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JBL.N - Q2 2026 Jabil Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings. Welcome to Jabil's second quarter fiscal 2026 earnings conference call. (Operator Instructions) Please note, this conference is being recorded. I'll now turn the conference over to Adam Berry, Senior Vice President, Investor Relations and Corporate Affairs.

Thank you, Adam. You may now begin.

Adam Berry - Jabil Inc - Senior Vice President, Investor Relations and Corporate Affairs

Hello, and welcome to Jabil's second quarter fiscal 2026 earnings 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 third 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.

Greg Hebard - Jabil Inc - Chief Financial Officer

Thank you, Adam. Good morning, everyone, and thank you for joining our call today. Our second quarter exceeded expectations on both revenue and core operating margin, driving another step-up in core EPS. And while Intelligent Infrastructure continues to be the primary driver of growth, we were encouraged to see solid performance across other areas of the portfolio as well.

In regulated Industries, revenue came in about \$200 million above our Q2 guide, driven mainly by Automotive with Renewables also performing better than expected. In Intelligent Infrastructure, we were up nearly \$300 million above our Q2 guide, driven mainly by cloud and data center infrastructure and networking and communications. And in Connected Living & Digital Commerce, performance was largely in line with expectations. Overall, Q2 was a strong quarter, and it provides us with greater confidence in our outlook for the back half of our fiscal year.

With that, let's walk through the numbers for the quarter.

Net revenue for Q2 was \$8.3 billion, exceeding our outlook for the period. Favorable revenue mix and ongoing cost discipline enabled us to achieve core operating income of \$436 million and a core operating margin of 5.3%. On a GAAP basis, operating income was \$374 million, and GAAP diluted earnings per share was \$2.08. Core diluted earnings per share for Q2 was \$2.69, reflecting results that were above our expectations for the quarter.

Now turning to performance by segment in the quarter. Regulated Industries generated \$3 billion in revenue, up 10% year-over-year and well above our outlook in December. The higher year-over-year revenue was driven by all three end markets. Core operating margin for the segment was 4.8%.

Intelligent Infrastructure revenue was \$4 billion, up 52% year-over-year and also ahead of expectations. Growth was broad-based across capital equipment, Cloud and DCI and networking and communications. Core operating margin for the segment was 5.7%, up 40 basis points year-over-year, supported by favorable mix and disciplined execution.

Connected Living & Digital Commerce revenue was \$1.2 billion, down 8% as expected, reflecting planned program attrition and customer pruning. This was partially offset by continued growth in robotics, advanced warehouse and retail automation. Core operating margin for this segment was 4.9%, up 40 basis points year-over-year.

Turning now to cash flow and balance sheet metrics. Inventory days for the quarter were 75. Net of inventory deposits from customers, inventory days were 60, consistent with our targeted range of 55 to 60 days.

Cash flow from operations in Q2 was \$411 million, and net capital expenditures were \$51 million, resulting in adjusted free cash flow of \$360 million for the quarter. This keeps us well positioned to deliver over \$1.3 billion in adjusted free cash flow for the full fiscal year.

Our balance sheet remains in excellent shape. We ended Q2 with \$1.8 billion in cash and remain fully committed to maintaining our investment-grade credit profile. During Q2, we repurchased \$300 million of shares under our existing share repurchase authorization.

With that, I'll walk through our guidance for Q3 FY26. Beginning with revenue by segment, we anticipate Regulated Industries revenue of \$3.1 billion, reflecting some growth in renewables, steady health care demand and stabilizing trends in automotive and transport.

For Intelligent Infrastructure, we expect revenue of \$4.2 billion, up 22% year-over-year, supported by ongoing demand across cloud and data center infrastructure, advanced networking and communications and capital equipment.

And for Connected Living & Digital Commerce, we expect revenue of \$1.2 billion, down 10% year-over-year, reflecting continued program transitions and portfolio optimization partially offset by growth in automation, robotics and advanced retail and warehouse programs.

At the enterprise level, total company revenue for Q3 is expected to be in the range of \$8.1 billion to \$8.9 billion. Core operating income is expected to be in the range of \$452 million to \$512 million. GAAP operating income is expected to be in the range of \$398 million to \$458 million. Core diluted earnings per share is expected to be in the range of \$2.83 and to \$3.23. GAAP diluted earnings per share is expected to be in the range of \$2.36 to \$2.76. We expect third quarter net interest expense to be approximately \$73 million and full year interest expense to be approximately \$280 million. Our core tax rate for Q3 and the full year remained at 21%.

Let me close by saying Q2 delivered strong results and we are entering Q3 with solid momentum. Our performance this quarter demonstrates the strength of our diversified portfolio and disciplined execution. As we move through the year, our priorities remain consistent. We remain focused on margin expansion, capital efficiency and sustained cash generation.

