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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings. Welcome to the Jabil Second Quarter of Fiscal Year 2024 Earnings Call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the conference over to Adam Berry, Vice President, Investor Relations. Thank you. You may begin.

Adam Berry

Good morning, and thank you for joining Jabil's Second Quarter Fiscal 2024 Earnings Call. Joining me on today's call are Chief Financial Officer, Mike Dastoor; and Chief Executive Officer, Kenny Wilson. Over the next few minutes, Mike and I will review our Q2 results, update current demand trends and provide new guidance for fiscal '24. We will then turn the call over to Kenny, who will provide several of the building blocks that give us confidence in our strong outlook for fiscal '25.

Before we begin, please note that today's call is being webcast live, and during our prepared remarks, we will be referencing slides. To follow along with the slides, please visit jabil.com within the Investor Relations portion of the website. At the conclusion of the call, the entirety of today's presentation will be posted for audio playback. I'd now ask that you view the slides on the website and follow along with our presentation, beginning with the forward-looking statement.

During this conference call, we will be making forward-looking statements, including, among other things, those regarding the anticipated outlook for our business. 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, 2023, and our 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 shift our focus to our second quarter results, where the team delivered approximately $6.8 billion in revenue roughly in line with the guidance range we provided as a majority of the businesses performed extremely well against the updated guidance we provided back in December.

Core operating income for the quarter came in at $338 million or 5% of revenue. This was up 20 basis points as a percentage of revenue year-over-year due to a strong mix of business led by automotive and health care, while also supported by an ongoing mix shift within our networking and storage end markets. Net interest expense for the quarter came in higher than expected at $72 million, reflecting higher levels of inventory during the quarter.

It's also worth noting that we successfully closed on the sale of our mobility business to BYD Electronics during the quarter for approximately $2.2 billion. As a result, GAAP operating income was approximately $1.1 billion, and our GAAP diluted earnings per share was $7.31, reflecting the substantial gain associated with the sale at the end of December.

Core diluted earnings per share for the quarter was $1.68, $0.05 above the midpoint of our guidance range provided in December.

Now turning to our performance by segment in the quarter. Revenue for the DMS segment came in at $3.4 billion, down approximately 16% from the prior year, driven almost entirely by year-over-year comparisons for the mobility divestiture. On a like-for-like basis, our DMS segment performed very well, led by approximately 11% growth in our automotive and transportation businesses.

Core operating margin for the segment came in at 5.6%, 100 basis points higher than the same quarter from a year ago, reflective of the ongoing mix shift within our DMS business.

Revenue for our EMS segment came in at $3.3 billion, down roughly 18% year-over-year and roughly $100 million to $200 million below our expectations for the quarter. The majority of our year-on-year revenue decline within EMS was driven by our move to a consignment model within our cloud business and lower revenue in markets like 5G, renewable energy and digital print as expected. However, unexpectedly, and towards the end of the quarter, our 5G and renewables businesses were both negatively impacted by yet another decline in demand associated with those end markets. For the quarter, core margins for the EMS segment were 4.4%, down 70 basis points year-over-year.

Next, I'd like to begin with an update on our cash flow and balance sheet metrics as of the end of Q2, beginning with inventory, which came in 9 days higher sequentially to 87 days. Net of inventory deposits for our customers, inventory days were 62%, which was quarter-on-quarter increase of 4 days.

Our second quarter cash flows from operations came in at $218 million, while net capital expenditures totaled $170 million, resulting in $48 million in adjusted free cash flow during the quarter.

During the quarter, we repurchased 6.5 million shares for $825 million, leaving us with approximately $1.2 billion remaining on our current repurchase authorization as of February 29.

With this, we ended the quarter with cash balances of $2.6 billion and total debt to core EBITDA levels of approximately 1.2x.

In closing, Q2 was largely a solid quarter. For starters, the divestiture of our mobility business and the allocation of those funds towards the share buybacks reflect the strategic intent of this management team to both reshape the business where appropriate while also maintaining healthy returns to shareholders.

At the same time, the business is performing pretty admirably despite considerable declines in 2 of the end markets we serve as evidenced by our ability to deliver higher margins despite these headwinds.

And finally, I'll leave you with a bit of optimism as we look ahead to fiscal '25 and beyond. As we think about the adjacencies across the end markets we serve, it's becoming clear that there's a common theme forming among a number of the end markets, specific to the surge of artificial intelligence, and the impact it will have on our customers' business well into the future. And with this surge, there's a proliferation of data being created by EV and autonomous vehicles that needs to be harnessed.

In the health care industry, we're in the early innings of getting our arms around the benefits of AI in the operating room. And in our cloud business, we're seeing significantly increased demand for our services related to AI specific to hardware, manufacturing and design.

