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JBL.N - Q3 2023 Jabil Inc Earnings Call

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OVERVIEW:

Company reported operating income of $375 million, diluted earnings per share of $1.99, cash of $468 million, cash of $1.5 billion, operating income of $1.71 billion, free cash flow of $900 million.

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PRESENTATION

Operator

Hello, and welcome to the Jabil Third Quarter and 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. Please go ahead, Adam.

Adam Berry

Good morning, and welcome to Jabil's Third Quarter of Fiscal 2023 Earnings Call. Joining me on today's call are Chief Executive Officer, Kenny Wilson; and Chief Financial Officer, Mike Dastoor.

Please note that today's call is being webcast live, and during our prepared remarks, we will be referencing slides. To follow along with the slides, please visit jabil.com within the Investor Relations portion of our website. At the conclusion of today's call, the entirety will be posted there for audio playback.

I'd now like to ask that you follow our earnings presentation with the 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 fourth 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 third quarter results, where the team delivered approximately $8.5 billion in revenue at the top end of our guidance range. Core operating income for the quarter came in at $404 million or 4.8% of revenue. This is up 60 basis points on a year-over-year

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basis. Net interest expense in the quarter came in better than expected at $75 million, reflecting lower levels of inventory during the quarter, resulting in better working capital management by the team.

From a GAAP perspective, operating income was $375 million, and our GAAP diluted earnings per share was $1.72. Core diluted earnings per share was $1.99, a 16% improvement over the prior year quarter and towards the upper end of our guidance range.

Now turning to the segments. Revenue for the DMS segment was $4.35 billion, an increase of 13% on a year-over-year basis driven by strength in our automotive and health care end markets. In particular, it's worth highlighting our automotive business, which grew approximately 60% year-over-year as the team performed extremely well as volume, content and brands continue to expand.

Core operating margin for the segment came in at 4.1%, 30 basis points higher than the same quarter from a year ago but down 50 basis points sequentially as typical, given the normal seasonal pattern within our mobility business. Revenue for our EMS segment came in at $4.1 billion, down 8% year-over-year and in line with our expectations. Also, as expected, we saw a revenue shift in our 5G wireless and cloud business driven by our previously announced move to a consignment model for certain components within that end market.

It's also worth noting that our industrial business, driven by global demand for renewable energy, increased by approximately 30% year-over-year. For the quarter, core margins for the EMS segment were an impressive 5.5%, up 90 basis points year-over-year and 40 basis points sequentially, reflecting strong growth in industrial and the aforementioned shift to a consignment model.

Next, I'd like to begin with an update on our cash flow and balance sheet metrics as of the end of Q3, beginning with inventory, which saw a great improvement sequentially to 84 days. More importantly for us, net of inventory deposits from our customers, inventory days were 62 in Q3, an improvement of 7 days sequentially.

Our third quarter cash flows from operations came in at $468 million, while net capital expenditures totaled $212 million, resulting in $256 million in free cash flows during the quarter. In the quarter, we repurchased 1.9 million shares for $154 million, leaving us with $821 million remaining on our current repurchase authorization as of May 31. With this, we ended the quarter with cash balances of approximately $1.5 billion and total debt to core EBITDA levels of approximately 1.2x.

In summary, the team delivered another impressive performance in Q3. 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.

But before I hand it over, I'd like to announce our fourth quarter earnings call and sixth annual investor briefing scheduled for September 28, where we'll lay out our strategy and our financial plan for fiscal '24. Please mark your calendars.

Additionally, from an Investor Relations perspective, we're going to be active in fiscal '24 with meetings, factory tours and end market deep dives, where we plan to discuss and showcase some of the growth drivers that we feel support our longer-term expectations. Please stay tuned, and 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. For the first 9 months of fiscal year, the team has posted solid top line growth, improved core operating income by more than twice the pace of revenue growth and grew core EPS by 16% while also expanding core operating margins by 30 basis points, a solid performance by the team.

As you heard from Adam, our growth and improved profitability this year continues to be driven by areas of our business benefiting from secular growth like electric vehicles, health care, renewable energy infrastructure and cloud. All in all, our solid performance year-to-date gives us excellent momentum as we enter the final quarter of FY '23.

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With that, on the next slide, you'll see our fourth quarter guidance. For Q4, we expect total company revenues to be in the range of $8.2 billion to $8.8 billion. At the midpoint, this anticipates DMS and EMS revenue to be $4.3 billion and $4.2 billion, respectively.