With that, I will turn the call over to Mike, who will share more on fiscal 2026 and our updated guidance.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Thanks, Greg, and good morning, everyone.

Before I get in the quarter, I want to recognize and thank our teams around the world for the focus and execution they continue to show. Jabil's strong performance in the first half has required a great deal of coordination across customers, sites and the supply chain, and I'm sincerely grateful for what the Jabil team continues to do every day.

As Greg outlined, the second quarter came in stronger than we had anticipated in December, with revenue approximately \$500 million above the midpoint of our guidance, which also drove better-than-expected performances in both core operating margin and core EPS.

For me, what was great to see, the revenue upside in the quarter was broad-based as cloud and data center infrastructure, networking and communications, automotive and renewables all outperformed ahead of expectations.

By taking a closer look at the outperformance, clearly, our Intelligent Infrastructure segment, driven by the AI data center build-out, continues to be our growth driver in the near term, while the outperformance in areas where we've recently seen headwinds such as automotive and transportation, and renewables and energy infrastructure suggests to me that those markets have bottomed and are now slowly recovering.

And just as importantly, our teams across the organization did an outstanding job by delivering for our customers and converting the stronger demand into higher-than-expected margins and strong core EPS growth and high free cash flow generation.

In summary, Q2 was a strong quarter and is yet another example of our strategy in action. The diversified model continues to matter and the momentum we're seeing gives us confidence as we move through the balance of the year.

Let me now walk through our updated outlook for fiscal 2026 by segment, starting with Intelligent Infrastructure. We now believe our Intelligent Infrastructure segment will be approximately \$16.5 billion, an increase of \$1.1 billion over our previous expectations and 34% growth over fiscal 2025, driven by incremental growth in all three of our end markets in that segment.

We now believe our cloud and data infrastructure end market will be \$10.4 billion, up approximately \$600 million for the year relative to our forecast from 90 days ago, driven primarily by two factors. As a reminder, in September, we discussed our intention to retrofit our US-based facility on the East Coast to support liquid cool racks which gives us the flexibility to support both liquid and air cool configurations.

I'm proud to say that those modifications are largely behind us, which means we now have incremental capacity available a bit ahead of schedule. And all of this comes at a good time for us as demand continues to outstrip supply for the integration of highly complex racks and servers.

And secondly, also within Cloud and DCI, we're seeing strong execution regarding the ramp with our second hyperscale customer in Mexico, which is also contributing meaningfully to stronger outlook along with continued strength in data center power in Memphis. Also, our Hanley acquisition integration is going very well and according to plan.

Next, in Networking & Communications, we now anticipate revenue will be approximately \$400 million higher for the year coming in at \$3.1 billion, reflecting stronger demand and exceptional execution across our advanced AI networking programs in India. This momentum is fueled by customers investing in greater high-speed interconnect capacity to keep pace with rapidly expanding AI workloads. It's also worth noting that our outlook for 5G spending is showing signs of recovery.

In Capital Equipment, we're seeing positive momentum in this segment as well with our outlook for the year now expected to be \$100 million higher for the year coming in at \$3 billion. This reflects a combination of strong demand and execution in automated test equipment and more encouraging signs in wafer fab equipment, where the demand environment is improving beyond our earlier assumptions.

Building on the strong results and positive momentum across the segment, we're further increasing our fiscal 2026 AI-related revenue outlook by approximately \$1 billion compared to December, bringing the total to roughly \$13.1 billion. This now represents a strong increase of 46% year-over-year.

I'm really proud of our Intelligent Infrastructure team and their ability to stay ahead of the curve and diversify across data center stack with multiple products, customers and capabilities, which I believe is a key factor in our strong results and outlook for fiscal 2026.

Simply put, our approach is delivering real value and is a key differentiator for Jabil. Our holistic strategy here centers in capabilities our customers need versus a product focus. We now have the capability to design and deliver integrated systems at the system level, combining compute, networking, power distribution and advanced cooling; all aligned to our customers' specific requirements. This seamless integration of capabilities accelerates deployment times and reduces total cost for our customers, while leveraging our position as a US domicile manufacturer, which is exactly what customers want, as demand for AI capacity continues to expand and global uncertainty continues to grow.

Moving to Regulated Industries. We're seeing some momentum behind the bounds of the bottom for the end markets we play in. For fiscal 2026, we are increasing our regulated outlook by approximately \$500 million versus our December view to \$12.5 billion.

In Automotive and Transport, our strategy to focus on powertrain agnostic capabilities is working, as we continue to win programs on ICE platforms. On a positive note, and as I mentioned previously, we're also beginning to see momentum for EVs, mainly outside the US. We're encouraged by what we're seeing, but we're going to stay extremely disciplined in both our outlook and investments regarding EVs.