And perhaps most exciting, this enthusiasm is beginning to turn into tangible results. For instance, our AI GPU volume in the first half of 2024 is 200x that of the level of 2023. So there's a lot to be excited about as we look a little bit further down the road.

In a few minutes, Kenny will share his thoughts on fiscal '25 and why he believes our original outlook of $10.65 remains attainable despite a transitional fiscal '24. But first, I'll hand the call over to Mike, who will provide more details on fiscal '24, including an update on our growth outlook by end market.

With that, thank you. I'll now hand the call over to Mike.

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

Thanks, Adam, and good morning, everyone. Over the next few minutes, I plan to provide more information on the following: First, I'll walk you through our financial outlook for Q3 and updated outlook for FY '24. Next, I'll provide an update on why we are confident in our growth opportunities for FY '25. And then I'll provide an update on our accelerated share buyback execution plans, which are progressing ahead of schedule.

With that, let's turn to the next slide for our third quarter guidance. Towards the end of our second quarter, we experienced a sudden slowdown within our 5G and renewable energy end markets, which we expect will continue through the second half of FY '24 and result in lower-than-expected revenue for the last 2 quarters.

Within our renewable energy business, the inventory correction that began in our Q1 is now expected to persist through the balance of our fiscal year as customers in this end market lower demand forecast towards the back half of February. The renewable energy team has done an excellent job consolidating the supply chain within our current customer base and we will have a higher overall share of our customers' business as we move towards the end of Q4.

In 5G, towards the end of the quarter, infrastructure rollout slowed quicker than expected as faster-growing markets like India substantially pull back on all 5G infrastructure investments. As a result of these 2 market dynamics for Q3, we expect total company revenue to be in the range of $6.2 billion to $6.8 billion. Core operating income for Q3 is estimated to be in the range of $325 million to $385 million.

GAAP operating income is expected to be in the range of $221 million to $301 million. Core diluted earnings per share is estimated to be in the range of $1.65 to $2.05. GAAP diluted earnings per share is expected to be in the range of $0.82 to $1.38. Net interest expense in the third quarter is estimated to be $75 million.

Now moving on to full year guidance on the next slide. At a high level, with the exception of the near-term dynamics within our renewable energy and 5G markets, the majority of our expectations for revenue by end market this year remains largely in line with our thoughts in December. Importantly, for the year, we continue to expect year-on-year growth across some of our core end markets, which are still experiencing year-on-year growth, notably in electric vehicles, health care and AI cloud data centers.

Moving to the next slide. Despite the revenue headwinds in the near term, we are confident that we will, Jabil to be more resilient as we've diversified across geographies, products, customers and end markets. Because of this, we're not anticipating the same level of margin erosion traditionally seen in past slowdowns. Our diversified approach, global footprint and strong relationships with customers give us confidence in weathering these near-term challenges. We're adapting, staying focused on margins and cash flow and committed to delivering value.

Notably, by FY '24, we expect core operating margins to come in higher than we expected in December at 5.6%. Three reasons largely account for our ability to drive margins higher despite lower revenue. First, as our agile model allows, we pushed our planned investments and costs that will plan to support new ramps in renewables in the back half of the fiscal year. Because of this, deleveraging is limited. Second, we expect to offset lower revenue with fixed cost recoveries from 5G and renewable energy customers. And third, we made progress with our efforts to align our cost structure and footprint with our go-forward business.

All of this gives me confidence in our ability to deliver core operating margins of 5.6% in FY '24 and positions us well for future margin expansion as we drive revenue growth higher on an optimized cost structure.

Putting it all together for FY '24 on the next slide. We expect our improved mix of business and optimization efforts will drive incremental operating leverage, thereby giving us the confidence to raise our core operating margin guidance to 5.6% for FY '24 on revenue of $28.5 billion. We expect this dynamic to result in core EPS of $8.40, which is reflected by improved core operating income margin and accelerated share repurchases. Importantly, for the year, we also remain committed to generating more than $1 billion in free cash flow.

Moving to the next slide. Overall, we feel good about the trajectory of our end market portfolio and are well positioned to drive growth in FY '25 headlined by continued growth in automotive, health care and AI data centers along with anticipated recoveries in areas of our business that are contracted this year. Globally, both EV and hybrid platforms continue to outpace ICE unit growth rates, albeit at a lower rate than we had originally anticipated at the beginning of the fiscal year.

Our EV business is supporting a number of new vehicle platforms with multiple customers in areas such as next-gen compute and control modules, power conversion battery management, LIDAR and other sensors as well as charging solutions.

Additionally, we were recently awarded new business in optical camera modules where OEMs are predeploying optics hardware capabilities, enabling the rollout of different levels of autonomous driving through software updates.

