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JBL.N - Q1 2026 Jabil Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings. Welcome to Jabil's first quarter fiscal year 2026 financial results conference call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to Adam Berry, SVP, IR and Communications. Thank you. You may begin.

Adam Berry - *Jabil Inc - Senior Vice President of Investor Relations and Communications*

Good morning, and welcome to Jabil's first quarter fiscal 2026 conference call. Joining me on today's call are Chief Executive Officer, Mike Dastoor; and Chief Financial Officer, Greg Hebard. Please note that today's presentation is being live streamed. And during our prepared remarks, we will be referencing slides. To view these slides, please visit the Investor Relations section of jabil.com. After today's presentation concludes, a complete recording will be available on our website for playback.

In addition, we will be making forward-looking statements during this presentation, including, among other things, those regarding the anticipated outlook for our business, such as our currently expected second quarter and full fiscal year 2026 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 is identified in our annual report on Form 10-K for the fiscal year ended August 31, 2025, and other filings with the SEC. 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 hand the call over to Greg.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Thanks, Adam, and good morning, everyone. Thanks for joining our call today. This quarter, we exceeded expectations across the board: revenue, core operating income, core margins and core earnings per share all came in strong. Our performance underscores the value of our diversified portfolio and our consistent execution. Intelligent Infrastructure led the way with impressive growth while Regulated Industries and Connected Living and Digital Commerce delivered steady results in line with or above our outlook.

Let's now walk through our numbers. Net revenue for Q1 was $8.3 billion, at the high end of our guidance range. The mix in revenue and ongoing cost discipline helped us achieve core operating income of $454 million and a core operating margin of 5.5%. On a GAAP basis, operating income was $283 million, and GAAP diluted earnings per share was $1.35. Core diluted earnings per share for Q1 was $2.85, coming in at the upper end of our guidance range.

Turning now to performance by segment in the quarter. Regulated Industries generated $3.1 billion in revenue, in line with expectations and up 4% year-over-year. Automotive and renewables came in largely as expected, and healthcare continued to deliver steady, reliable revenue performance. Core operating margin was 5.8%, up 110 basis points year-over-year reflecting solid and disciplined execution across the segment and ongoing strength in healthcare.

Intelligent Infrastructure revenue was $3.9 billion, ahead of expectations. The upside was primarily driven by strength in our cloud and data center infrastructure as well as our networking end markets. In cloud and DCI, we saw higher revenue due to strong execution as we ramp our second hyperscale customer in Mexico, along with robust results from our data center power operations in Memphis.

The upside in networking was primarily driven by stronger demand for next-generation liquid-cooled platforms, which we currently support in India. Core operating margin for the segment was 5.2%, up 40 basis points year-over-year, supported by mix and strong execution. Connected Living and digital commerce revenue was $1.4 billion, ahead of expectations with broad-based strength in automation, robotics and retail warehouse programs. Core operating margin for the segment was 5.5%.

Next, I'll provide an update on our cash flow and balance sheet metrics. Inventory days for the quarter came in at 70 days. Net of inventory deposits from customers inventory days were 57 days, consistent with our targeted range of 55 to 60 days. Cash flow from operations in Q1 was $323 million, and net capital expenditures were $51 million, resulting in adjusted free cash flow of $272 million for the quarter. We remain on track to deliver $1.3 billion in adjusted free cash flow for the full year.

We ended the quarter with a healthy balance sheet, including net debt to core EBITDA of 1.2x and cash balances of $1.6 billion. During Q1, we repurchased $300 million of shares under our existing share repurchase authorization.

With that, let's turn to our guidance for Q2 FY '26. Beginning with revenue by segment, we anticipate Regulated Industries revenue of $2.78 billion, up 2% year-on-year, reflecting an appropriately disciplined outlook for automotive and renewables with continued growth in healthcare. Intelligent Infrastructure revenue of $3.76 billion, up 42% year-on-year, supported by sustained strong demand across cloud, data center infrastructure, data center power, networking, liquid cooling and capital equipment. This also includes a modest contribution from the previously announced Hanley Energy acquisition, which our guidance assumes will close sometime in January.

