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JBL.N - Q3 2026 Jabil Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, ladies and gentlemen, and welcome to the Jabil third quarter fiscal year 2026 financial results conference call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Adam Berry, Investor Relations. Thank you. Please go ahead.

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

Good morning, and welcome to Jabil's third 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 fourth 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 are identified in our annual report on Form 10-K for the fiscal year ended August 31, 2025, and on other filings with the SEC. Table 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*

Thank you, Adam. Good morning, everyone, and thank you for joining our call today. Before getting into the details, I want to take a moment on how the quarter came together. We feel very good about Q3. Demand remains strong. Our teams executed well, and we delivered ahead of expectations across revenue, margin, EPS, and free cash flow.

Revenue upside in the quarter was broad-based across the portfolio, and I'll walk through the segment detail shortly. Just as important, margins were strong, and free cash flow was robust, giving us good momentum as we move into Q4.

For the third quarter, revenue was approximately $8.8 billion, up 12% year over year and $250 million above the midpoint of our outlook. On a GAAP basis, operating income was $445 million or 5.1% of revenue. Core operating income was $504 million, and core operating margin was 5.8%. GAAP diluted earnings per share for the quarter was $2.59, and core diluted earnings per share was $3.16, up 24% year over year.

Turning now to segment performance in the third quarter. Regulated industries revenue was $3.2 billion, up 4% year over year and above our outlook for the quarter. The upside was primarily driven by Automotive and Transportation, where demand was stronger than we expected. Core operating margin was 5.6%, up 10 basis points over the prior year.

Intelligent Infrastructure revenue was $4.2 billion, up 21% year over year, reflecting continued strong demand and performance in line with our outlook for the quarter. Growth was broad-based across the segment. Capital equipment and cloud and data center infrastructure were both double digits, while networking communications was up more than 50%, supported by a strong networking ramp in India.

Overall, this continues to be a very strong growth business for Jabil. And as we look from Q3 into Q4, we expect another meaningful step-up in revenue across all three end markets. supported by continued strength in AI-related programs and the timing of customer ramps.

Core operating margin for the segment was 6.1%, up 80 basis points over prior year Q3. Connected Living & Digital Commerce revenue was $1.4 billion, up 5% year over year and above our outlook for the quarter. Relative to our Q3 outlook, the upside came largely from Connected Living, where consumer-related demand was better than the cautious assumptions we had embedded in the guide. Our operating margin for the segment was 4.9%.

Turning now to cash flow and balance sheet metrics. Free cash flow was better than we expected in Q3, supported by strong profitability and continued discipline across the business. Cash flow from operations was $535 million, and net capital expenditures were $176 million, resulting in adjusted free cash flow of $359 million for the quarter

On working capital, inventory days were 84. Net of inventory deposits from customers, inventory days were approximately 68, which was above our normal targeted range of 55 to 60 days.

The higher inventory was largely tied to the timing of customer shipments in Intelligent Infrastructure, and we expect this to normalize back toward our targeted range in Q4. Given how our performance through Q3 and the outlook for Q4, we now expect adjusted free cash flow of more than $1.4 billion for the full fiscal year, up from our prior outlook of more than $1.3 billion.

Our balance sheet remains in excellent shape. We ended Q3 with $1.4 billion in cash and debt-to-core EBITDA of 1.3 times, and we remain fully committed to maintaining our investment-grade credit profile. During the quarter, we repurchased approximately $291 million of shares under our existing $1 billion share repurchase authorization, which we intend to fully complete in Q4.

With that, I'll walk through our guidance for Q4 FY26, starting with the segments. We expect regulated industries revenue of approximately $3.3 billion, up 6% year over year. This reflects continued stability in healthcare and packaging, ongoing improvement in renewables, and Automotive and Transportation performing better than we expected earlier in the year.

For Intelligent Infrastructure, we expect revenue of approximately $4.9 billion, up about 32% year over year. This represents a meaningful sequential step-up from Q3, reflecting continued strength in AI-related programs, customer ramp timing, and the timing of shipments as discussed earlier.

And in Connected Living & Digital Commerce, we expect revenue of approximately $1.4 billion, roughly flat year over year. Digital Commerce growth remains healthy, while Connected Living continues to reflect a mixed consumer environment, although one that has performed better than our more cautious assumptions.