It is important to note the majority of the year-on-year growth we expect in EVs in FY '25 will be driven by new programs and will be less reliant on volume growth with existing customers. These new platforms gives us confidence in our expectations of another year of growth for EVs in FY '25.

Longer term, Jabil is well positioned to support both EV and hybrid technologies as they continue to take a larger overall share of auto unit growth globally. Within our health care business, we see significant opportunity to offer critical solutions and capabilities to customers outsourcing complex tasks.

Jabil's credibility in health care as the largest EMS provider in the space positions us well to take advantage of the growing outsourcing of manufacturing trend.

In FY '25, we anticipate another year of growth in our base business as we continue to explore opportunities in new capabilities and B2B transactions similar to our strategic collaboration from a few years ago. And in the data center space, there is a common theme forming among a number of our end markets related to the surge of investments in AI and ML. The pace of AI investments continues to accelerate, and Jabil is winning our fair share of this growing pie as we have positioned ourselves well to assist our customers build out next-generation AI data centers.

Our teams are quickly diversifying and winning share across multiple end markets in the AI data center infrastructure space, where we're seeing growth in AI GPU right configurations accelerated optical switches for AI back-end networking applications, silicon photonics, liquid cooling capabilities and power and energy storage. Given our success to date in this space, we now expect AI-related net revenue across multiple end markets to be approximately $6 billion in FY '25 or an increase of 20% year-on-year.

Within the semi-cap market, we continue to anticipate demand to remain muted for FY '24. However, overall market dynamics are expected to improve as commentary across the industry suggests recovery may be on the horizon with a growing expectation that things improve towards the end of this calendar year, as fab utilization ticks higher and memory inventory normalizes. And in renewables, as we look to FY '25, while we expect this end market to recover very slowly, we are winning new business and market share along with the aforementioned consolidation within our current customer base.

Longer term, we remain well positioned to support secular growth in the renewable energy infrastructure space due to Jabil's unique combination of power engineering expertise, in-region manufacturing and supply chain capabilities.

Looking forward, we're excited about the underlying momentum across our diversified portfolio and are well positioned to drive growth in FY '25.

Next, I'd like to provide an update on our share repurchases. In December, I outlined our intentions of executing a series of accelerated buybacks for the balance of the $2.5 billion repurchase authorization in FY '24.

I am happy to say that we're ahead of schedule with $825 million repurchased in Q2. This brings our year-to-date repurchase amount to 10.4 million shares for $1.3 billion for an average purchase price just under $127 per share. We fully anticipate completing the remaining $1.2 billion on our current repurchase authorization in FY '24 and we'll continue to opportunistically optimize our repurchases.

With the plan in place and progress to date, I expect [LASSO] to be in the range of $123 million to $126 million for FY '24 and approximately $110 million to $113 million in FY '25.

On the next slide, in summary, for FY '25, I'm excited about the underlying momentum across our diversified portfolio, and I'm confident that we're well positioned to drive multiple paths of growth in FY '25 as a result of the following: consolidation of share in the renewable energy space, expected recovery of the semi cap end market, confirmed market share gains with multiple existing customers, new programs booked with new customers, and I am particularly excited about our silicon to solution strategy, which will help accelerate the infrastructure that will be required to fuel the AI/ML macro trend in the market. This is borne out in the continuing mix shift of our networking and storage end market where we continue to replace legacy lower-margin networking equipment with higher-margin AI-driven equipment.

On top of all this, when you consider our optimized cost structure, we are well positioned to expand core margins to more than 5.7%. In addition, our accelerated share repurchases and expected lower net interest expenses gives me confidence in our ability to deliver core EPS of $10.65 in FY '25. In my view, Jabil is not just more diversified, but also significantly more resilient than we were several years ago due to our intentional efforts to invest and align our resources with areas in key end markets, which offer higher returns and multiyear secular growth opportunities.

Thank you for your time today and for joining us this morning. I'll now turn the call over to Kenny.

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

Thank you, Mike, and thanks to everyone for joining us today. Fiscal '24 was always going to be a transitional year for Jabil, one of which we've successfully completed the largest transaction in the company's history with the mobility sale and its subsequent efforts by our teams to optimize our footprint and cost structure for the go-forward company. For this transaction and the optimization of our footprint were anticipated, the end market slowdown was not.

As I have stated previously, the key attribute of our model is agility and our ability to quickly react and effectively absorb changes in revenue. At Jabil, we obsess about operations, working tirelessly to ensure that what is within our control, we control well. Managing our factories to absorb such a marked slowdown does not happen by chance. So it's pleasing to see our margins hold up. Additionally, dislocations like this provide opportunity for some consolidation and is reassuring to make progress with customers who trust us to allocate more of their spend to Jabil.