In Healthcare & Packaging, our business remains both solid and aligned with our expectations for growth, as we move into the back half of the fiscal year, 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.

In terms of pipeline for health care, our outlook remains solid for this end market with good visibility in the program ramps across drug delivery, chronic disease management and on the regulated devices in fiscal 2026 and beyond.

We're also seeing improving conditions on renewables relative to what we assumed earlier in the year. Again, we'll stay measured here, but it's worth highlighting that the mix of solar business has shifted to accommodate both residential and commercial installations, which we believe will create a more sustainable level moving ahead.

And finally, in Connected Living & Digital Commerce. Our full year outlook here is largely in line with what we laid out in December, but the story within the segment continues to move in the right direction. While Connected Living remains more stable, Digital Commerce continues to grow, driven by a broad-based trend in automation, robotics and advanced retail and warehouse programs.

I believe robotics and physical AI represent meaningful long-term growth opportunities for Jabil and should become increasingly important contributors to the segment's performance over the next several years.

Given the strength of Q2 and the strong outlook for the back half of the year, we're increasing our full year outlook for revenue and core EPS. For fiscal 2026, we now expect revenues of approximately \$34 billion, an increase of approximately \$1.6 billion from a prior outlook of \$32.4 billion.

We're also raising our full year diluted earnings per share outlook to \$12.25, up from \$11.55. For the full year, we continue to expect core operating margins of approximately 5.7%. And importantly, we still expect adjusted free cash flow of more than \$1.3 billion. Even with the higher revenue outlook and the working capital that naturally comes with that growth, we expect to maintain strong cash generation and stay disciplined on capital efficiency.

As we move ahead, the focus from here does not change for us: profitable growth, disciplined mix, margin expansion and strong cash generation. That focus continues to create momentum across the business and allows us to navigate changing market conditions while steadily building long-term earnings power.

Additionally, as part of our ongoing commitment, delivering value to shareholders, we remain focused on returning capital through share repurchases and other prudent capital allocation strategies. This approach not only reinforces the high level of confidence in our business, but also demonstrates our dedication to enhancing shareholder returns over the long term.

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'm grateful for the trust they continue to place in Jabil.

As we mark Jabil's 60th anniversary, it's also worth taking a moment to reflect on the strong foundation built over decades and the shared commitment that continues to move us forward. We are proud of our history, grateful to everyone who has shaped it and excited about what lies ahead.

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

Adam Berry - *Jabil Inc - Senior Vice President, Investor Relations and Corporate Affairs*

Thanks, Mike. Before we move into Q&A, allow me to close out with five quick key takeaways. First, we're exiting the first half with strong momentum. Q2 came in better than expected, and the strength was broad-based across multiple end markets.

Second, Intelligent Infrastructure continues to perform at a very high level with solid segment margins reflecting strong execution and continued growth. Against that backdrop, demand tied to AI and data centers remain strong, and we now expect AI-related revenue to grow approximately 46% year-over-year to \$13.1 billion in fiscal 2026.

Third, we're encouraged by what we're seeing in Regulated Industries. While healthcare has remained solid, automotive and renewables are starting to improve off their lows. Moving ahead, we'll stay disciplined in our approach for these end markets as the recovery continues.

Fourth, Connected Living & Digital Commerce is moving in the right direction, as our mix within the segment shifts towards automation, robotics and physical AI, which we believe will be a growth driver over time.

And finally, all of this supports a stronger outlook for fiscal '26. We're raising our fiscal '26 revenue outlook and core EPS expectations year-over-year, while we also continue to expect healthy margins and strong free cash flows as we approach fiscal '27. One last shout out to Jabil, Happy 60th Birthday.

And operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ruplu Bhattacharya, Bank of America.

Ruplu Bhattacharya - Bank of America - Analyst

Mike, you raised Intelligent Infrastructure revenue by \$1.1 billion. Can you help us rank order where you see the most opportunity? Is it in compute, networking or semi-cap? And this year, AI revenues are now growing almost 50% year-on-year, is it reasonable to think that, that strong growth can sustain beyond fiscal '26?

Michael Dastoor - Jabil Inc - Chief Executive Officer

Sure. Thanks, Ruplu. I know this is a critical part of our story, so I'll try to be as detailed as I can. The Intelligent Infrastructure growth was really broad-based across all three end markets. I think I mentioned on my call, cloud and DCI was up approximately \$600 million, Networking and Comms up about \$400 million and Capital Equipment up about \$100 million. So the \$1.1 billion raise in Intelligent Infrastructure is quite broad-based.