Connected Living and Digital Commerce revenue of $1.21 billion, down 10% reflecting planned program attrition and customer pruning, partially offset by continued growth in warehouse and retail automation. Putting it all together to enterprise level, total company revenue for Q2 is expected to be in the range of $7.5 billion to $8 billion. Core operating income is expected to be in the range of $375 million to $435 million. GAAP operating income is expected to be in the range of $312 million to $382 million. Core diluted earnings per share is expected to be in the range of $2.27 to $2.67.

GAAP diluted earnings per share is expected to be in the range of $1.70 to $2.19.

We expect second quarter net interest expense to be approximately $69 million and full year interest expense to be approximately $270 million. The increase in interest expense next quarter reflects two key factors: first, additional debt associated with the anticipated acquisition of Hanley Energy Group, which we intend to fund through a combination of cash and new borrowings. And second, the anticipated refinancing of our existing senior notes maturing in April. Our core tax rate for Q2 and the full year is 21%.

In closing, Q1 was a strong start to the year, and we carried good momentum into Q2. Our results reflect the strength of our diversified portfolio and the consistency of our execution. As we move through the balance of the year, we remain focused on margin expansion, capital efficiency and sustained cash generation.

With that, I'll turn the call back to Mike, who will offer additional color on fiscal 2026 and our updated guidance.

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

Thanks, Greg, and good morning, everyone. I'd like to begin by personally recognizing and thanking our global team for their extraordinary efforts they continue to deliver. I'm extremely pleased with the strong start to fiscal 2026, which could not be accomplished without your focus, discipline and commitment to our customers. I see that dedication every day across our operations, and I am sincerely grateful for everything the Jabil team continues to deliver.

As Greg outlined, the first quarter was better than expected in both revenue and core margin, which ultimately drove core EPS high end of our guidance range. And while AI continues to be the primary driver of growth, it was great to see all of our three segments contribute to our better-than-expected performance.

In summary, our Q1 results, I believe, reinforced the strength of the strategy we laid out in September and the value of our diversified model. And more importantly, we now expect this momentum to continue throughout fiscal 2026 and beyond into fiscal 2027.

With that momentum as a backdrop, I'd now like to take a few minutes to walk through each of our segments for FY '26. Beginning with Intelligent Infrastructure. We're raising our fiscal 2027 outlook by approximately $900 million, driven by higher revenue in both cloud and DCI as well as networking. Cloud and DCI is now expected to be up an incremental $600 million for the year to $9.8 billion. The stronger-than-expected outlook is primarily driven by the recent program wins with our second hyperscale customer in Mexico and upside in our data center power business in Memphis.

This also includes approximately $200 million associated with the Hanley Energy acquisition, which we expect to close in January. Hanley strengthens our capabilities in modular power distribution and energy systems for next-generation data centers. This will diversify our racks and server business. We now expect our networking and comms end market to be up approximately $300 million for fiscal 2026 to $2.7 billion. This is supported by stronger demand for next-gen liquid cool platforms with meaningful demand increases in India as customers expand high-speed interconnects, including both Ethernet and InfiniBand capacity to support the rapid growth in AI workloads.

Altogether, we now expect AI-related revenue of approximately $12.1 billion in fiscal 2026, which represents approximately 35% year-over-year growth, up from 25% originally expected in September. The strength we're seeing here clearly validates our strategy. By designing and delivering fully integrated systems that combine compute, networking, power distribution and advanced cooling, we materially shorten deployment time lines and reduce total cost for customers, precisely what is required as AI capacity scales.

On a separate note, and as we discussed in September, we're in the process of retrofitting our East Coast rack and silver factories to accommodate for liquid cooling. And these efforts remain slightly ahead of schedule, positioning Jabil very well for the second half of fiscal 2026 and into fiscal 2027.

In Regulated Industries, fiscal 2026 is tracking above our September expectations by roughly $100 million, driven by better-than-expected results in renewables, although we remain cautious with our outlook for the year. Automotive continues to perform as expected, and we continue to focus on powertrain agnostic solutions in next-gen vehicles. Importantly, over the longer term, we remain well positioned in both renewables and automotive markets as the team has consolidated share with existing customers.