In tandem with our focus on operational execution, we have been intentional in how we've shaped our commercial portfolio. The closing of the Mobility deal was not a one-off event, but part of a process we believe telling our capabilities current and future with markets exhibiting the desirable characteristics of long-term secular growth and appropriate margins and cash flows.

Result of this allows us to help simplify the lives of our current and future customers while making appropriate returns. For example, in our recent history, this has seen us transition from low tech electronics and automotive to EV and autonomous driving systems, including optical cameras. From PCBA manufacturing and health care to precision machining of customized implantables, from build-to-print servers to highly configurable AI data center racks, from simple network switches to liquid cooled accelerated switching supporting AI applications and from build-to-print in the telco space, starting a seat at the table, as we look to optimize our advanced packaging value chain for silicon photonics across multiple end markets. In short, we are continuously retailing the company to ensure we are ready to support the future needs of our customers.

In addition to the mobility deal, another couple of proof points were evident in the quarter. We are proud to have been awarded a new video security and optics business with Motorola Solutions including 2 highly competent manufacturing sites in North America.

This supports a focus on supply chain regionalization where we see significant benefits from the ability to leverage our global footprint coupled with the advantage of being domiciled in the U.S. And in the AI data center infrastructure space, we are building low and medium voltage switchgear to support proliferation of AI data centers. We were awarded a liquid cooled accelerated network switching program, which will ramp in fiscal year '25.

While already, we are seeing the benefits of the addition of the Intel silicon photonics team with multiple wins in the pluggable transceiver space.

As I think about exiting this year as a more optimized company, coupled with the numerous opportunities across our commercial portfolio, I'm confident in our ability to expand margins year-on-year while also delivering core EPS of $10.65 and free cash flow in excess of $1 billion.

Note that in modeling fiscal year '25, we anticipate total revenues similar to fiscal year '23 levels, excluding the mobility divestiture. Importantly, we expect mix to be much improved as our business continues to trend toward markets, benefiting from long-term secular trends.

In closing, in the last 90 days, I have had the privilege of spending time with multiple customers and internal organizations, including executive team of Motorola Solutions as we celebrated the new award. The new additions to the Jabil team from Retronix, ProcureAbility and Intel and with our teams in Asia as we celebrate Chinese New Year with a long-held Jabil (inaudible) tradition.

While in Asia, it was also my honor to accept a Shingo Prize awarded to our health care site in Shanghai, the largest med device site to receive this award in the last 15 years.

As I reflect on all of this, I believe it further demonstrates that in addition to having the right capabilities and being in the right end markets, we also have the right team to buy their actions every day, strengthen our unique global culture. All of this puts us on firm footing for fiscal '25 and beyond.

Thank you for your interest in Jabil. I will now hand the call back to Adam.

Adam Berry

Thanks, Kenny. So there was a lot here today. And in closing, I'd like to quickly summarize some of the key messages. Our second quarter results and our fiscal '24 outlook are largely in line with the guidance we provided back in December, with the exception of the impact from 2 specific end markets, including renewable energy and 5G wireless. And despite our lower outlook for '24, positive demand signals in the market, along with new wins, higher core margins due to mix shift and the accelerated buybacks from the proceeds of the mobility transaction give us confidence in fiscal '25 which is why we chose to maintain our $10.65 core EPS target.

Thank you for your interest in Jabil. Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first questions come from the line of Steven Fox with Fox Advisors.

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

Two questions from me, if I could. I guess, first of all, on the cuts within 5G and renewables programs. Can you give us a sense for why you think this is the last time you're going to have to come back and cut those numbers? Like what are the indications, not just through the fiscal year, but through maybe the calendar year from customers on that front?

And then secondly, on the better margins that you're targeting now, I understand the mix shift, but maybe a little bit more color on like the biggest mix shift drivers if we exclude the mobility math from that?

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

Yes, let me take the question on demand. I mentioned in Q1 when we've seen the broad-based demand reduction that we've got a process where we do we're pretty intimate with our customers in terms of their forecast, looking at inventory and inventory in channels. We called that right across all of our end markets with the exception of the 5G telco space and renewables. And there's a couple of specifics there.

So Mike mentioned the India issue here and I think what we see here is that although we said, there was a substantial pullback. In effect, what happened was the rollout stopped with -- basically with no input from the reliance, in this sense. So when we look at that, there's no indication of that. And basically, we've baked into our number now going forward. So we're comfortable that everything else in the telco space, we've seen and we understood. This was just a gotcha in India. We're not forecasting or expecting that to recover in this year. So we think we're pretty safe there.

