with the sell-side, buy-side partners. But I think we've done an exceptional job with our capital allocation strategy, both strategically, tactically and financially.

And it is a lot of about a lot of data, a lot of data analytics, and we've come at that all the time with an eye on what do we truly believe is best for the long-term health of the business and then, of course, shareholders and customers, and we'll continue to behave in that exact manner.

Operator

Your next question is coming from Matt Sheerin from Stifel.

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

A couple of questions from me. First, on your wireless and cloud segment. Just looking for more color what you're seeing in demand there. I know you're guiding that segment down for fiscal '23, but part of that is due to the incremental consigned inventory at your cloud customers. We're hearing, obviously, from some competitors and suppliers that, that business has been weakening and pretty lumpy. So any color there would be great?

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

So if you think about the business, and again, we combine 5G wireless infrastructure and cloud together, as you know, from what we thought it was going to be 90 days ago in December, I actually think we guided it up by, I think, roughly $100 million relative to December. And we're getting back to levels that actually we thought it would be back in September.

So there's pockets of that where we're seeing a little bit of weakening. Overall, though, a reminder, our 5G wireless business is very global in nature. So to the extent that there's any -- and I'm not suggesting there is or isn't, but to the extent there's any type of pockets of weakening in North America, we're really fortunate to have that business well diversified and our overall cloud solution cloud business today is continuing to execute and operate slightly above the plan.

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

Okay. And then on the supply constraints that you're seeing in automotive. I know in previous quarters, you've had supply issues across other businesses, including health care and some other markets. Could you comment on the availability of parts in those areas? And on the automotive side, are you getting a sense that, that supply will improve over the next few quarters?

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

Yes, this is a recurring topic and rightfully so because it's been awful the last 18 months. We started tapping the drum and then maybe pounding the drum as we exited the summer of '22, moved into fall of '23 with opinions that the supply chain would probably get better sooner relative to maybe some other projections. It also, I think, is illustrative of advantage point we have with our scale cutting across so many different end markets. That's played out to be true.

And I would say, in general terms, I believe we talked about maybe during the September Investor Day, that we thought the supply chain, although maybe not fully back to normal, would normalize by late winter, spring time of '23, and that's shown to be true. So all in all, as we continue to move into the summertime of calendar '23 and into the fall, we see the supply chain getting better and better.

Operator

Next question is coming from Mark Delaney from Goldman Sachs.

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

Kenny, congratulations on the expanding responsibilities. First, on full year revenue guidance, I recognize there's no change to the overall guidance. If I look at the second half, in particular, it does imply year-over-year revenue declines, especially in the EMS segment. I recognize there's a high base that's perhaps a factor. But could you double-click a little bit on what's happening in the second half? How much is maybe that high base in program timing? And how much might be macro factors that are contributing to that one?

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

Mark, you're breaking up a little bit. There's some static on the line. So I'm not sure I understood your question correctly. So let me offer an answer, and if I miss your question, please tell me, and I'll do a better job trying to dial in on exactly what you're asking. So I think what I heard you ask was back half of the year in terms of revenue. So if I could break that into 3 buckets. And if I, again, bring me back to the genesis of your question, if I missed it. If we look at the back half, our DMS revenue is down about $200 million relative to where we thought we'd be in September. And almost all of that is the consumer space.

Our EMS revenue is within $50 million, $100 million where we thought it would be in September. So let's just say that's flat and largely as we expected. At an enterprise level, the second half is off about $150 million, $200 million. And again, that captures the consumer business as a subset. So in the most simplistic terms, that's how we look at the back half revenue-wise relative to the outlook we provided in September.

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

That's helpful, Mark. Hopefully, you can hear me a little bit better now, I removed my headset. But I was also trying to get at whether or not you thought the declines in the second half was due to program timing and just a high base from last year or you'd attribute it to macroeconomic trends?

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

Which declines are you speaking to?

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

Well, specifically in the EMS part of the business being down year-on-year, it looked like it was a tough comp. So was it kind of more program timing or would you attribute it more to macroeconomic factors?

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

You're talking about on a year-on-year basis?

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

Correct.

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

Okay. The vast majority of that is consignment. If you take a look at year-on-year and again, I'll round the numbers, and my numbers might not be exact, but if you break it into the 4 sectors in which we report our business, digital print and retail, I believe, is up year-on-year. Industrial Semi-Cap is up a lot year-on-year, and that's with hopefully a temporary weak situation in Semi-Cap. Our network and storage business is up for the year. And 5G wireless and cloud is down for the year, of which all of that is consignment from a financial perspective, and that sector is up in terms of unit volumes.

Operator

We have reached the end of our question-and-answer session. I'd like to turn the floor back to management for any further or closing comments.

Adam Berry - *Jabil Inc.*

Thank you for your time today. Please reach out if you have any further questions.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.