Core operating income is estimated to be in the range of $424 million to $484 million. GAAP operating income is expected to be in the range of $400 million to $460 million. Core diluted earnings per share is estimated to be in the range of $2.14 to $2.50. GAAP diluted earnings per share is expected to be in the range of $1.96 to $2.32. Interest expense in the fourth quarter is estimated to be $73 million, which is lower than we forecasted in March, reflecting better working capital management by the team.

Moving to the next slide, where I'll offer an update on our end market demand assumptions and how these translate to our FY '23 revenue expectations. At a high level, our assumptions remain largely consistent with our March update. We continue to be conservative in our approach, given the current macroeconomic dynamics and expect strong growth from our secular markets to be slightly offset by lower demand in some of our consumer-facing markets and in semi-cap.

In our automotive end market, EV growth continues to be robust, limited only by the pace at which we can scale up production across multiple geographies with several OEMs. In health care, the outsourcing of manufacturing trend continues to play out as we're seeing increased activity with interest from multiple OEMs exploring our capabilities.

Growth expectations for our industrials business have also improved since March driven higher by renewable energy infrastructure. Specifically, we're seeing good growth in solar inverters, smart meters, energy storage and power and building management solutions. We now expect our industrials business to be up more than 25% in FY '23. This growth has been slightly offset by incremental end market weakness in our semi-cap business.

In summary, we feel the outlook for our business is solid and expect demand across many of our end markets to remain strong. We now expect revenue for FY '23 to be $34.7 billion, up 4% year-over-year, which is $200 million above what we thought in March.

Considering this updated growth outlook, let's now turn to the next slide to get a view of our updated guidance for FY '23. Notably, we see income coming through with the increased revenue. We now expect to deliver core operating income of $1.71 billion, a year-over-year increase of approximately 11% while holding core margins at 4.9%. This 4.9% represents a growth of approximately 30 basis points year-on-year. With the additional income, we're now anticipating core EPS will be $8.50. We remain committed to generating more than $900 million in free cash flow this year.

Beyond FY '23, we expect our secular markets to continue to drive growth. I also believe our margins will continue to expand with the combination of our positive mix shift towards higher-margin end markets and operational efficiencies driven by automation and internal use of AI and ML technologies.

In summary, the team is executing extremely well. I expect our strong momentum to continue into FY '24, although we remain cautious and vigilant on the near-term macroeconomic conditions.

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

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Good morning. Thanks for joining us today. As you heard from Adam and Mike, our business is in good shape, and the team has executed well this year in what continues to be a dynamic operating environment. The success we're seeing across our business is a key proof point of our team's ability to leverage multiple capabilities across disparate end markets as we continue to diversify our service offerings underpinning or improving financial performance.

Let's turn to the next slide, where you'll see our updated outlook for fiscal year '23. We continue to expect good year-over-year growth and operating leverage this year, which gives us the confidence to raise our expectations for core EPS by $0.10 to $8.50.

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At the same time, we remain highly focused on delivering more than $900 million in free cash flow. It also sets a firm foundation for further margin and free cash flow expansion as we look to fiscal year '24.

In fact, when I look at the growth in our business this year, it's worth highlighting that nearly 60% of our portfolio is there aimed at markets with strong secular growth. Specifically, electric vehicles, renewable energy, health care and 5G and cloud.

Our automotive business continues its healthy growth rate as the team navigates multiple complex program introductions, increasing both our scale and addressable content per vehicle. Jabil continues to be extremely well positioned to support our customers as they accelerate their transition to EVs in the coming years.

And in our industrial business, we are supporting customers as we navigate the rapid transition towards clean energy. Over the last several years, we've invested heavily in capabilities to support energy storage, energy conversion and grid-level power management solutions, which will now be deployed across multiple markets at scale.

Although we are in the early days of growth in this space, as government policies like the Inflation Reduction Act in the U.S. mature and scale, Jabil is extremely well positioned to support our customers in the coming years. In health care, we continue to capitalize on the trend to outsource manufacturing. And our credibility with some of the leading OEMs in this space has positioned us well for future growth.

Another area that is increasingly coming into focus for us is in the AI and ML space. This has implications both on the growth side of our business across multiple end markets but also has a potential to drive efficiencies across our internal processes and factory network.