In the renewable space, again, we've been working with the customer through calendar Q4 into Q1. And what we decided to do there is that basically, the inventories in the channel, and it's not going to be sold through. So we've reduced the build plan, we have registered what we're going to ship. And what we're seeing is that the inventory in channel now is now reducing. We haven't forecasted recovering that this year also. So we've been very, very conservative. Also, just as we look to '25, we've been very conservative, and we've modeled those run rates going forward into '25. So when you look at what we're talking about for '25, we don't expect these 2 end markets to recover. So we think we've been appropriately conservative.

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

Great. And then on the margin question?

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

Steve, yes. So obviously, the mix shift does have a huge impact. We've replaced a lot of our legacy networking and storage business with higher-margin AI-related business there, obviously, AI by itself in the cloud space, although you don't see it in the revenue line item because of the consignment effect, the volumes are up considerably in that particular line item.

So there's a big margin play coming through on the mix shift that you suggested. And on top of that, we've done a lot of cost optimization. If you go look back at our -- I think on the call maybe earlier in the fiscal year, we talked about a stranded cost and footprint optimization restructuring that we've taken then. The fruits of that are showing up in the second half of the year. Obviously, we had -- Q2 was a little bit of a transition quarter for the cost optimization effort. But that's coming through.

And then if you look at some of the cost recoveries that we're getting from our customers, even though revenues are down, we are -- we have been successful in getting cost recoveries because of the sudden nature of the cut. So all of that plus Q3, Q4 had some ramps in there. Obviously, as the revenue is pushed out, we don't have to have those ramps. And then I'll just remind you, ramps are at a much lower margin in those initial quarters when we're moving up on that revenue line item.

So that gets pushed out a little as well. So a combination of all that, Steve, gives us really good comfort. I think we said 5.3% to 5.5% margin. Previously, we've actually taken it up, not just to the high end. We've taken it beyond that, and we think it's going to be more in the 5.6% range, and we feel really good about that.

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

Yes. I have a follow-up to that also, Steve. We've been talking about this and obviously, with yourself. But I think Slide 17 is a pretty good pictorial view of why we're confident that our margins in the longer term will be robust. Historically, we would be in the server space here when I think back 3, 4, 5 years ago. And then what we're trying to show here is just how as well as being vertical in terms of going to asset like rack assembly that's been hugely successful for us.

But if you look at everything else and -- we've gone from being a legacy enterprise switching to accelerated switching that supports AI with the awards that we won recently. Optical transceivers or pluggable transceivers in this instance that we got a lot of horsepower from the Intel deal that we just closed. And incidentally, I met with the Intel team in Singapore in January and this had the ground running and are really making a huge difference, which is great for us.

But there's things like the CDUs, liquid cooled racks, and also, we're now doing, as I mentioned, the low voltage switchgear and the rack power distribution. So historically, that's markets that we wouldn't be playing in at all. But what we find is from being a server player to now we're getting multiple income streams in that space -- with things where a little bit of the data center being disaggregated.

It just gives us confidence -- when I said that we're retailing the company, what I was talking about is we're leveraging things that we've done historically, we've listened to our customers, and we're finding other value-added activities so we can help them. We can reduce their costs and we can increase our margins. So I think that can underpin what we try to do from a margin perspective to satisfy our customers' needs, grow our margins and make that sustainable in the longer term.

Operator

Our next questions come from the line of Ruplu Bhattacharya with Bank of America.

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

I was trying to count how many times you mentioned AI in your prepared remarks, and then I just lost count. So needless to say, AI is a meaningful driver for demand in different end markets. Mike, is there a way to quantify how much revenue will come from AI over the next year or what the margin impact would be? And can you delve a little bit more into what you're doing in the cloud business? What is Jabil's competitive advantage? A lot of people are going into AI in the data center. So how do you think your competitive advantage stands against others? And how do you see your cloud business revenues growing over the next couple of years?

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

Ruplu, just to be clear, I said AI 21 times in my reports, so I did count. On the AI piece, so if you look at my prepared remarks, Ruplu, I did talk about the AI revenue. I think we're going to grow by about 20%, 25%. We're about in the $4.5 billion, $5 billion range, we're going to be north of $6 billion in FY '25 and that's across multiple end markets.

Obviously, as Kenny mentioned, we'll be playing in the cloud data infrastructure space. We'll be playing in areas such as network switching. There's a whole bunch of business that was switching from or replacing from our legacy network business to AI-related business. Sort of it's spread out, particularly in those 2 line items when we call them out on our revenue chart. But overall, about $6 billion plus, we actually feel that will continue to grow in that 20%, 30% range over time as this proliferation of AI across different end markets just continues to expand. So it's starting off where you expect it to start in the cloud space. And then as you work around the cloud space, that will gain more momentum. And then as you go forward, and I'm talking here 2 years out, even that will spread into all our other end markets as well because all that we do is mainly hardware and all hardware will benefit from the AI proliferation.