In healthcare, our business remains solid and aligned with our expectations for growth, supported by continued strength in drug delivery platforms, including GLP-1, and continuous glucose monitors as well as ongoing demand across diagnostics and minimally invasive technologies. Our pipeline remains healthy with good visibility into program ramps across drug delivery, chronic disease management and other regulated devices categories.

Overall, we expect healthcare will be a durable multiyear growth engine for Jabil. Putting it all together, we now expect our regulated segment to return to growth this year, representing nearly 40% of our revenue in fiscal 2026.

And finally, in Connected Living and Digital Commerce, our outlook is also ahead of our expectations at the beginning of the year as we now anticipate approximately $100 million in incremental revenue for the year driven primarily by broad-based strength in automation, robotics and advanced retail warehouse program. Altogether, we now expect CLDC to be down by roughly 11% year-over-year due to previously announced customer pruning in Connected Living, offset slightly by growth in digital commerce.

Given the strength of Q1 and the visibility we have across the business, we're raising our full year guidance for revenue, core margins and core EPS. For fiscal 2026, we now expect revenue of approximately $32.4 billion, an increase of $1.1 billion from our prior outlook. Importantly, we are also raising our margin expectations for the year. We now anticipate core operating margins of roughly 5.7%, a meaningful improvement of 10 basis points versus our earlier view. This improvement reflects strong mix, continued execution and the underlying leverage in our model.

As a result of both higher revenue and higher margins, we now expect core diluted earnings per share of $11.55 for the year, an increase of $0.55 from our previous estimate. And we continue to expect adjusted free cash flow of more than $1.3 billion, consistent with the framework we outlined in September, which will allow us to continue to invest in future growth while continuing to return capital to shareholders.

Across the company, our priorities remain the same: profitable growth, diversified mix, margin expansion, consistent cash generation and strong commitment to buybacks, which was evident in Q1. This focus is driving momentum across the business, allowing us to navigate changing market conditions, deliver consistent results and steadily build long-term earnings power.

To summarize, our first quarter results were better than expected and fiscal 2026 is now tracking well above our initial expectations. What's notable to me about a higher FY '26 outlook is that it's broad-based. All three segments are contributing with intelligent infrastructure leading the way. As we move forward, we remain focused on driving long-term value for our shareholders.

Before closing, I want to again thank our teams, customers and suppliers for their commitment and partnership. The consistency in our results is a direct reflection of their efforts, and I am grateful for the trust they continue to place in Jabil. I also want to wish everyone a safe and healthy holiday season and a happy New Year.

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

Adam Berry - *Jabil Inc - Senior Vice President of Investor Relations and Communications*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ruplu Bhattacharya, Bank of America.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Mike, you raised the full year revenue guide by over $1 billion. There's lots of things that are happening in the intelligent infrastructure space. The slides mentioned some new wins, can you give us some more color on those? There are a lot of new projects coming up as well, like the OpenAI, AMD, Anthropic, AWS. I mean do you think Jabil has the intent or the opportunity to benefit or some of those projects?

And then there are other things you mentioned like retrofitting factories for liquid cooling and acquiring Hanley Energy Group. So maybe just lay out for us the impact of all of these factors. And overall, would you say the guidances for the fiscal year is still conservative?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

Thanks, Ruplu. So I really think our intelligent infrastructure is outperforming. One of the reasons I think our AI strategy is working so well is because of the holistic view that we're taking of data centers. So we're not just focused on sale products. So product lines, we're actually invested in design and engineering across the board which allows us to cross pollinate, which allows us to cross-sell, which allows us to use our liquid cooling capability with some of the Silver X and other parts of our Intelligent Infrastructure business.

So Intelligent Infrastructure performing really well. I think in '25, our revenue was $9 billion, in September, we've taken it to $11.2 billion, which was up 25%. We've now taken it up to $12.1 billion, which is 35%, about a $900 million increase in that revenue level. I think out of the $900 million think of it in two buckets. One is the cloud and DCI bucket, which is up about $600 million, $200 million of that is Hanley, and I'll touch on that in a minute.