In cloud and DCI, the \$600 million increase in September, we talked about the retrofitting of our site on the East Coast of the US to accommodate liquid cooled racks that would give us the optionality to do both liquid cool and air cool service. It would be sort of backward compatible and future proof as well. I'm happy to say, as I mentioned on the call, that retrofit actually was done sooner than we expected. We're about two or three months ahead of schedule, and that opened up some capacity on the East Coast, and that's flowing through our DCI cloud and DCI line.

In addition, if you think about some of the other -- the second hyperscaler that we've talked about, going really well in Mexico. It's on the AI compute storage ramp there. Some of our power business in Memphis. I think we've talked about that in the past, LVMV switchgear and the heat exchanges that we do in Memphis is going extremely well. In fact, we have expansion plans for Memphis, again, as we've talked about in the past.

And then if you look at networking and communications, which is up about \$400 million, it was really good to see \$300 million of that came in from the networking side and \$100 million of that came from 5G. I don't think we've talked about 5G in a very long time. And we're seeing some positive upside there as well. On the networking side, the demand for high-speed interconnect continues to expand.

We're looking at both Ethernet-related demand, Infiniband related demand, strong execution that we've had across our networking programs. All that's coming across really well. Our sites in India are doing amazingly well. And we have some expansion plans for there as well. So Networking and Communications, again, well sort of spread out.

And then last, but not least, capital equipment. If you think of the strong demand in capital equipment continues the rapid sort of evolution that we're seeing in chip technologies, the high-performance computer, AI applications, continuing to drive demand for testing. So automated test equipment is really doing well.

And then if you go beyond that, the wafer fab equipment, we're actually seeing some signs of improvement there as well. On the wafer fab equipment, just being a little bit more prudent, it appears a little lumpy. So we're being conservative there, and we'll take our numbers up on the WFE side going forward as we see some level of clear visibility as well.

So the \$1.1 billion in Intelligent Infrastructure really well spread out. I think if you look at the AI piece that we talked about, that was \$1 billion year-on-year -- sorry, from December outlook. And again, all of that, I'm really bumped up with what's going on in Intelligent Infrastructure right now.

Ruplu Bhattacharya - *Bank of America - Analyst*

Okay. I really appreciate it. As a follow-up, can I ask, so it looks like it's a broad-based strength and you've raised total company revenue guidance by \$1.6 billion. But op margin is still 5.7%. So can you talk about the factors that are going into that? Are Intelligent Infrastructure margins where you would like them at? How much is mix a factor? And what are the factors that help drive op margin to greater than 6% going forward maybe in fiscal '27?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

So as a reminder, we did take margins up in December by 10 bps. I feel really good about the 5% right now, the 5.7% for the year in FY26. Could it be higher? Sure, I just feel a little sort of -- we want to be a little bit more conservative given everything that's going on in the world with the geopolitics and the uncertainties out there. We'll update margin guidance in our next quarterly call for sure. But I'll be surprised if it doesn't go higher than 5.7% at this stage, but we're just being a little bit more prudent there.

As it relates to 6% and beyond, I think we have a really high level of confidence in that 6% for FY27, I think I've said this in the past, I feel better about 6% than I have ever done before. I think if you look at the main drivers for 6%, we're getting a really good mix of business, not just at the enterprise level, where some of the older -- not the old, but the legacy businesses are coming back.

And then within Intelligent Infrastructure as well, we're seeing some decent signs of margin improvements there, particularly as we -- as we bring on new capabilities online, such as power, such as liquid cooling, et cetera, which are higher margin, silicon photonics will be another one.

So I think overall, I think the 6% mix is really good. If you think of the operating leverage on a higher revenue base, we've taken up revenues \$4 billion this year and that will pay dividends as well going forward, as we take revenues up, the leverage on that.

We're seeing some better capacity utilization as well. I think last year, we're at 75%; today, we're coming in at 80%. So that will continue to be a driver of higher margin. And then if you add the acquisition that we made, the Hanley acquisition, that will scale with the Intelligent Infrastructure business, and that is going to be accretive to our margins as well. So all in all, 6% and beyond is highly doable.

Ruplu Bhattacharya - *Bank of America - Analyst*

Okay. If I can sneak one quick one for Greg. Can you remind us on uses of cash? I mean, you've got growth in many different areas. How are you thinking about CapEx spend for this year? Where are you investing for growth? And also, if you can talk about capital structure, how are you thinking about lowering leverage and also -- or taking on leverage for M&A? So how should we think about that?

Greg Hebard - *Jabil Inc - Chief Financial Officer*

Yeah. So on cash, really strong free cash flow quarter in Q2 of \$360 million. We feel really good about the full year guide of \$1.3 billion-plus.