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

And let me take your second question, Ruplu, on Jabil's competitive advantage. Firstly, what I would say is I think that the growth in this area means that there's going to be a lot of work for a lot of people. So I think that's good. When we look at our competitors, I think there's enough work to go around. That said, what we try to do is we try to look at the world through the eyes of our customers and make their life simpler.

And then if you look at -- there's a need in the data centers to be able to do silicon photonics transceivers. There's a need to be able to do power and switching. There's a need to be able to do servers. There's a need to be able to do rack assembly. What we find our customers love to do is their life becomes -- the more suppliers they add, the more and more complicated the life becomes.

So if they have a credible supplier that can do multiple different activities, then that's helpful for them. You take, for example, if you can do pluggable transceivers, but you don't do line card and then you want to put the optical device on a line card. That becomes an issue whereas we can do both of that.

So we think the view for us is to be able to be vertical and to be able to integrate more services that becomes a play for us, as something that we've seen across automotive, Mike mentioned the cameras that we're producing in automotive, for example. So we think that, that serves us well. The other thing that I think remains to be seen, but I think it's basically not a negative, but a positive for sure is we have a global footprint, so we can leverage best practices and capabilities across the world, but being domiciled in North America, we see has been helpful in the longer term from a secure supply perspective. So we think putting all of that together, we feel that we're well positioned, and all we got to do is perform. So we're pretty bullish on the long-term opportunities and growth in this area.

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

Okay. And just as a follow-up, I want to push you a little bit. I mean this is the second time in a row that you're cutting full year guidance. I mean last time revenues you cut by $2.5 billion. And this time, it looks like ex the $400 million for the mobility business, the takedown is about $2.1 billion. So my question is really the same as I had last time, which is what gives you confidence in your guidance? And how can investors get confidence that you won't come in even lower for fiscal '24, for example, if renewables is weak, why can't it get even weaker?

And then Mike, just on the -- for next year, you talked about all these drivers for margin improvement. My question would be what can derail that? I mean what are some of the risks to Jabil attaining that margin? And what should we look out for?

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

Yes. So let me take a step back, Ruplu, because we've reflected on that a lot. The relationships we've got with our customers is -- and generally has been long term in some instances, has been multi-decades. So we have a partnership there. We're kind of joined and connected. We've got processes where we share forecasts. We look at inventory. So we're pretty tight. We've got people in our sites, whether it's business development people, planners, et cetera, et cetera, that are involved in this.

So this isn't the top down. It's -- we bubbled this up from the bottom. So -- and I can understand the question. In Q1, we've seen a broad-based reduction. And if I look forward from what we -- when we looked at Q2, across the majority of our end markets, what we predicted is going to happen for the balance of the year is happening. So we're comfortable with that.

And sometimes you got an outlier, like India, for example, I mean, no one expected with the rate -- the deployment of radios in India that, that would just all of a sudden stop. So I think that, that in this instance, that becomes -- sometimes you got accepted, sometimes things will happen.

In the renewable space, we spend a lot of time with -- we've got more customers now than we had 6 months ago. And we spend a lot of time with them. It's clear that the slowdown and the rollout of the inventory we got in channel has been much slower than expected. We've taken our numbers way, way down. But in that also, we look -- it's mainly a residential play that's been soft. We are pivoting so that we are much more in the commercial side, and that's been supported by our customers.

We're also -- we're winning market share, and there's been a lot of consolidation to Jabil in that space lightly. And if you read the -- it seems like the commercial space in the U.S. is becoming more robust and we'll be building that in North America also. So we're getting share. We're taking our numbers down significantly. The balance of our business, we think, is holding up. So we think we're really at the bottom here.

But what I would like to add though a little bit to your question is -- and I mentioned in my prepared remarks, we've got to be really, really good at control in what we can control. Whether this has been a pullback, slowdown, recession, inventory correction, whatever you want to call it, if we look back in our company's history. The last couple of times this has happened, our EPS has gone down by 40% and margins by 100 basis points and more. Here, we're working really hard, as we mentioned in our prepared remarks, to make the company much more resilient and robust.

So I think that we demonstrate that in spite of shops in a couple of our end markets that -- our businesses has taken a couple of punches, but staying remarkably resilient. So my message to investors would be that sometimes like outliers happen. But I think it was improving our margins and I think $8.40 EPS, I think it demonstrates that our company is much more robust than it was historically.

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

And Ruplu, I'm going to answer your question in a slightly different way than you worded it. Obviously, you asked about the risk and what can go wrong and why the margin story holds good for us. So let me just try and answer it by talking about the $10.65 a little bit. Because all of that is factored into our $10.65 guide. Why do I feel so strongly about that particular $10.65 number.