The balance is made up of upside on some recent wins that we had maybe during Q4 of last year with our second hyperscaler, and that's in Mexico. It's all AI storage racks that we're manufacturing for that second hyperscaler.

And then on the DCI business in Memphis, I think there's a whole bunch of upsides there. The switch gear business is going really well, the inroad heat exchanges, again, going really well. So cloud and DCI up by $600 million in total. Networking and comms is up by about $300 million, and that's mainly in India operations around air and liquid-cooled switches, adapters, network adapters across Infiniband and the Ethernet portfolio. So $900 million is a big number for us to be taking it up in a relatively short period of time.

On Hanley, if I could just touch on that, I think the revenues that we indicated in my prepared remarks is about $200 million for FY '26. We expect it to complete in January. I would think of Hanley as being modestly accretive in '26. '27 will be when it's more accretive. I think everybody knows it's a power and energy management solutions company that we acquired.

It's more services-enabled business as opposed to manufacturing. And it gives us a really good sort of platform, not just for deployments, but for maintenance as well, which will be an ongoing revenue stream. So overall, really happy with Hanley. Do I think guidance is conservative? I think it's appropriately conservative.

We're seeing solid upside everywhere. And as is now being appropriately conservative by there, Ruplu.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay. For my follow-up, if I can ask operating margins, Jabil is going to be at 5.7% operating margin this fiscal year. So is it reasonable for investors to assume that operating margin can get above 6% in fiscal '27, what are the puts and takes there? And longer term, how high can operating margin go? Like with the current mix of business, do you see Jabil getting to 7% operating margin at some point?

So just your thoughts on next or what should we keep in mind in terms of operating margin progression and how high that can go over time?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

So Ruplu, we put out three quarters left in FY '26. So we're just going to be focused on that. We'll provide guidance nearer the time for FY '27. As you know, we increased our margin from 5.6% to 5.7%, which is about 30 bps up from the '25 number and that's for FY '26 due to two or three reasons, which is mainly better mix. I think the mix is coming in stronger or better utilization of capacity.

Our capacity utilization has gone up from that 75% range, closer to the 80% range. And then SG&A leverage as well. So I think overall, the incremental revenue, what we're seeing, the $1.1 billion that you referenced earlier, that's giving us some nice leverage.

In FY '27, we will be seeing a full year impact of Hanley. So there will be some level of accretion on the margin there. And then we'll see continued leverage from the incremental revenues. The pipeline that I'm seeing, Ruplu, is extremely strong. It's been a long time since I've seen such a healthy pipeline.

So I feel better about 6% than I ever have.

I think if you're asking beyond 6% and getting to 7%, of course, we're not going to stop getting leverage, you're not going to stop getting efficiencies as soon as we hit 6%. So 6% is just a point in time on a march to a much higher number. Is it '27, '28, '29, I don't know. 6%, though, I feel really good about at this stage for future.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Got it. If I can sneak one more in. Looking at healthcare and packaging, for the last three, four years, it's been mostly flat. This year, it's growing low single digits to $5.6 billion. Any thoughts like you had talked about some further J&J type of deals and you've got this impact from Croatia. Can you give us some more color on how you think that business can evolve? Is it still a low single-digit business going forward? Or do you think it can accelerate?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

So Croatia was going really well. I think we've always referenced sometime in '27, maybe second half '27 is going to actually start delivering some good returns. Again, just remind you, the margin is higher in that GLP-1 space. So Croatia going really well. As opposed to -- on the whole deal piece, I do think the team is actively working all of that. They are currently engaged in B2B conversations. They're engaged in M&A sort of capability-driven type of sort of deals as well.

So it's an active sort of process that we're going through right now, and we'll provide updates again throughout FY '26 in terms of what we're seeing out there from a deal. And again, just to remind you, the deals that we're looking at mainly would be to sort of add capabilities so that we can go vertical in the healthcare space. A bit like our -- the GLP-1 OSD transaction that we did last year, where we added a capability on pharma sort of filling up the GLP-1 itself, oral doses, et cetera. So there'll be more of those more capability driven across the board where we operate.