At the enterprise level, we expect Q4 revenue to be in the range of $9.2 billion to $10 billion or about 16% year-over-year growth at the midpoint. We expect core operating income to be in the range of $589 million to $649 million, which implies a core operating margin of approximately 6.4% at the midpoint. We expect core diluted earnings per share to be in the range of $3.80 to $4.20. We expect fourth quarter net interest expense to be approximately $80 million, and our core tax rate remains approximately 21%.

Taken together, this would represent a strong finish to the year with continued revenue growth, margin expansion, and free cash flow generation. For fiscal 2026, we now expect revenue of approximately $35 billion, core operating margin of approximately 5.8%, core diluted earnings per share of approximately $12.70, and adjusted free cash flow of more than $1.4 billion.

Let me close by saying Q3 delivered strong results and gives us greater confidence as we enter the final quarter of fiscal 2026. Our performance this quarter highlights the strength of our diversified portfolio, the momentum in Intelligent Infrastructure, and the disciplined execution of our teams around the world. As we move through Q4 and look ahead to fiscal 2027, our priorities remain clear and consistent: profitable growth, 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 outlook and how we're thinking about the setup into fiscal 2027.

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

Thanks, Greg, and good morning, everyone. I'd like to begin today's call by thanking our teams around the world for delivering another strong quarter. Achieving 12% year-over-year growth on business of our scale requires tremendous focus, coordination, and execution across our global operations, customer partnerships, and supply chain network. I want to thank all of our employees for their contributions and commitment to delivering these outcomes.

At the enterprise level, we delivered ahead of our expectations across all of our key metrics, including revenue, margin, EPS, and free cash flow. AI infrastructure demand remained extremely strong, and our full year AI-related revenue outlook is now meaningfully higher than what we laid out just 90 days ago. At the same time, we continue to see better-than-expected performances in areas of the portfolio that have previously been under pressure, including Automotive and Transportation and Connected Living & Digital Commerce.

Over the past several years, we have worked hard to build a diversified model, one which relies on many large end markets, and we still believe that's the right model for our business today. The diversified model not only provides important synergies such as supply chain purchasing power and engineering, which is leveraged across end markets, but more importantly, we believe it also allows for more sustainable financial performance over longer periods of time, providing a natural hedge in different economic cycles.

With that as a backdrop, let me now walk through fiscal 2026 by end market, starting with Intelligent Infrastructure. We continue to feel very good about the business. We now expect AI-related revenue to be approximately $13.6 billion in fiscal 2026. That is $500 million higher than our March outlook of $13.1 billion and up from $9 billion in fiscal 2025.

This represents $4.6 billion of AI-related growth this year or about 50% year over year. This level of growth reflects strong customer demand, quality execution from our team, and the capabilities we have built across compute, storage, networking, optics, power, cooling, and right level integration.

We also took an important step forward in Q3 by winning our third hyperscale customer. Based on what we see today, we would expect the revenue ramp with this customer to look a lot like what we saw in our second hyperscaler, where we started with a specific capability, executed well, and then expanded the conversation across the data center. That is an important part of the model. We can enter where we have a capability the customer needs, deliver with quality, and then expand as the relationship deepens.

Importantly, this remains an attractive asset-light model for Jabil as evidenced by our CapEx expectations of 1.5% to 2%. We are expanding capacity in a disciplined way tied to visible customer demand while avoiding the product ownership and IP risk that can come with more OEM-like models. Not only do I like the large revenue growth opportunities before us, I continue to like the return profile of the business, including strong free cashflows.

Moving to regulated industries, where the tone continues to get better. Auto was stronger than expected in the quarter, and we now expect other revenue of approximately $4.4 billion in fiscal 2026 compared to our March outlook of $4.2 billion. Despite coming in stronger than anticipated, we remain cautious on the automotive market, given continued demand volatility. That said, stronger export demand from China, industry consolidation, and growth in powertrain agnostic platforms enabled us to exceed our prior outlook.

Renewables also continued to improve. We are seeing support from Safe Harbor projects, demand for power type to AI, and data center infrastructure and the shift from residential towards commercial projects. The tone is better than it was earlier in the year.

In Healthcare, our long-term view of the opportunity has not changed. The product cycles are long. The margin profile is attractive and the outsourcing of opportunity is still relatively immature. We continue to see good opportunities around drug delivery, med devices and broader pharma capabilities.