As it relates to our internal processes, we are capturing data and using the latest toolkits to help improve our operations. Please, however, don't view this as a new initiative, mainly the next step and the continuous improvement path we've been on for many years.

Our operating system naturally drives us to simplify, standardize, optimize and automate processes and resist in conjunction with our enhanced ability to mine big data, which ultimately drives sustainable improvements. In September, the Jabil team will go deeper in all of these areas at our investor briefing. At that event, we plan to offer our fiscal year '24 financial outlook as we continue to prioritize growth in core margins and cash flows.

Specifically, we will lay out how we plan to increase revenue while also expanding core operating margins beyond 5%. How we plan to increase free cash flow by continuing to invest in growth to provide another year of solid core EPS growth and finally, provide an update on our capital return framework.

In closing, I feel strongly that we have the right team, capabilities and diversified portfolio to support strong momentum into the final quarter of fiscal year '23 and beyond. Another -- this would be possible without a thriving and unified Jabil culture, which is as strong today as it has ever been. Thank you for joining us today and your interest in Jabil.

I will now turn the call over to Adam.

Adam Berry

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.

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

Jabil has reported strong ROIC or return on invested capital over the past few years. Looks like over the past few quarters, it's been really strong. I mean, we calculate above 30% ROIC. This quarter was strong as well. Can you remind us what ROIC you would target? And what are the factors that will influence this going forward?

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

Ruplu, yes, the ROIC that we reported is in the 30% range. We normally target in that 25%, 30%. If you look at our working capital management, the way we use our invested capital, our CapEx and all the factors that make up invested capital, we're extremely disciplined on that.

The returns are coming in. So the numerator and denominator on the ROIC calculator or the ROIC calculation is actually quite robust and strong. And you can expect those levels of ROIC going forward as well, Ruplu.

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

All right. As a follow-up, maybe I can ask -- let me ask about the semiconductor capital equipment end market. I mean, that end market right now is weak, and your revenues are down year-on-year. However, when I think about it, that segment offers higher than corporate average margins.

So do you think you have enough capacity in that segment to take advantage of the market move upwards when that happens? And what things do you keep in mind when deciding to invest more CapEx into that end market?

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Ruplu, it's Kenny. It's a great question. In fact, just this morning, I was reading an article about -- the covered AI. And it talked about the semiconductor space and just the wafer fabrication equipment and the demand and how that increases through '24, '25 and '26.

So I would say that we are -- our view is quite consistent with yours that we think that although it's a lull right now that it's going to pick up in the -- probably the second half of calendar '24 and beyond. So remember that we are -- we try and be diversified in all our end markets. And we're very well diversified in this market also from a front-end and back-end perspective.

We've been expanding our footprint across the world and -- in anticipation of the pickup in demand through the back end of next year. So we got a pretty competent team there that are ready, and we're ready to build the demand and -- for our customers when the demand picks up through the back end of next year. So we feel really, really good about where we are from a semi-cap perspective.

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

Okay. Congrats on the strong execution in the quarter.

Operator

Next question is coming from Matt Sheerin from Stifel.

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

I wanted to dig a little deeper on some of the end market commentary, particularly on the consumer side. It looks like you actually took up your connected devices guidance a little bit for the year but still down double digits. Are you seeing any signs of consumer bottoming here? Or any outlook that gives you some confidence that you're going to get back to growth at some point?

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. I think Mike mentioned it quite well in his prepared remarks about we're cautious of the near-term macro. We're very, very well diversified in the connected devices space. And -- but sometimes you get pleasant surprises in the upside like we had in Q3. But we still think it's choppy and spotty, and we think we're bumping along the bottom.

I would also mention, Matt, that as we look at our business here, we did get a COVID pick up effectively, and we're probably running at the run rates that we were in '19, '20, '21, that kind of level.

That said, we have won more than our fair share of opportunities in the space. So we do expect as the macro corrects that we should see a pickup in connected devices. But right now, I'd say visibility is quite short, and we're just being really, really cautious.

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

Okay. Great. And I also wanted to just talk about the inventory reduction that you've seen in the general supply environment. I know you've had some headwind certainly in auto, EV and some other markets. Are you starting to see some signs of supply easing? Or is that still a gating factor in auto or some of your other businesses?

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

So Matt, yes, the inventory did go down by 7 days sequentially. The team has done a fantastic job. I think last quarter, I mentioned I expect inventory to sort of bounce between 60 and 65 days in the short to medium term. We're seeing that coming through. In the longer term, we can take it down into the mid- to high 50s. We're confident of that.