Operator

Samik Chatterjee, J.P. Morgan.

Unidentified Participant

This is [MP] on for Samik Chatterjee. Firstly, congratulations on great results. My question is on second hyperscaler. I think you highlighted high second hyperscale driving up to your intelligent infrastructure outlook for the year. Like how much of it is your better execution relative to your customer demand versus customer actually preponing their deployment plans?

And then in the past, you have highlighted $750 million of revenue scale for this business for FY '26. Like how should we think about that scale now? And then any color on the broader potential hyperscaler customers? Like how exactly those discussions are going? And then I have a follow-up.

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

Yes, the upside on the second hyperscaler, as I mentioned earlier on, is on the AI storage piece, we continue to get some upside on that business. I'm not sure if that's predeployment or it's just the demand has always been there. It's a matter of fulfilling it. We feel really good about upside even from there on some of these hyperscalers that we're in discussion with.

So I think if you're looking at the revenue piece for the second hyperscaler roughly in that $1 billion range. I think earlier we said $750 million, so taking that up by some amount as well. So really good interest levels coming through. And we're not just stopping in the second hyperscaler, we're in discussions with even more hyperscalers. So pipeline, again, looking very strong.

Unidentified Participant

Yes. And then my next question is around gross margins for this quarter. I think like despite the revenues being higher quarter-over-quarter from F 4Q, like gross margins were lower, like can please help us understand the drivers for that?

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yes. So Q1, our gross margins were at 8.9%. Year-over-year, it is up 10 basis points. So typically, we do have a little bit of a lower gross margins on the year. So really nothing there other than just mix in Q1 for the gross margin piece.

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

And Samik, we've always sort of mentioned 9% to 9.5% is the range for our gross margin. That's still the FY '26 estimate.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors LLC - Analyst*

I had two questions, if I could. I guess, first of all, just switching gears. On the healthcare business, like you mentioned, Mike, it's been very steady. My understanding is providing pretty good margins for you guys as well. I guess off of all the growth you're seeing in cloud, what's the prospects for maybe us more aggressively to accelerate that growth since it's such a good contributor to profitability? And then I had a follow-up.

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

Yes. So Steve, we're constantly evaluating M&A activity in that space. We're constantly in discussions on B2Bs. So I think it's highly likely that we'll do something. We're obviously a conservative company from an M&A perspective.

So we'll do all the right groundwork for that. But I feel like healthcare is such a steady business with higher margins, long, long product life cycles and steady cash flows that it's a great sort of upset from a diversification standpoint for us, and that is an area that I'm most excited about from a deal perspective.

Steven Fox - *Fox Advisors LLC - Analyst*

Great. That's helpful. And then just on the cloud business. So a quarter ago, you were warning us about that you still face some bottlenecks later in the year. Now you're ahead of schedule a little bit, which is great, and you're talking about what sounds like a bigger pipeline.

So I'm just wondering how we sort of equate your ability to meet demand or meet the growth expectations of adding a new customer or existing customers with all the capacity you have or may need? Like how are you planning out beyond this year for capacity in order to continue to grow that cloud business?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

When we talked about the retrofitting piece on the September call, it was mainly associated with our hyperscaler factory on the East Coast of the US. A lot of the upside when we talked about upside that $900 million, some of it is in Mexico where we had some surplus capacity, some of it is in India where it's a combination of existing capacity and new capacity.

As you know, North Carolina is going coming up relatively soon in the next six, seven, eight months, and that were prefitting, if you want to use that phrase for liquid cooling. So we've got some decent upsides. We're planning our capacity in that way, Memphis is another area I talked about, that's seeing some really good growth as well. So we might expand there as well. So this current expansion plans that we're looking at, and those might be even sooner than the North Carolina facility.

Again, it doesn't change CapEx outlook. The CapEx outlook has been 1.5% to 2% of revenue, and that's going to remain consistent for FY '26.

Steven Fox - *Fox Advisors LLC - Analyst*

Great. And thanks for all the visibility into your numbers. This is really helpful.

Operator

Ruben Roy, Stifel.