In Connected Living & Digital Commerce, we also saw better performance in the quarter. In Connected Living, the environment remains mixed, but performance was better than the cautious assumptions we had embedded in our outlook driven primarily by Connected devices. We now expect connected living revenue of approximately $2.7 billion in fiscal 2026, up $300 million from our March outlook. We expect digital commerce revenue of approximately $2.7 billion, up $100 million from our March outlook.

Digital Commerce remains one of our higher-margin end markets with good opportunities in automation, robotics, retail and warehouse technology. Putting all of that together, we're raising our fiscal 2026 outlook. We now expect revenue of approximately $35 billion, up from our March outlook of $34 billion. That represents growth of roughly 17% year over year. We also now expect an improvement in core operating margin of 10 bps to approximately 5.8%, core EPS of approximately $12.70, and adjusted free cash flow of more than $1.4 billion, up from our prior outlook of more than $1.3 billion.

For me, it's important to recognize that the model is working. And as a result, the business is rapidly growing. Margins are moving higher, and free cash flow expectations also are improving. And when I look beyond fiscal 2026, I am extremely confident in Jabil's strategic position, the strength of our customer relationships, and our ability to capture the significant opportunities ahead. While we will provide full year guidance for FY27 in our annual virtual investor briefing in September, I thought it might be helpful to provide an early view of our AI-related revenue growth.

As I mentioned earlier, in FY26, we anticipate our AI-related revenue will be approximately $13.6 billion. We are exiting the year with a stronger platform for growth, strong customer engagements, and new capacity coming online in North Carolina, Memphis, India, and other parts of the footprint. For all these reasons, I expect AI-related revenue growth in FY27 in percentage terms to be similar to FY26. What makes that especially impressive is that we expect to sustain this growth rate of a much larger revenue base.

At the enterprise level, there are still a few things that will shape how the full year comes together between now and September. That includes component availability, mix across the portfolio, and the choices we make as we continue to prioritize margins, customer ramp timing, free cash flow, and returns. As these items firm up, they will help determine where the full year ultimately lands. The combination of strong AI growth, improving mix, and continued discipline around free cash flows and returns gives me confidence that Jabil can move core operating margin above 6% in fiscal 2027.

Before we wrap up, what incremental opportunity I want to highlight is the AI infrastructure initiative we announced earlier this week with Adani Enterprises. While it is still early days, Adani Enterprises and Jabil are targeting a strategic alliance to build an AI data center infrastructure platform in India. This alliance will focus on multi-gigawatt manufacturing capacity for high-density AI racks and associated computing infrastructure.

he platform is expected to manufacture next-gen liquid cool AI racks, servers, storage systems ,and networking equipment and supporting infrastructure equipment required inside modern AI data centers, including power distribution units, transformers, switchgear, and thermal management systems used by hyperscalers, colocation providers, and enterprise data center customers. Importantly, the opportunity represents the potential to help establish a scaled AI infrastructure manufacturing platform in India, a market we believe will become increasingly important for both domestic and global AI infrastructure demand.

There is still work to be done before a definitive framework is established. So we view this as a longer-term opportunity. If the partnership develops as we anticipate, fiscal 2028 is the more realistic starting point for meaningful contributions.

In closing, we remain focused on executing our diversified strategy, investing in the right growth areas, and creating long-term value for our customers and shareholders. Thank you for your continued support, and we look forward to updating you on our progress in the quarters ahead.

With that, operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ruplu Bhattacharya, Bank of America.

Ruplu Bhattacharya - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Mike, with today's guidance raise, you would have had two years of strong AI revenue growth. And like you said, the base is higher now for AI revenues. A lot of companies are building GPU racks. What gives Jabil the right to win in this space? And you talked about a third hyperscaler and you talked about the announcement with Adani Enterprises in India. How big a revenue driver could these be for Jabil? And I have a follow-up.

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

Thanks, Ruplu. So I feel our AI demand continues to be extremely strong. I think the holistic strategy that the team is focused on where we sort of enable customers to scale AI much faster by delivering fully integrated systems across compute, storage, networking, power, advanced cooling. We often sort of go in through one channel or one capability and expand the relationship by offering other end-to-end sort of solutions to customers.