But the supply chain remains patchy. It is sort of easing in a lot of areas, offset by constraints in others. So if you look at automotive, you look at semiconductors, you look at any power-related components, MCUs, all of them seem to be still in a constrained situation.

So we're seeing a mixed bag here on the supply chain side. The golden screw issue is still there. That's not gone away, although it's easing a little bit. So the best way to categorize or characterize this is it is easing but nowhere near normal yet. So just something to keep watching. We'll -- we're focused on it, and we'll continue to evolve how -- with the supply chain changes.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. I'll -- just a comment on that just to support that mix and put there, Matt, just to give you some context. So we are tracking in the semiconductor space, the automotive semiconductors. And whereas 12 months ago, we were tracking 1,200 components that we would class with golden screws for different assemblies.

That number is probably half now as the number that we're managing. So it's down a lot, but it's still an issue for us that we continue to navigate. So it's getting better for sure, but it's not gone yet.

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Operator

Next question is coming from Steven Fox from Fox Advisors.

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

Two questions from me as well. First off, thanks for the extra disclosure on industrial and auto. On the industrial piece, I was wondering if you could give us a little more color as to how Jabil is differentiating in those markets? I know some of the programs you mentioned you've been in for quite a while. What sort of changed beyond the secular that's driving that 40% growth? And then I had a follow-up.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. So thanks, Steve. So firstly, we go through a process every year, Steve, where we look at our long-range plan, and we plan out 3 4, 5 years. So this hasn't just suddenly appeared as an opportunity for us. We've been looking at this for a long time.

Brent Tompkins, who runs that group, has been really, really focused on. We need to develop capabilities to support things like grid-level energy storage, which would be new for us just from a scaling and -- perspective, but also leaning into the things we've done historically in the EMS side of our business.

So it's been a little bit of like, for example, we opened a new facility in Salt Lake City. So that's been a few years in the making. It's pretty much full now, and we're looking to expand that with multiple customers, which is good.

So it's really just leaning into our customers' road maps, looking at the capabilities that we have, augmenting that with other capabilities and being able to support things like as we mentioned, grid-level energy storage, which we see as a key area for us, smart power conversion and energy management. So we're feeling pretty good that we're in -- we got the right capabilities developed to be able to support our customers for the foreseeable future.

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

Great. That's super helpful. And then just on the auto sort of an opposite end of spectrum financial question, which is the growth is tremendous. And it doesn't seem to be hurting the overall margins at all. But can you give us a sense for how that's possible?

And yes, I would imagine that these aren't mature margins, whatever you're producing within the auto sector when you're growing 60%. So just sort of maybe give us a little perspective on that.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. And what I want to tell you, Steve, the good thing about the auto industry for us is that it's hard. And the fact that it's hard means it's difficult for people to engage.

So I mean, you've seen our facilities. So the ability to introduce products globally, consistently, the same quality standards using complex automation, that's difficult. And your ability to get up to speed quickly as dictates -- where you can lean into the margins in the short term.

Mike talked about this kind of the wave or where your margin profile is under expectations as you get through the ramp and then normalizes above corporate averages. So we're starting to get through that a little bit, although, obviously, we introduced new products and new programs. And we're expanding our footprint, as you know.

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So I think this will be -- our ability to take in new products, deploy them and ramp them globally is going to be what's going to dictate how effective our margins are. But we're doing a reasonable job, I'd say. So we're pretty bullish about where we will land in the future.

I'd remind you also that we're active across multiple OEMs here. So we've got opportunities coming at us across the world with different customers, which makes us feel quite bullish about our future.

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

And Steve, if I can just add. The product life cycle in automotive extends out to 6 to 7 years. As you get deeper into the bell curve that Kenny mentioned with some of the automation that we've introduced, it really suits long product life cycle products such as automotive, where operational efficiencies continue to drive margin even beyond end market sort of impact.

So just something to keep in mind that the longer the product life cycle, the higher the operational efficiency as a result of automation, which again drives margins upwards as well.

Operator

Next question is coming from Shannon Cross from Credit Suisse.