Before that, let me just give you some building blocks. So if you look at what our interest cost is this year, it will be in the high 200s. We expect next year to be in the mid-$200 million. So if you take an interest number of about $250 million for the building block there, if you take [LASSO], we will have done substantially the $2.5 billion will be completed by FY '24. In FY '25, we'll continue a more normalized run rate of buyback. So I expect LASSO to be about $110 million to $113 million in FY '25.

Now based on these 2 numbers, if you take the incremental income that's needed to make $10.65, the numbers are around $130 million to $140 million of incremental income. I talked about some of the end markets, how we're sort of benefiting from some other macro trends that are coming into play right now. I talked about AI. I talked about the different end markets within storage, in cloud, et cetera, where we're seeing this whole AI proliferation.

And that alone, as I mentioned, is about $1 billion to $1.5 billion incremental revenue, net revenue, I should add as well, sort of net of any consignment effect that FY '25 presents. We've talked about -- I mentioned in my prepared remarks, automotive, what we're seeing for FY '25 and our assumption is not based on end market growth. Our assumption is based on new program wins. We're talking about wins that we already have under the belt. We've already booked those and it's just a matter of delivering those next year, obviously, but not expecting some big miracle there for the end market to change substantially. If it does, it will actually be an opportunity for us. But right now, if you just assume a 10%, even in this bad environment in FY '24, we're close to 10%.

So there's no reason to expect automotive to be substantially lower than 10%. And then if you take health care and maybe a 5% growth, again, it's a very modest growth. If you add up this AI automotive and health care alone, that's about $2 billion of revenue. You're talking about 5% to 6% margin, even more if you get leverage out of it. So at 6%, you're talking $120 million of that $130 million, $140 million incremental income that I mentioned is needed for the $10.65. It's already there in just these 3 end markets and the balance of all the end markets. And I'm talking about semi cap, which, by the way, is showing very strong signs of a recovery that's coming. It's not here, but a lot of customers have changed the way they talk about their own businesses, and that's changing quite a bit in the positive direction. So we do expect not this year, we're not talking about calendar year '24. But in calendar year '25, we do expect very high probability of sharpish sort of recovery there.

Renewables totally agree, it's slowing. Digital print and retail, steady Eddie and then connected devices as the basing FY '24 is so low that even a small little increase there you certainly see the $130 million, $140 million of income that we're talking about is not difficult to get to. And then if you look at the margin play, obviously, there's mix going on, this mix shift that we continue to talk about. And the cost optimization, you'll also have a full year impact of our cost optimization efforts that we've undertaken in FY '24. So I hope I answered your question from a risk perspective. Look, the risk is very low. If you look at -- if you break down the individual components of what we're talking about for FY '25, the $10.65 sounds highly achievable.

Operator

Our next questions come from the line of Mark Delaney with Goldman Sachs.

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

The company mentioned an expectation to have about $6 billion of AI-related revenue in fiscal '25. Help us better understand how you're defining AI-related revenue? And then maybe also help us understand out of that $6 billion, how much is coming from data center and then how much are some of these other end market opportunities where you see some AI opportunities like health care?

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

Yes. Mark, so the blend of it is as -- I would say that probably just north of half of it is data center related maybe slightly -- maybe 2/3 of it and the balance would be optics and advanced switching really. It's that kind of order of magnitude.

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

And Mark, if I could just add. If you look at our data center revenue and again, remind you that's net revenue, it's net of consignment effect, our gross volumes are growing at a really good pace. It's in that 25%, 30% growth range, obviously it doesn't show up in the revenue. But it will show up in the margin because that is what we're adding value on. So I think the number by itself, just the revenue number, net revenue can be a little misleading. You've got to look through -- look at volumes. Volumes are going up 25%, 30% in that particular space.

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

Okay. That's helpful. But just to clarify, so would any rack for hyperscaler be counted as AI? Or does it need to have GPUs in it? Just trying to understand sort of the categorization of AI versus some of these other broader categories.

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

No, it has to have some GPU attached. Most of our business now has shifted from the legacy server business to AI-related GPU, predominantly in our cloud business.

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

Yes, we -- just a just -- we opened a new facility like 6 months ago that's pretty much all doing a GPU like racks in that space.

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

My other question was on margins. Mike, you mentioned fixed cost recoveries is one reason for the margin resiliency in fiscal '24. Maybe you can help us speak to how secure the recoveries are? Is that something that you still need to go out and negotiate? And then maybe talk a little bit around your ability to still achieve a 6% EBIT margin over the longer term.