We actually won our second hyperscaler in exactly that way. And we're actually just won our third hyperscaler and the strategy will be exactly the same. So going really well from a strategy standpoint.

In my prepared remarks, I talked about having a similar growth rate. You highlighted that, Ruplu, and it's on a much, much higher revenue base. All three end markets are contributing to this. If you think of capital equipment, test, obviously, is a high performer there with all the rapid evolution of chip technology. The test equipment demand is through the roof.

I think WFE is making a little bit of a comeback, although we'll always be a little bit prudent because WFE historically has always moved to the right a little bit. But there is definitely signs of a recovery in WFE right now.

And then if you look at DCI, our cloud infrastructure business, we're opening up new capacity in North Carolina. We're talking about Memphis, India, other parts of the footprint. We recently made the Hanley acquisition. That's bearing fruit as well.

And don't forget that's at a higher margin. And then last but not least, networking. We've got the whole InfiniBand Ethernet. Demand is going up, especially in India. We've sort of almost doubled our revenue over the last year in India there, partly because of this networking demand.

And then the silicon photonics, we continue to play in that as well.

So overall, very strong demand, very good strategy from Jabil, and you're seeing that in the numbers. You're seeing that in the results. A similar growth rate on such a large revenue base is quite impressive. As it relates to the India opportunity, before I say anything, I just want to say that we do not have a definitive framework in place yet. So we're still working on it.

So I can't comment on financials or structure or anything like that. Having said that, I am really excited about this opportunity. If you think of a few things that stand out for me, we're talking about multi-gigawatt AI infrastructure manufacturing in India. We're talking about the world's highest population and particularly with the government that's helping push bake in India as a global manufacturing hub and taking it a step further to make for the world as well.

So really well aligned there. If you think of the offering that we're providing, it's a one-stop shop, which would sort of appeal to hyperscalers and data center providers with Adani being one of the largest conglomerates in India. very strong in infrastructure, providing power and Jabil providing all the manufacturing expertise, which has been proved out in the US. So we're talking of racks. We're talking next-gen liquid cooled racks.

We're talking of servers. We're talking of storage systems and networking equipment. And then you layer on the supporting infrastructure that we're building today in the U.S. as well in terms of switchgear, transformers, power distribution units, thermal management systems, all of that comes into play. So the opportunity is quite significant going forward.

Again, I do want to highlight that this is an FY28 event. Obviously, the main gating factor here would be building out this capacity because this will require a decent chunk of capacity, but the opportunity and the potential could be huge.

Ruplu Bhattacharya - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. Mike. In talking about capacity, maybe I have a follow-up for Greg. You've been adding capacity. Does Jabil now have enough capacity to support the strong AI and data center revenue growth that you're projecting for fiscal '27?

And can you help investors understand how much revenue can the existing footprint support and which areas would the company plan to invest in? And how does this impact free cash flow going forward?

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yes, so as Mike mentioned just now and also in his prepared remarks, when we look at AI revenue in FY27, we're going to see similar growth levels in percentage terms to '26 and also off a larger base. From a capacity perspective, we're real confident we could have that revenue in place from a footprint perspective.

Globally, we're adding an incremental 10% on our footprint, new buildings, new locations and also expansion. So we feel really good of the footprint being there to support that capacity. From a CapEx perspective and free cash flow, we're not giving any kind of guide for next year yet, but we feel really good on continuing to stay within that 1.5% to 2% on total CapEx even with the footprint expansion that we're seeing in the coming year.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors LLC - Analyst*

Just following up on a couple of those things. I was wondering if you can dial in a little bit more into the networking growth. Obviously, substantial here. How does that look into next year off of the guidance for AI revenues? And where is it coming from?

And then I have a follow-up.

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

The networking growth, we've already grown quite a bit in '26. I think that growth continues in '27, Steve. I think the InfiniBand, the Ethernet demand, all the switch gear that we're building in India. -- the silicon photonics piece coming together nicely -- so there's a whole chip positives in that networking space. And I think the demand for that networking will be similar or better next year to '26.

Steven Fox - *Fox Advisors LLC - Analyst*

That's helpful. And then just as a follow-up, can you talk a little bit more, Mike, about margins for next year? I know you don't want to get too specific, but I would imagine the margins you're posting now and still includes some inefficiencies from plants you're ramping up. Like when do we start to see you guys fully harvest the new capacity at efficient rates as you're adding sales. When can we sort of see better incrementals?