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

I wanted to talk a bit about the health care business. Clearly, you've done well with the J&J relationship, and that business continues to grow. I'm wondering where you're seeing the best opportunity looking forward? Because I would assume this will be a pretty solid grower, given demographics. And everybody needs, unfortunately, surgeries as we all get older. So if you could just provide a bit more there, and then I had a question on margin.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. So we approach health care with -- in 3 kind of areas of our focus. Firstly, we've got really good relationships with our current customer base, and we look to expand that with -- whether it's in the med device, diagnostics or pharma.

And we see a lot in each of those areas is the need for connected health care so that there's opportunities, whether it's continuous glucose monitoring or sensors and so we see that we've got a really broad base of customers, capabilities and markets.

And just as we continue to serve them well, we think that there's a real growth opportunity. I mean, an example would be if you look at the auto injectors we're making for diabetes, and we make hundreds of millions of every year.

And then you look at the opportunity that comes out with them -- from the -- weight reduction that you see with the drug there. So we are really, really -- it's broad-based, and we're well positioned. And we feel quite bullish about our ability to grow that.

I'll tell you also that -- and health care moves at a slower pace than some of our other businesses. But we've got credibility. And we're having more discussions about kind of vis-a-vis where there's opportunities for us to do something not in the same scale as our JJMD deal that we did.

But we see opportunities coming in for us in the longer term. So yes, we think -- Andy Presley runs that business for us. He and his team are doing a wonderful job, and we're feeling quite bullish about where we end up in the longer term in health care.

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

Great. And then from a margin perspective, I understand that mix of revenue drives a significant amount of the margin movement on a quarterly basis. But kind of maybe as a follow-up to what Steve was asking about in auto.

Can you talk about some of the other margin changes you've seen within some of your subcategories whether, I don't know, networking or industrial as it becomes more renewables-focused? Just to give an idea of sort of what's happening below the covers in terms of the margins.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. Yes, sure. Let me take a swing around and then Mike can help also. We are -- if I look year-over-year, we're up 60 basis points. And obviously, we think we've got 30 basis points for the year. So we're feeling pretty good about our margin profile and trajectory.

We are -- I think 60% of our business, as I said in my prepared remarks, we think is in business which is going to grow and continue to grow in the longer term. Things like -- we think that our automotive will be -- automotive and health care should be above corporate averages.

We think renewables will be. We mentioned about semi-cap being lower. We think that, that recovers that helps us. And we've done a lot of tidy up in the rest of our business to make sure that we're running -- I mean, what we got to do also is, we've got to make sure we run good operations.

If we run good operations, then efficient operations, then we think we can give our customers good value. So I don't know. Hopefully, that's helpful. Mike, do you have any comment?

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

I just had one sort of macro comment. I think more than -- end market secular trends are obviously driving a huge growth prospect for us. But above that sits the whole outsourcing of manufacturing as a trend as well, which drives margins.

If you look at the complex design requirements we have today, the dynamic supply chain markets, we're manufacturing at scale in multiple geographies with strong local knowledge or localization of manufacturing, regionalization of manufacturing. And then you have automation driving a lot of this forward as well.

So that by itself is driving this entire outsourcing of manufacturing as a trend, which then leads into stickiness, which then leads into margin expansion as well. And I would suggest that almost all of our end markets that we present here are seeing some sort of change in behavior from an industry standpoint and specifically for Jabil from a capability standpoint as well. So all good drivers of margin going forward, Shannon.

Operator

Next question is coming from Paul Chung from JPMorgan.

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

Nice progress on inventory, and your free cash flow conversion kind of continues to grow from '21 levels kind of rebounding there. And guide for growth suggests kind of improved pace there, maybe potentially hitting free cash flow north of $1 billion for the first time. So how do you think about the pace into '24 and some of the dynamics across working cap?

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

We'll continue to provide -- we'll provide some guidance on free cash flow '24 in September, Paul, but you can expect the team to be completely focused on driving margins, driving free cash flow. And then using the free cash flow to continue to do buybacks because we think -- we feel we're undervalued still.

So I think that free cash flow conversion, expect that to continue to go up as well as the working capital dynamics change. I don't think you get a 1 for 1 return if inventory goes down. It doesn't mean all of that will flow through in free cash flow because we have other means of offsetting some of the inventory sort of days through AR, through AP, which we've been doing pretty effectively.

So expect free cash flows to continue to go up on an annual basis going forward, Paul, is the best way to describe. And we'll provide more guidance in September.