Ruben Roy - *Stifel - Analyst*

Mike, I wonder if you could spend a minute on just kind of longer-term thinking around Hanley. And I'm wondering, there's been a lot of discussion, obviously, around power and power distribution as the industry is trying to figure out how to get to 800 volts current. And if you think about this acquisition longer term, one of your competitors have been talking a lot about modularized power. Does this help you, do you think, in terms of content per rack and gaining more server rack business by having this? Or is the strategy maybe a little bit different as you think about adding that into the mix?

And also one follow-up on that is, would they own the design of the power distribution? I imagine that's the answer would be yes, given the EBIT margins that you get, but any color on that would be helpful.

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

So I'd like to call out a couple of transactions as it relates to that whole thermal management piece. Obviously, Hanley is a service provider. I'll talk about that in a minute. But the liquid cooling acquisition we made with Mikros in '24 has also been a big game changer. I think thermal management, thermal participation is not new to hyperscalers, whether it's cooling at the chip level or a switch level or a component level or even at an infrastructure level to liquid heat exchanges.

That's one of the reasons we invested in Mikros as we acquired a technology, we didn't acquire a product. We acquired a design and engineering team which is constantly pushing the boundaries for forward-looking liquid cooling activities.

So to me, that old Mikros acquisition is a game changer. I think particularly as the thermal management piece becomes more critical, the ability to design, the ability to engineer liquid cooling at chip level, at the network switch level at different sort of parts and integrate it into a pool system. That's the big differentiator where Jabil will last steps in.

As it relates to Hanley, it's more of a services organization. It's the provider of power and energy management solutions. I think the engineering expertise that we have in there is across power distribution, switchgear, energy monitoring, digital power management platforms. It allows us to go vertical as well. And I'll give you an example.

Today, we build low-voltage, medium voltage switchgear in Memphis. Hanley will allow us to deploy, install and then maintain those in data centers, which previously was done by other parties.

So if you sort of combine the whole silver ad business with the ability to delay install and maintain, that is highly accretive type of business for us. So Hanley, I think is a really good transaction. We sort of welcome the team hasn't closed yet. We expect it to close in that first week of Jan. So as soon as that takes place, just like the Mikros transaction has created so much opportunity for us, so does Hanley.

And again, it's exactly the area that you talked about and it's all around thermal management, and it's not a surprise to any hyperscale. It's not a surprise to anyone who has a data center that that's something that they need to address, and they are addressing that. So I do think the two transactions will be well received.

Ruben Roy - *Stifel - Analyst*

It's a lot of detail. I hope this is a quicker follow-up. But just on the capital equipment. I think you said that was in line with your expectations, maybe a little bit better. Is there any change to I guess, on your sort of thinking around overall spend in the capital equipment market relative to 90 days ago as you think about this year?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

So the automated testing equipment side of the business, the back end, I think has been outperforming, it outperformed last year. It's outperforming this year, and it will outperform the WFE site for sure. I think there's multiple dram stacking for high-bandwidth membrane that's creating more demand.

One good thing we are seeing, and it's forward looking, so we haven't built that into our forecast, but there's some level of WFE improvements coming along as well with the whole AI compute expansion and the NAND factory sort of upgrades. So WFE, think of that more as an opportunity. In the past, we like WFE is going to be steady and static. We are seeing some signs of improvements there. And until that happens, those sort of expectations normally move to the right or to the left, so we haven't included that in our guide, but the WFE side could actually be a sublevel of upside for us.

Operator

Melissa Fairbanks, Raymond James.

Melissa Fairbanks - *Raymond James - Analyst*

I wanted to start off by asking about automotive and transport. You see that you maintained the outlook for the full year, down a little bit from last year. Just wondering if the mix of that business or any of kind of the geographical trends have changed. We have heard from some suppliers, Europe suppliers are being a little bit more cautious going into next year? Just wondering what the complexion of that business looks like in the near term?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

So let me start by saying automotive is an area that we continue to be appropriately conservative on. I think we're seeing relatively good performance. I think -- has it hit a bottom, I do feel like it has and there will be upside going forward on automotive. Is it a '26 event or a '27, '28 event? We just don't know the exact timing.