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

So you're absolutely spot on with the capacity coming through in stages. We don't turn on all our capacity on first of September. It will phase in through the balance of this calendar year, and I expect a lot of the capacity to be on board by early calendar year next year. So you're right, there's definitely some level of ramp impact. Having said that, I feel really confident about 6% plus margins.

And I do add the plus up to the 6%. I think if you look at what's driving some of that, the mix is getting better. Some of the end markets that we've had a little sort of lack of recovery in the past, those are coming together nicely like automotive, renewables. Healthcare is steady Eddie even within Intelligent Infrastructure, the higher-value capabilities like power, liquid cooling, silicon photonics, they're all getting accretion in margin in that Intelligent Infrastructure segment itself.

And then you add on the operating leverage, you talked about utilization, capacity utilization getting better as we progress through '27. And then Hanley, where we made the acquisition a few months ago, it's at double-digit margins. So all of that coming together very nicely from a margin standpoint. I would -- I think the point you made about ramps is important to keep in mind though. But like I said, my expectations are on a 6% plus margin for FY27.

Operator

Samik Chatterjee, JPMorgan.

Unidentified Participant

This is MP on for Samik Chatterjee. So my first question is regarding your Intelligent Infrastructure guide. You have implied an acceleration in year-over-year growth relative to fiscal 3Q. And then it's also higher than your implied guidance, which you had given previously. So just wanted you to double-click on whether this upside relative to prior expectations is driven entirely by the new hyperscaler customer?

And then also any color on what capabilities you are currently ramping on with the new hyperscaler customer? And I have a follow-up.

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

Just for clarification, your question is about FY26 or the growth rate for FY27?

Unidentified Participant

So fiscal 4Q, your intelligent infrastructure implied.

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

I think Greg mentioned something in his prepared remarks around timing where we had some finished goods in the warehouse still at the end of Q3. Those will start flowing in, in Q4. I think there's about a couple of hundred million from Q3 extending into Q4 and then an incremental $300 million across the board. It's not just related to the third hyperscaler. It's demand across the board in racks.

I think Memphis is doing really well. So there's $500 million upside in our Intelligent Infrastructure guide for FY26, and it's spread out a little bit. So really happy to see that.

Unidentified Participant

Got it. And then for your fiscal '27 guide, you have said that AI growth continues at a similar percentage level and also we are seeing acceleration in growth relative to your other end markets. So does that -- like is it -- will it be a fair assumption to say that overall fiscal '27 revenue growth should be at least in line with fiscal '26 or higher than that?

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

So look, I think we'll provide full year guidance in September. My AI revenue sort of highlight was more to give Street a little bit of what's an idea of what's going on in our AI piece. There's puts and takes on the other side of the business, some end markets, obviously, are performing better. We'll continue to look at margins, obviously, we'll continue to look at any pruning that we have to do. So I wouldn't start expanding revenue on an incremental basis to what I've already said on the AI revenue that was more an indication of comfortability in terms of the AI revenue growth, right?

We will provide guidance, like I said in September, and I expect it to be a nice number, but let's have some caution in -- I would make sure that we don't get carried away with the numbers there.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs Group Inc - Analyst*

I'm hoping you can share more color on what led to the win at the third hyperscaler and any product capability in particular where Jabil has had initial success?

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

It's across the data center infrastructure space, Merck. It's very similar to how we did the second hyperscale second hyperscaler was in a different capability. And then we expanded way beyond that capability into all the other capabilities. So I would see this as a starting point. The third hyperscaler, I expect it to be in that couple of hundred million dollar range for '27, rapidly expanding to $1 billion and then beyond in '28.

So definitely a good sign. We've been working on this for a while, and it's finally come through in our Q3 --

Mark Delaney - *Goldman Sachs Group Inc - Analyst*

Okay. And then in terms of the supply chain considerations for the 50% growth in AI-related revenue for next year, you already spoke a bit around your manufacturing and CapEx plans to support that. But could you speak a little bit more on the supply chain, including labor and parts supply? And given that some companies in the industry have run into parts and component shortages, maybe help investors to better understand to what extent there's any conservatism from a supply chain standpoint, factored into that outlook for 15% growth next year?