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

Okay. Great. And then separately, are you starting to see evidence of some deflationary impact on components? And which end markets are you seeing some bigger impact there? And how do we think about the impact on revenue and margins into '24 as kind of prices ease?

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes, we're not really seeing that. I mean, it's puts and takes, some ups, some down, Paul. And it's not something that we're overly concerned about, and it's not something that we think is going to impact our outlook for '24.

We think that we're driving to north of 5% margins for '24. Obviously, we'll update that in September. But yes, it's not something that's occupying a lot of our thoughts right now.

Operator

Next question is coming from Melissa Fairbanks from Raymond James.

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

Congrats on another great quarter. Really great working capital management. I just had a quick question on the interest expense because it does have such a big impact on the core earnings. We're going to see it tick a little higher in the August quarter. I'm assuming that's driven by the inventory requirements tied to seasonality is, first of all, is that correct? And then second, what should we expect for interest expense beyond August, maybe on a more normalized basis?

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

So Melissa, just to clarify, our interest cost in Q3 was $75 million. The guidance we provided for Q4 is in the $73 million range. So it's not going up. It's actually going down a little bit. I think we continue to benefit from working capital management.

The team is highly focused. Some of the golden screw issues are easing, not as much as we'd like, but still on the right path. So all in all, we feel that, that sort of a run rate especially in the first 2 or 3 quarters of FY '24 continue. After yesterday's Fed comments, it might be that sort of run rate for the entire year in FY '24 as well.

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

Okay. Sorry about that, a little modeling snafu there. Maybe just as a follow-up, it seems AI is a hot topic these days. So I wanted to be sure you have the chance to talk about it.

In the slides, you highlight cloud and AI/ML automation as being some of the growth drivers for '24. You talked a little bit about the automation side of things, but maybe address what you're seeing in cloud and AI.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. Thanks, Melissa. And actually, it's -- I'm kind of snickering here because when we were preparing for the call, I was just back from an Asian tour with -- in our facilities. And I was really blown away by -- I hadn't been there for a few years pre-pandemic. And I was kind of blown away by just the improvements we made internally and using robotics, automation, getting rid of nonvalue-add activities and leaning into AI to help us with algorithms that help us introduce new products quickly from an inspection perspective, et cetera, et cetera, et cetera.

So it was unbelievable just how many people we've taken out of our processes by leaning into automation and using an AI engine to support. But -- and we talk about that. And I know that some people say that AI is going to be overhyped in the short term, but obviously, more beneficial in the longer term.

But what we do see is -- and we are seeing -- you need a lot of -- you need to teach these large language models, you need advanced network. And obviously, you've got a lot of requirements for process in the cloud. So what we see is -- and by the way, we think it's going to pick up over the longer term.

But the ability to produce advanced network and products and ability to make cloud devices where they require liquid cooling, they require high-speed optical interconnects, that plays to capabilities that we've been developing over a long period of time.

And that's why we're quite bullish in the longer term from a cloud perspective because we're able to bring in multiple capabilities that we've developed in other parts of our business to support customers in that space, which is going to help them as [we got] request to support and companies that are running large language models in the AI space. So we think that, for sure, overhyped in the short term, but we think in the longer term, it's going to be another real secular growth opportunity for us.

Operator

Next question is coming from Mark Delaney from Goldman Sachs.

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

Yes. You mentioned you're planning for a challenging macroeconomic environment in 2024. As you see things today, are you thinking the macroeconomic environment is incrementally more difficult next year? Or is it more of a continuation of the kind of challenges you've been seeing?

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

Mark. just to clarify, I think the words I used, we're just being cautious and vigilant. There's a lot of chatter around consumer end markets. We've seen some of that. It's a little bit patchy. It goes up. It comes down.

For instance, Q2 was down. Q3 was actually up for us from a consumer standpoint. We're not seeing anything major in any of our end markets that would give us any concerns. I was just being cautious and vigilant, that's the only meaning behind my comments there.

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And if you look at the secular markets that we're in today, all growth-oriented, the EV, health care, renewables, 5G, cloud, they're all moving in the right direction. So I don't think that gets slowed down by macroeconomic conditions that much.

There might be instead of growing by double digits, maybe it grows by single digits. But overall, we're not seeing any of that right now, and we just want to be cautious and vigilant as well.

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

That's helpful. My other question is you're seeing such good growth in certain markets like EVs and renewables, are there stuffs you have to take operationally in order to continue that growth, either more a factory capacity, finding more labor and other constraints you may be running into, given the growth rate you've been undergoing in a couple of those key markets?