What I would say is with the revenue increase and working capital is slightly expanding, so we are holding our guide to \$1.3 billion-plus. But similar to Mike's comments on margins, we'll see as the back half progresses, if there's opportunities to increase.

On CapEx, the back half, we'll see CapEx in the 1.5% to 2% range. So that will be slightly higher than what we saw in the first half. And overall for the year, it will be around 1% of revenue. So we feel really good about where we're allocating our CapEx and continuing to grow.

On use of cash as well, and we're still very much committed to our capital allocation framework. 80% of our free cash flow go into share buybacks. We still feel buybacks remain an excellent use of cash for Jabil, as we feel our shares are undervalued, and we'll continue to be opportunistic in that area. So again, feeling really good on our leverage where we are today.

To your question on M&A. Yeah, today, 20% of our use of cash is for kind of nip-and-tuck capabilities, and we've been really, I think, successful with that in the last couple of years. But we are at a point in leverage where we could lever up if the right type of M&A deal that was available to us. So we're always monitoring that, and we'll be ready and positioned if those opportunities come about.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - Goldman Sachs - Analyst

First, on the data center and AI market, you all discussed in prior quarter as being close to winning a new customer or potentially multiple new customers and perhaps another large hyperscaler. I was hoping you could give us an update on where you stand with those efforts and if you could also talk about what sorts of products and applications you think are most likely where you could see some share gains?

Michael Dastoor - Jabil Inc - Chief Executive Officer

Sure. The business -- the wins that we've seen, I think we've talked about Intelligent Infrastructure wins in the past of a second hyperscaler, we've done really well with that. The ramp is going really positively there. I think we're in close discussions with third hyperscaler. I expect some level of closure within the next few weeks, that will be a major contributor for FY27 as well.

I note our facilities, if you think of the expansion that we're undertaking in Memphis, where we're adding 1.5 million square feet, that expansion is on track. We've talked about North Carolina in the past. We feel really good about filling up North Carolina. I think North Carolina is on track. I think we will be ready by July, August.

In FY27, we have a whole bunch of customers that are interested in that site. And we expect, again, to close on that relatively soon. So overall, the growth that we're seeing in Intelligent Infrastructure, the expansion plans, even networking, communication, all of that is going exceedingly well. It's actually really, really broad-based. It's across the whole portfolio in Intelligent Infrastructure.

And I think I have to give a shout out to our team who's come up with a strategy on that as well, where it's a holistic sort of approach. We're not product-based. We're providing integration at a system level, where we look at compute, looking at networking, we're looking at power, liquid cooling, and going across the customers' needs and requirements. It's not just one siloed sort of approach. So overall, it's going really well is the best way to describe it.

I think I mentioned this in the past. I'm really pumped up with what's going on in Intelligent Infrastructure. And this is nowhere nowhere near slowing down. In fact, it's actually gaining momentum, particularly with all the capabilities and the design and engineering architecture that our team has managed to around this.

Mark Delaney - *Goldman Sachs - Analyst*

Very helpful, Mike. My other question was on supply chain. I think even prior to the upside in demand that Jabil has been seeing, there was some tightness in certain components. Could you speak more on what you're seeing in some of these various areas? I think semiconductors and memory was one.

I think maybe some of the components have been tight as well. But now the demand is stronger as well as given what's going on with the Middle East, can you speak to your ability to get supply and just kind of cost elements that may be associated with getting that supply in light of everything that's happening?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

So supply chain constraints, they are definitely. They're getting a little bit tighter. I think if you look at memory, anything with DDR4 and lower is being impacted. One would think about growth, which is mainly in the Intelligent Infrastructure piece is with hyperscalers. Hyperscalers will get their fair share of the allocation and they're on DDR5 as well.

So a different sort of perspective from that angle is some level of PCB constraints that we're seeing. All in all, though, I think the shortages that are out there, our supply chain team, and we've demonstrated this in the past, I think they do such a good job in getting components and especially in a constrained market, they're actually hitting their elements.

I will say, we have sort of factored in any supply chain constraints into our guide already. There might be some level of consumer sort of impact. Again, that's all factored in into our guide. At this stage, I don't see anything major coming out of the Middle East equation.

Of course, that continues to go on for months and years, it could have an impact on the consumer, again. But overall, the summarized version is, yeah, there's constraints, but I think Jabil is doing really well with those constraints.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors LLC - Analyst*

My first question was on the Intelligent Infrastructure operating margins. It seems like, Mike, you were coming off a peak capacity constraints in the quarter, and yet you still produce 40 basis points year-over-year improvements in margins and the margins were better than I thought they were going to be. So can you talk about the outlook for II margins going forward, especially now that you're ramping other capacity? And then I had a follow-up?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. So if you look at Intelligent Infrastructure, you've got to think of it as a portfolio. It's across multiple capabilities. We have the DCI piece, the service and rack piece, which will be at enterprise level margins. But if you look beyond that where the networking piece, the silicon photonics piece, some of the newer things that we're playing in and if you look at the power management piece with our LV/MV gear and the exchange heaters, if you think of the liquid cooling piece, those are at accretive margins.