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

Right. No, it's really a good point, Mark. I think we always appropriately ensure that we've factored in all these supply chain issues. There is a high demand for high bandwidth memory as everyone's aware, high-end, high-density interconnect PCBs, R&I demand, lead times have been extending. One good thing is obviously the hyperscalers and our large customers get more than their fair share of some of these components.

I think the DDR5s, I think the capacity is decent on that front. But the DDR4s and below, I think there will be some level of shortages, and we try our best to obviously factor in those delays.

I think the -- the key here on supply chain is our team is extremely focused and I'll put our team up against anyone externally. I think if you look at the conversations are changing. It's not transactional. It's not about pricing, it's about strategy. It's about access.

It's about allocation long-term commitments. So overall, I feel really good that our team is approaching this and absolutely the right way. And by the way, they've proved it out over the last 3, 4, 5 years, if you include COVID and all of this, it's -- I think the team performed much better than many of the other teams.

Operator

Ruben Roy, Stifel.

Unidentified Participant

This is (inaudible) for Ruben Roy.

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

Yes, go ahead. You're breaking up.

Unidentified Participant

Hearing me okay now?

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

We can hear you now, but you broke up before that?

Unidentified Participant

I say 4Q exits at around 6.4% core margin. FY27 is being framed above 6%. And so can you help us reconcile that? Is that just early conservatism? Or is there genuine near-term margin drag from the onboarding of the third customer, new capacity start-up costs and sort of just the ramp before it all scales?

And what's the path back toward that 7% and higher?

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yes. So typically, Q4 is our highest margin quarter. Last year, we were at 6.3%. We're going to beat it by 10 basis points for this Q4 at 6.4%. So overall, I feel really good about 5.8%.

As Mike mentioned, we're going to be 6% plus for next year. Still a little bit early to talk about the shape of next year, but again, feel good about continuing to improve on gross margins and getting leverage in SG&A to get 6% plus and higher from there.

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

And the Q4 seasonality is quite common. If you go back over the last 2 or 3 years, you'll see the same level of seasonal with Q4 being the highest performing margin quarter.

Unidentified Participant

Okay. Understood. And maybe then just on the Adani piece of what you mentioned. I guess without getting into financials, can you just help us understand the capital model? A multi-gigawatt build sounds pretty capital intensive and yet you're committed to sort of the 1.5% to 2% CapEx.

And so is that structured? Are you thinking of structuring that as a JV? Or is that partner funded? How are you going to participate in those economics while keeping Jabil asset light and avoiding the IP ownership risk that you've been careful to avoid up until now?

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

So I just want to start again by saying, look, we do not have a definitive framework. So we haven't figured out structure and capital and all that. Having said that, I feel really good. If you look at our growth in everything that we're going to do with the Adani Group as well, it's manufacturing. It's manufacturing racks, it's manufacturing servers, it's manufacturing storage, next-gen liquid cooled racks, power distribution, transport.

We've been doing that for the last 3, 4 years now.

So our CapEx has been proved out already. This is no different. It's just the scale will be enormous. So I think just -- I feel -- I still feel comfortable with the 1.5% to 2%. Don't forget our manufacturing business is relatively asset-light in nature.

And that's the beauty of the model that we have today. You can eat your cake and have it to there as well. So I think I feel really good about our CapEx ability once we get going on this venture.

Operator

Melissa Fairbanks, Raymond James.

Melissa Fairbanks - *Raymond James - Analyst*

Just wanted to start off by saying for Graham and Frank, congratulations on the first round win. I hope to see the Tartan Army down in Miami. I'm not sure if they're listening to the call. I was wondering, we've got a really strong guide for Intelligent Infrastructure, not surprising. Can you give us an update on the North Carolina facility?

When can we expect revenue to start flowing through from that facility? And then I believe you also have first right of refusal of the parcel of land next door. Just wondering how we can think about that in terms of capacity expansion going forward?

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

Sure. Thanks, Melissa. I'm sure Frank and Graham will appreciate your comments. They're probably still hung over from Saturday, but Look, our North Carolina facility is -- it remains on track. I think we've given a time line of Q1, Q4 -- the end of this year, fiscal year.