So we're being appropriately conservative from an automotive standpoint. One of the things the team has done really well is invest in powertrain agnostic technologies and what do we mean by that is software-defined vehicles. ADAS, those sort of programs go into any platform, whether it's hybrid or EVs or combustion engines. We're talking to all sorts of companies.

And then if you factor in the whole Tier 1 sort of the OEMs still want to the design and the IP as they want to do with the EV platforms, that's a good opportunity for us EMS companies as well. And I think those program wins, we do expect where we're in discussion again for '27-'28. And we're doing really well because there's a shift in the way the whole automotive space is working out, not just for EVs. It's now being extended to hybrids and ICE as well or at least the concept is.

So we'll continue to add some capabilities, and I do think '26, and best way to define '26 is a conservative year. In '27, we could see some upside. I don't forget a program in automotive takes 12 to 18 months to win. So programs we're winning today will only show up in '27-'28.

Melissa Fairbanks - *Raymond James - Analyst*

Okay, great. Keep up the good work. Maybe just a quick follow-up. Everyone has to ask about at least one question on data center. As you're ramping your second hyperscale customer.

I know your lead hyperscale customer. A lot of that business goes through consignment. Just wondering how much, if any, of some of these new programs that you're ramping are on consignment, and the gross revenue is actually coming in a little bit better than even what we're seeing on the net revenue side?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

I think it's a little bit of a mix. I think the consignment model is more our largest customer perspective. Some of the other customers were still going through gross versus consignment discussions. But at this stage, we're just factoring in gross levels, I do think that's more likely than consignment models popping up everywhere. I think that was specifically for that first hyperscaler, will it apply across every single hyperscaler.

I'm not sure. I think it's a wait-and-see approach.

Melissa Fairbanks - *Raymond James - Analyst*

Great. Congratulations.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Do you able to took up its view for AI growth this year to 35%. I realize you already spoke on your own capacity planning. Can you speak to any constraints your data center customers may face from the supply side, including having enough power supply to their data center sites? And to what extent you factored any constraints they may be seeing into your guidance?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

Look, our power sort of constrained the data center is not a new thing. I think it's always been around, and we've grown, I think, I can't remember the exact numbers from '24 to '25, we grew exponentially '25 to '26, again, we're growing at 35%. And this is all while data center power issues continue to perforate.

I think overall, like I said, the offering that we have, the solutions that we have, the design, engineering and including some level of liquid cooling across our offerings, be it on the chip, be it on the rack service, be it on networking switches, be it run in the data center infrastructure itself, we're actually engaged with customers to address a lot of those heat questions.

So I'm not seeing any major impact of slowdown. Like I said earlier, I've never seen such a healthy pipeline now before it is strong, and it continues to be strong. I don't know, people talk about AI bubbles. We're not seeing any of that at all.

Mark Delaney - *Goldman Sachs - Analyst*

Very helpful. Mike, last quarter, you mentioned the possibility of winning that third hyperscaler customer and you spoke to that possibility again on the call today. Can you give more color on that, including what types of product or products you're hoping to sell to that CSP and when you think you may know if you've converted on that opportunity?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

We continue to have discussions, Mark. It's a little premature to talk about the products and the revenue. I think that was more -- the last call was more of, hey, this is our overall strategy. We're not just targeting one hyperscaler or two hyperscalers. There's definitely a third hyperscaler, fourth hyperscaler so needed our offering.

It's that design and engineering architecture capability that's driving a whole bunch of hyperscalers to us. And in a weird way, the discussion could start about a server in a rack and server before you know it, it's moved into liquid cooling, and certainly move into silicon photonics. It's moved into other parts of our data center infrastructure piece with heat exchanges and some of the liquid cooling solutions that we're providing. So it's the offering that we have today that is driving hyperscalers to have these discussions with us. And like I said, it's not built into any of the numbers.

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We're not talking about our third hyperscaler yet in any of the numbers, but I think going forward, we're still in current discussions currently.

Operator

Tim Long, Barclays.