So overall, the trend in margins for Intelligent Infrastructure actually will continue to evolve over time. And I'm expecting margin accretion for sure in Intelligent Infrastructure going forward, but of course, it will take some time to get all of this at scale, but the margins are absolutely moving in the right direction.

Steven Fox - *Fox Advisors LLC - Analyst*

But are we past the peak drag in like all the manufacturing reconfigurations and capacity coming online? Like does that ease in the next couple of quarters or is there things I don't understand about that?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

No. So I think just to remind everyone, the retrofitting was done mainly to give us the optionality to liquid cool racks along with the air cool racks. We do feel liquid and air will be -- in the future, there will be a mix move back and forth. So we're well prepared to do that. All of that retrofitting has now been completed.

It wasn't as -- we weren't doing that in multiple locations. It was in our US East Coast sites, and we're about two or 3 months ahead of schedule, and that's one of the reasons we have the confidence to take our numbers up a bit.

But retrofit is behind us. I think the retrofit will actually help our business going forward because liquid cooling power is going to be an issue going forward and liquid cooling will play more and more of an integral partner in that Intelligent Infrastructure space and especially in the data center infrastructure end market.

Steven Fox - *Fox Advisors LLC - Analyst*

Great. That's helpful. And then just as a follow-up, it seems like physical AI is not just a buzzword anymore, there's a lot of investment going on. Can you -- do you have any programs that you could sort of highlight or opportunity sets that you're looking at, as that becomes more of a real use case on the or in warehouses?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. So let me provide more of a general view on physical AI and where Jabil comes in more so than individual program wins. First of all, I think the physical AI is in its very early commercialization stage. There's very little real world deployment, again, depends on what your definition of physical AI is, but costs continue to remain high, complexity is very high.

One good thing about Jabil is we participate in a very early stage. And if I can -- there's almost a meeting of the hardware that we make with the experience that we're gaining. And what do I mean by that? If you look at the devices and machines that require AI in the real world, if you think of retail warehouse robots, autonomous vehicles, drones, industrial automation systems, robotics and humanoid, all -- these are all areas that Jabil already plays in from a hardware standpoint.

If you think of all the capabilities that you need to enable to make these, what we term as physical AI, it's sensors and vision systems. We're talking about onboard sort of compute and control hardware, connectivity, power systems, liquid cooling, turbo solutions, motion actuation related sort of subsystems, complex electromechanical assemblies. Again, all these areas where Jabil has experience, and we've been doing this, and we've been doing this for the last few years.

And I do think today physical AI is, like I said, very early commercialization stage. I think it will start getting more and more material over the years as we progress in the evolution of that space, I think the main constraint today is the high cost and complexity and that will come down over time, for sure. And I can't think of anyone better positioned than as Jabil to play in this space.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Mike, maybe just going back to your earlier comments about the broader opportunities and engagements with hyperscalers. Maybe if you can just expand that a bit further in terms of if you're seeing any opportunities with the neo clouds any way to intersect that market, particularly as you maybe look at opportunities both across compute or networking? What are you seeing in terms of your opportunity to intersect the capital spend we are seeing from the neo cloud market as well? Any thoughts there? And I have a follow-up.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Yeah, so we're seeing really good positive momentum, obviously, with hyperscalers. But on the neo cloud side as well we're winning business, we're winning sort of business with high frequency sort of trade requirements as well. It's well spread out, Samik, in terms of we're going after. And again, I go back to the strategy is we're not focused on individual silos or products. We're providing system integration at the system level.

It's across the Board. We can help with service racks, we can help with power, we can help with liquid cooling, we can help with network, switching, silicon photonics, there's all bunch of capabilities that we're providing.

And I think what I like about the whole Intelligent Infrastructure piece right now is if you go back three or four years ago, we maybe a little bit concentrated today, it's extremely well diversified. It's diversified with customers, it's diversified with products, it's diversified within our capability set, it's diversified with design, manufacturing at scale, et cetera. So very positive outlook for Intelligent Infrastructure.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. And just maybe a follow-up relative to your capital needs or CapEx needs going forward. I mean we've seen some peers sort of announce pretty significant increases in CapEx. How do you think we should sort of overall think about the trajectory here in terms of you mentioned demand is continuing to supply. Is there a lot of pressure to sort of maybe add new facilities in the US from your side?