Nothing's changed on that front. We booked one customer. We're talking to others. I think if you think about it, January would be probably the date by which we'd be fully ramped. Obviously, we'll have some level of sort of steady ramps through the first quarter of -- but January onwards, I would expect run rates to be in that $1 billion, $2 billion, $3 billion range over the next 1, 2 and 3 years.

So I think, overall, -- the potential is still the same, no major changes to our North Carolina piece.

One of the things with the additional land next door, we're looking at facilities which are easier to get to as in readily available. So we might have capacity coming online, which is already built out as opposed to going through another 12, 18 months of build-out. So it's just a slight sort of variation of our initial thought pattern in North Carolina, but everything else remains exactly the same.

Melissa Fairbanks - *Raymond James - Analyst*

Okay. Great. Then maybe shifting gears looking at regulated industries, we'll give some else a chance to shine. Glad to see the auto business is moving a tick higher for the year. I think the downtick in healthcare is maybe a little surprising.

Wondering if you could give us more color there.

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

So I wouldn't put too much into that. Don't forget, we took it down by $100 million. Our daily shipments add up to $125 million, $130 million. So it's -- the number of -- the amount is not as material. It's just -- it was just $100 million.

And with rounding, it was even lower than that. So I wouldn't worry about it too much.

Our long-term view of healthcare has not changed at all. The product cycle is extremely long, extremely sticky margin profile, highly attractive. Outsourcing in this industry is still relatively immature. And we continue to see good opportunities around. If you think of GLP-1s, you think of drug delivery, you think of continuous glucose monitors, med devices, chronic disease management.

All of that is still well within our control.

And I think FY27 should show some level of growth again. And then don't forget, we'll have Croatia come online right at the end of FY27. So it's not going to be an FY27 event, but it will be coming online at the end of FY27, which means it will be an FY28 event. And then we continue to look at B2Bs and capability-driven M&As and more vertical integration. So I think healthcare continues to be right at the center of our strategy going forward as well.

Operator

Luke Junk, Baird.

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

Mike, hoping just to start with the preliminary 2027 AI view and hoping just to get a little color from a customer standpoint in terms of incremental contributions from your largest customer versus the second and third hyperscalers or maybe even seeing maybe some more materiality from NeoClouds in this guidance as well.

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

It's spread out across the board, look, I think the numbers are well diversified. Obviously, our largest customer plays a role in that. The second hyperscaler will play a role in that. I talked about the third hyperscaler initially in FY27. The numbers won't be that material, but FY28 will get to a material number.

But it's really well spread out. Capital equipment is doing well. If you look at DCI, that's doing well with all the new capacity coming online. And then networking, it's almost a really well-diversified portfolio within intelligent infrastructure that's outperforming.

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

Understood. And then can we maybe flip that to the capacity view? So certainly, Carolina part of this into fiscal '27 but can we talk about where you're able to push on capacity in some of the other key facilities, be India, be it in Memphis, kind of some of the big chunks to support with obviously several billion dollars in growth in total.

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

Yes. No. So North Carolina, obviously, will play a part there. Like I said, we booked one customer. We're looking at multiple others.

We'll provide more guidance on that in September. Memphis is coming along nicely. I think if you look at the LVMV switchgear that we have there, the I heat exchangers building out in Memphis, they're going well. We're doing the second hyperscaler in Mexico.

We've got networking going on right now, expansion going on in India. So it's all spread out and the capacity utilization will quickly come online very fast. Again, I think Mark had asked that question about ramps. There will be some level of ramps that take place.

You don't trigger 5, 6 facilities up on all on the same day, and they don't start performing from day 1. So it will take some level of time. So Q1 of '27, we will be in a little bit of a ramp situation. But from 1st January onwards of calendar year '27, I do expect that capacity to come online in a substantial way. It all sorts of different products, different customers in a really well-diversified manner.

Operator

David Vogt, UBS.

David Vogt - *UBS AG - Analyst*

I've got two questions for Mike and Greg. So maybe, Mike, starting with you, when we think about the soft commentary around fiscal '27, particularly around AI and your margin how much of that commentary is guided by your view of supply chain component availability and what your customers are seeing? And how is that taken into consideration from a margin perspective?