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

Yes. On the EV side, for example, yes, we have to expand our operations where we're expanding in the Americas. We're expanding in Europe. We're expanding in Asia. So there's definitely -- we need to grow in our footprint in some of the geographies.

Health care is a little bit more steady Eddie. But overall, still the trend is upwards. Renewables, we've just opened a new factory in the U.S. And we'll continue to expand as and when we feel -- the requirements there. But yes, it is something we're watching. We're being very thoughtful. We're very disciplined.

We don't want to overinvest in CapEX, and we're watching trends very carefully to make sure there are long-term sustainable trends and not just hype, which is temporary. So yes, the answer to your question is yes.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

I have a follow-up on that, Mark, also is that we always talk about having a single instance of SAP in our company. And that, for example, becomes critically important. As we look to get requests from customers to introduce new products, introduce them across multiple geographies that -- having that single instance of SAP is critically important.

But more than that would be JJ Kraton and his team are looking at making sure that our factory network operates consistently with the same processes. We've got a kind of unified Jabil culture, as I mentioned.

So our ability to incubate new business or new capabilities in one part of the world and then be able to deploy that at scale across the rest of our network is -- really lends itself to our model. And so we're feeling quite bullish that we're really well positioned to support the needs of our customers in the world where geographical manufacturing seems to be more in vogue.

Operator

Next question coming from David Vogt from UBS.

David Vogt - *UBS Investment Bank, Research Division - Analyst*

I just want to go back to the AI automation conversation. I know you're probably going to provide a lot of color on this in September, and I know it's early days. But when you think about sort of the end markets and your customer base, obviously, there's going to be some technological shifts in what's happening, whether it's in sort of the data center or the networking stack.

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How does that work with you and your customers in terms of you potentially winning new types of businesses for new technological sort of changes effectively? And generally, what are the lead times in terms of from concept discussion to deployment?

And then I have a follow up on margins, which I can maybe just roll in here as well. So it sounds like near term, the opportunity is for your own efficiency gains from automation going forward in fiscal '24 from AI potentially. Is that fair? Is that a fair way to think about the business next year?

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. So for sure, and if I don't answer this (inaudible) quite, David, there was a lot there. So for sure, internally, I mentioned previously that our internal process is we simplify, optimize, standardize and automate. We've been doing that forever. This helps us accelerate some of that, as I had mentioned.

So we see that this is definitely going to be -- help us from an ability to introduce new products, ability to be more efficient and therefore, drive margins. So for sure, we see that.

In terms of engagement with customers, I mean, we don't see any one of our end markets that this isn't going to be favorable for whether it's in autonomous driving or in health care or whatever. And the relationships that we have are quite deep rooted with our customers.

We access their technology road maps in conjunction with them to help them introduce new products. So I think that the model -- that isn't going to change the model that we have, the engagement model we have with our customers.

Like we've got our technical experts, of which we get -- thousands across the company are actively engaged with customers looking at their road maps and how we can support them. So I think for sure, there'll be some acceleration there. But for us, it's almost business as usual as it comes to engaging with our customers.

David Vogt - *UBS Investment Bank, Research Division - Analyst*

That's helpful. Maybe can I just ask a quick follow-up along those lines. Do you -- I know it's early days. Do you get the sense that maybe some customers would reprioritize spending and road maps from maybe some existing sort of products and the road maps to really take advantage or jump on this sort of new, sort of large long-term secular driver in AI? What I mean by that assuming some of the legacy -- get deemphasized.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes. I don't think so. I mean, I think that when people talk about it's been hyped in the short term, I think it's been hyped in the press in the short term. I think everyone who's been involved in our industry or in the industry, AMD talked about it yesterday [in a video]. I mean, they haven't just woke up yesterday and decided it's a good idea.

They've been working on this road map for multiple years. So I think there's a little bit of hype in the press. But to those who are involved in the industry, I think it's just a continuation of the road maps we've been working on.

David Vogt - *UBS Investment Bank, Research Division - Analyst*

Got it. So it sounds like it's additive. That's helpful.

Kenneth S. Wilson - *Jabil Inc. - CEO & Director*

Yes.

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Operator

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

Adam Berry

This is the end of our call. Thank you for joining. Please reach out if you have any further questions. Thank you.

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.

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