And then as you think about sort of capital needs, is there also a need to sort of maybe retrofit more facilities towards liquid cooling relative to air cool racks like how are you thinking about that mix? And does that continue to evolve and drive some capital needs on that front as well?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

I'll let Greg answer the CapEx piece. But before that, just on the Intelligent Infrastructure, the beauty of -- the Intelligent Infrastructure business is very asset-light, it's asset-light in nature. When we go in -- we're not talking about complex equipment, we're talking -- we're talking about special flooring. Some of the capital expenditure we see on the EMS side, you don't need a lot of that on the Intelligent Infrastructure space.

I think our expansion plans will obviously continue. There's definitely a big requirement. But the asset-light nature of all our investments actually gives me a lot of comfort, and it's actually extremely positive for our return on invested capital as well. Greg, I don't know if you want to add anything?

Greg Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, Samik, just on CapEx, we feel comfortable on how we're modeling 1.5% to 2% going forward on CapEx to revenue. So even with all the capacity expansions and the growth we're seeing, we feel that's a good run rate.

Operator

Melissa Fairbanks, Raymond James.

Melissa Fairbanks - Hill River Capital Inc - Equity Analyst

Congrats on another fantastic quarter, and happy birthday. I want to give you a chance to talk about Regulated Industries, for a change. So in auto and transport, we have actually seen better-than-expected results and guide this year.

We've heard some negative anecdotes coming out of China EV market, which I know historically has been where you've been exposed. Just wondering what kind of details you're seeing within auto, if this is programs that are ramping in the back half of the year that you won a while ago and have been delayed or if you're still seeing better sell-through even in China?

Michael Dastoor - Jabil Inc - Chief Executive Officer

So let me just start by talking a little bit about automotive. I think we were heavily invested on the EV side a few years ago. Since then, we pivoted our strategy to focus on capabilities on powertrain-agnostic sort of platforms, which means we're focused on ICE, which means to focus on hybrids, which means we're focused on now on EVs. What we're seeing with OEMs is they want to go across the platforms. I don't think they want to have individual programs in silos or buckets, they're looking for a few modules, et cetera, that go across all three of the different categories.

So that is paying dividends for us. I think we'll continue to see program wins on the ICE side. I talked about EV being actually a positive momentum for us in Q2. You're right, China is a little bit slow, but it's other parts of the world that are actually showing some sign of recovery. Again, I did mention in my prepared remarks that we're going to be very conservative and prudent and until we see strong signs, we'll continue to do so. But overall in Asia, in different parts ex-China, we're definitely seeing some signs of improvement there.

Melissa Fairbanks - Hill River Capital Inc - Equity Analyst

Okay. Great. And then in Renewables and Energy Infrastructure, we toured the site in St. Pete where you're doing some of the commercial and resi solar stuff. I'm wondering how much of the strength that you're seeing in the near term is driven by the upcoming expiration of the tax incentives or if you believe this is really true sustainable demand improvement?

Michael Dastoor - Jabil Inc - Chief Executive Officer

So one of the reasons we're seeing this sort of shift or increase in demand is more driven by the installs. I think previously, there was a lot of focus on residential. We're now moving to a stage where commercial installations is taking on a much bigger role. And I think it's less tax incentive driven than the residential side. So it is sustainable.

Again, we're being -- we're going to continue to be conservative. We've seen renewables move to the right and then come back to the left. So we're just being a little bit cautious there. But overall, it's sort of -- it's actually a lot more sustainable than one would think given the expiration of tax credits.

Melissa Fairbanks - Hill River Capital Inc - Equity Analyst

Great. And then one last final one on health care and packaging. It's great to see that you're finally seeing a little bit of inflection point higher on the equipment side with the minimally invasive equipment and imaging systems. Just wondering how the margin profile differs on that side of the business versus a lot of the injectables and disposables?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

It's definitely accretive. It's accretive to enterprise, for sure, but it's accretive to the healthcare and packaging end market or the way we break it out as well. I think some of the GLP-1s and the CGMs have the scale. The minimally invasive technologies are more capability based and have the margins to go with it.

Operator

Luke Junk, Baird.

Luke Junk - *Robert W. Baird & Co Inc - Analyst*

On the AI front, hoping we could just double-click on your silicon photonics trends in the quarter and maybe more importantly, your high-level outlook there, certainly hearing more about higher speed, CPO-type things and scale at applications. So just curious on your updated perspective.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. Just as history, yeah, we acquired the photonics business from Intel a few years ago. And that business has done really well for us from a capability standpoint. I think you mentioned CPO. We're actually developing our capabilities across co-packaged optics, across neo optics, co-packaged copper. So we're going beyond just the co-packaged optics and silicon photonics piece.