Tim Long - *Barclays - Analyst*

Two, if I could, as well. First, I was hoping you could touch a little bit on that the larger hyperscale customer wasn't really excited as a part of the strength here. So curious what kind of trends are going on there. I do think there's some product transitions in some of their compute platform. So curious if that impacting or if there's anything else going on there?

And then secondly, just more broadly, a lot of movement around custom ASICs and XPUs. Curious how you see Jabil participating, obviously, PPU gaining a lot of traction and announcements at least over the last few months, how you see Jabil playing in the toll XPU directly and related type of equipment?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

So when we talked about the whole retrofitting piece on the September call, we were specific on one site only. Like I said, the rest of the new business is coming in all different sites. The retrofitting is ahead of schedule. I do feel our second half will be stronger in terms of getting it ready. I think originally, we'd anticipated retrofit out to be combination of Q2 and Q3 that might come in earlier in Q3, which would give us some level of upside there.

The demand is there. It's crazy what we're seeing in terms of demand. So I have no concerns about the demand side. What was the second question?

Tim Long - *Barclays - Analyst*

Just on XPUs and custom ASICs and the play directly into that product and peripheral what it means for the rest of the rack in Jabil's participation.

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

Yes. So I think we're relatively agnostic in terms of chips, in terms of what we're doing and who we're doing it with, the custom chips or even multiple individual companies on those chips. I don't think one replaces another. It's all complementary in my view. So I see it more as an upside than a replacement.

Operator

David Vogt, UBS.

David Vogt - *UBS Equities - Analyst*

So Mike, maybe one for you and one for Greg. So you talked about strength in data center infrastructure powered networking. We're folding Hanley into the numbers. We're seeing strength in the second hyperscaler above expectations. I guess what I'm trying to think through is how do you think about the second half of your fiscal year, particularly given what the growth implies is a fairly meaningful deceleration where the underlying demand probably doesn't support that view.

Is that just a rev rec issue? Is it a capacity issue? How should investors think about sort of the second half of the year, which kind of implies like 10% growth dynamic is there enough capacity? And then maybe I'll give you my question as well. Obviously, you took up the full year numbers for revenue margin in EPS and less kind of the free cash flow outlook unchanged.

I recognize that CapEx is probably going to go up, I don't know, $50 million to $100 million year-over-year. Anything else from a working capital perspective or a timing perspective that impacts free cash flow this year versus your original expectations?

Michael Dastoor - *Jabil Inc - Chief Executive Officer, Director*

So on the second half piece, I think with the $900 million that we've sort of added a large part of that comes through in Q3 and Q4. Q2, I think we've taken that up by $300 million to $400 million from our previous sort of indications. The retrofitting obviously had a little bit of impact on the Q2. We're continuing to win -- we'll continue to win share. I think if you look at last year, the comps from last year, a little difficult to sort of match up with.

We went from 0 to 60 literally in a matter of a few seconds there, where Q3, Q4 saw solid performance from the previous Q1, Q2, where we didn't have some of the additional facilities that we took over from a competitor. So I would caution against doing comps for Q3 and Q4 because that was a huge growth number in Q3 and Q4, which was going from nothing to multiple buildings in that facility. Look, I think there's no rev rec. There's no other issues going on here. We're being conservative.

And I do think second half now reflects a much better picture than it did 90 days ago. And I think it will continue to evolve through the year. We have a tendency of being conservative, appropriately conservative. So second half, I think there is some good upside for us as well.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

David, it's Greg. So on your free cash flow question, yes, still sticking to our guidance of $1.3 billion plus for the year. Again, a real strong Q1 with $272 million. You're absolutely correct. We do see CapEx slightly ticking up, but still staying in our range.

And we also do see working capital with the growth we're seeing in the back half of the year, slightly going up as well. So what I'd say is our guide is -- we feel is prudent at this time, and we'll continue to update as we go through the year.

Operator

This now concludes the question-and-answer session. I would now like to turn the floor back over to Adam Berry for closing comments.

Adam Berry - *Jabil Inc - Senior Vice President of Investor Relations and Communications*

Thank you. Thank you for your interest in Jabil. This now concludes our call.

Operator

Thank you. This now concludes today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

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