Obviously, I would assume that you're building in a buffer there. I'll give you my second question at the same time, maybe for you as well, and maybe Greg can chime in. When I think about the third hyperscaler, I think you mentioned a couple of hundred million dollars of revenue in fiscal '27. How do we -- how should we square that with sort of the North Carolina facility coming online next year? Are you insinuating that we're going to have multiple customers in that facility?

Or is it just going to be that one customer? How do we think about sort of how that capacity is going to be allocated among your hyperscaler customers going forward?

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

So I think when you run soft guidance, are you talking about '27 similar --?

David Vogt - *UBS AG - Analyst*

I'm sorry -- yes, just commentary around '27 AI growth a supply..

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

Accelerated by supply. Yes. No, it's similar growth rate percentage on a much, much higher revenue base. So it's a substantially bigger number in revenue dollar terms. So I wouldn't call it soft, but overall --

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David Vogt - *UBS AG - Analyst*

What I meant by -- I didn't mean soft and soft performance, like you're not giving the official quantitative guidance for '27 preliminary guide.

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

That's fair. I think the reason I actually talked about it was to give an early indication. It wasn't meant to provide guidance. I didn't want to Hijack September call. We will have a virtual investor briefing in September.

So we will provide more guidance, more definitive guidance then. Supply chain absolutely is part of our thinking. We're aware of where the shortages are.

And obviously, any commentary that we provide for '27 will be -- will have some level of impact, but that will already be built in. So the numbers we talked about definitely have that built in. Like I said, a lot of the AI intelligent infrastructure customers do manage to get their fair share and then some op components. So it is -- look, it's an issue, but I don't lose that much sleep over it from the intelligent infrastructure standpoint. And I think as we go along over the next 3 or 4 months, and we actually have our long-term strategy sessions in this Q4 as well, which go out a couple of years.

So we'll provide more guidance in September.

David Vogt - *UBS AG - Analyst*

Great. And then on the third hyperscaler rev versus the North Carolina capacity coming online? How do we think about that's going to be allocated to your hyperscaler portfolio?

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

So the third hyperscaler, like I said, is in the data cloud infrastructure space. We're still -- we booked one customer in North Carolina. We're still trying to figure out where exactly the third hyperscaler would go. It might be North Carolina, it might be somewhere else. But that's a good problem to have.

Like we said, this capacity coming online in multiple jurisdictions, multiple factories, multiple buildings coming online. So I do think third hyperscaler is ready to go. It's just a matter of us trying to figure out exactly where to put it.

Operator

Tim Long, Barclays.

Tim Long - *Barclays Services Corp - Equity Analyst*

Two, if I could here. Maybe I think you guys mentioned Hanley is going well. If you could just give us an update there, kind of on both the power side and the more services side how that's ramping and developing internally into a better business for you guys? And then second, if you could just touch on the storage business. I think -- I'm not sure if you mentioned it that much, but curious how that's going.

I think that's been a pretty good ramp. If you could just kind of update on us on how that's going this year and the outlook into next year.

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

Sure. So I think just as a reminder, Hanley expands our capabilities in both power -- modular power distribution, energy systems and then there's a service angle to that as well. It's a higher-margin business. I think from a revenue standpoint, it's actually going better than we had anticipated during our acquisition.

The level of interest that the acquisition has generated is extremely positive. I think, again, we were expanding capability offerings and going in through one channel and expanding our capability offering in other channels, and Hanley is part of that solution as well. So all going really well.

If you think of some of the areas that we can expand into with modular power solutions, I think data center power architecture, I talked about services, that services is a critical part of the offering. Not only do we help deploy the gear in the data center, we help maintain it, and we help service it. And that's a recurring revenue stream as well. So Hanley overall going really well.

And then the second, hyperscaler, I think you mentioned storage. That's going really well. I think some of that is reflected in our guide for -- I won't call it guide, but our indication for FY27. I think when we started on that second hyperscaler journey a couple of years ago, none of us imagined it to be as critical and as big as it's turned out to be.

Operator

Thank you. This brings us to the end of today's question-and-answer session. I would like to turn the floor back over to Mr. Berry for closing comments.

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

Thank you very much for joining. This concludes our call. If you need further clarification, please reach out to us. Thank you.

Operator

Ladies and gentlemen, this concludes today's event. You may disconnect your lines or log off the webcast at this time and enjoy the rest of your day.