We're actually at OFC right now this week, and we're demonstrating our system integration capabilities. We're looking at next-gen optics from 800G to 1.6T. We're looking at the integrated advanced packaging solutions.

And if you look at the cooling technologies that have to accompany some of these capabilities, we're well positioned to benefit from that. So all in all, I think if you look at some of the newer technologies that we're now developing and starting to talk about and showcase at OFC, I feel really good about our silicon photonics piece over time.

Operator

David Vogt, UBS.

David Vogt - *UBS AG - Analyst*

Just two for me. I know you don't get asked a lot about sort of the consumer digital commerce business, but given sort of the what appears to be kind of stability in that business relative to where you thought it would be three months ago and even six months ago, can you give us a sense for how you're thinking about sort of that, at least it feels like a positive trajectory in that business relative to expectations a couple of months or even a couple of quarters ago?

And then I'll give you my second question at the same time, Greg. So when we think about that business holistically, is there anything in that business that is inflecting higher that's going to drive better profitability, whether it's in sort of warehouse automation, digital commerce. Just trying to get a sense for how we should think about the margin trajectory of that business relative to the strength that you've seen in like intelligent infrastructure and regulated?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

So Digital Commerce will continue to be with puts and takes. Obviously, if you think of some of the areas that we play in retail automation, in particular, where we have digital shelf labels, shelf data and analytics, look at in the retail sort of sphere, you look at the checkout or on the go, point-of-sale devices, handheld scanners, et cetera, those will move around a little bit. They'll be up, they'll be down. The areas that I feel really good about is the warehouse automation.

If you think about warehouse automation in the early stage was AGVs and AMRs, we've been playing that for a while. Today, it's entire complex automated storage and retrieval systems. We're playing in that. I expect this part of the business to continue to grow at double digits.

And then the one that I talked about a little bit earlier was robotics humanoid piece. We've started playing on the whole humanoid piece at a very early stage. And if you think of all the capabilities that we've developed over that time frame that will come together. It's going to be more a thing of the future.

But when it hits, especially when the costs start coming down, I think the whole physical AI piece where it just wouldn't be a dumb robot or a dumb humanoid, it will be an intelligent humanoid that's coming at some point in time, and we're really well positioned to play in that as well. So digital commerce is actually -- I do expect digital commerce to continue to grow at double digits going forward.

Greg Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, David, this is Greg. Just on the margins and just to complement what Mike was saying, Digital Commerce is one of our highest margin end markets when you look at that succinctly. So it's absolutely accretive to Jabil. And with the growth rates we're seeing, we're really excited about that space from a margin perspective as well.

David Vogt - *UBS AG - Analyst*

Great. Can I just follow up? So does that support your kind of confidence and Mike's confidence in '27, margins getting on an upward trajectory towards 6% sort of that mix shift also within [CL & DC]?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Yeah. So I think the whole 6% is a diversified mix. So it's much bigger than Digital Commerce. Obviously, we're seeing some of the regulated markets making a comeback. We're seeing our capacity utilization go up. We're seeing Intelligent Infrastructure pure scale and volume that's coming through, which will create some leverage as well. So it's one of the points that will drive us to 6% and beyond. By the way, we're not happy with just looking at 6%, that's not the area of focus anymore, it's how do we go beyond 6% is where the management team is focused on right now.

Operator

Luke Junk, Baird.

Luke Junk - *Robert W. Baird & Co Inc - Analyst*

Just in terms of launching off of the 6%-plus margin thought, Mike, hoping you could just speak to AI and automation. I know you've outlined it as one of your strategic pillars in terms of internal uses of AI, especially I'm just hoping we could get an update the internal cadence of using AI in your operations, especially maybe any focus areas as we're moving through fiscal '26?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. So what we've been using AI in our operations for a while now even before AI was actually a thing, I think that usage is just getting deeper and deeper in terms of inspections, in terms of quality, in terms of corrective actions.

If you think about the breadth of operational experience that we have in our manufacturing sites, I think we have coverage for most problems in the world in manufacturing, and we have a solution for each of those problems. And the whole database, the actual corrective actions that we can take in one place based on learning from another site and the way AI facilitates that is actually a big thing as well.

And then if you add AI at a corporate level within the functions, et cetera, that's going reasonably well. So AI will continue to be something that we focus on. It's AI for internal consumption is the best way I describe that to the team here, and it's going really well is what I can say.

Operator

At this time, I'll now turn the floor back to Adam Berry for closing remarks.

Adam Berry - *Jabil Inc - Senior Vice President, Investor Relations and Corporate Affairs*

Thank you for your interest in Jabil. That's all we have today. Thank you.

Operator

Thank you. This will conclude today's conference. You may not disconnect your lines at this time. We thank you for your participation and have a wonderful day.

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