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

Yes. The recoveries are already done, Mark. It's not based on our future event. It's already agreed upon. So it's very secure. Can you repeat your second question?

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

Your ability to get to the 6% EBIT margin in the longer term, which is something I think you said could be achievable. I don't think you put a specific time frame on it, but to what extent do you think you're still tracking to eventually get a 6% or higher non-GAAP EBIT margin?

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

Right. So we will exit FY '24 at 5.6%. We're being very sort of conservative by saying 5.7% plus for FY '25. I think getting to 6% is not -- is not 5 years from there. It's maybe a year or so away from FY '25. So we're getting closer and closer to that 6%. And I think the margin story is definitely in our favor right now. It's all the business that we're seeing. That is all higher-margin mix shift.

Operator

Our next question come from the line of Melissa Fairbanks with Raymond James.

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

I was wondering if we could dig into the expectation for health care. I know it's not quite as exciting as AI. But we've heard from some of your peers that capital equipment investment has been challenged recently. I assume that's what's behind your lower full year outlook. But you actually found increasingly constructive about the overall business. Could you give us a little more color on what you're seeing there?

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

Yes. Melissa Yes. I mean we kind of break that up. And if I think about how we break it up entirely, those med devices, pharma and ortho. What we see in the first half of the year was our expectation is like a little bit softer kind of inventory digestion. But we think that recovers and kind of med devices and pharma with GLP-1. We see that going really, really strongly. So we think that's -- we're pretty much running our factories, obviously, around-the-clock there.

We think -- and med devices, we see some recovery there, and ortho is still a little bit soft, but getting better. So I think we're looking at like an 8%. I think back half of our year gets 8% stronger than the front half as inventory is digested, and we're comfortable with that number. So we think we are pretty comfortable that our health care business is going to continue, I think Mike mentioned 5% growth next year. We have got enough kind of (inaudible) opportunities for us to be comfortable with that as we go forward.

Operator

Our next questions come from the line of George Wang with Barclays.

Dong Wang - *Barclays Bank PLC, Research Division - Research Analyst*

You talked about revenue growing 20%, 25% kind of pre to north of $6 billion in FY '25. I just want to see if you can elaborate on the margin profile kind of within specific subsegments within AI. You talked about the GPU rack kind of the optics, switching transceivers power, are you able to rank order, at least in a high level, kind of how you think about margin structure in terms of taking order, which specific to the element within the overall AI envelope to garner the highest margin kind of price...

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

So yes, the AI piece, obviously, the different line items that we look at I said earlier, it's in cloud, it's a networking in storage. The margin is north of enterprise level margin. It's different. The rank order would be roughly sort of photonics would be the highest margin, AI switching gear would be next switch and racks' configuration, integration, et cetera. So overall, if you look at all these dynamics, the total margin plays north of enterprise margins. So again, that's what's giving us comfort for our margin in FY '24. That's what's giving us comfort for margins in FY '25 as well.

Dong Wang - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. In terms of the customer base, obviously, Amazon being one of the bigger players within the AI segment. Can you kind of talk briefly other kind of whether other hyperscalers in there or maybe Tier 2, Tier 3 cloud. Any color there?

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

Yes. Yes. We got -- if you look at predominant rack (inaudible) you look at the proliferation of other capabilities. So we are supplying other hyperscalers across the whole blend of the capabilities that we talk about there, George. And I think the other thing just to emphasize that what Mike mentioned, look, we've been doing enterprise switches for multiple years.

And that becomes to something we commoditized. We've pivoted in that the capability that we have there to the advanced switching area that really drives the AI GPU type model. So I think that, coupled with what we're doing in optics means that we're comfortable that our margin profile is robust here. And I go back to the point I made with Steve, about all the kind of DCI, the infrastructure stuff we're doing as well, which historically we hadn't done. So we think that we have rich profitability here for us in the longer term.

Operator

Our next questions come from the line of Samik Chatterjee with JPMorgan.

Manmohanpreet Singh - *JPMorgan Chase & Co, Research Division - Analyst*

This is M.P. on for Samik Chatterjee. I just wanted to ask you to expand on the incremental weakness that you are seeing on the 5G side. Like is it relative to some particular set of customers or some particular region? Any more color on that?

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

Yes. So what we see is we are seeing -- and if you look at telco customers generally, pretty much all come out with a really, really soft outlook for calendar. We baked most of that in, but there is some continued weakness there. And that's North America and also across the world. The biggest impact in 5G was the rollout in India where, I mean, basically, the rollout stopped. So it's paused. We don't know when it's going to restart. There's still a significant amount of radios that have got to be installed in the Indian market. So that demand doesn't go away. It's just paused.

We are pretty much single sourced in India. We build those radios in our facility in Pune, which I think we found that facility and our company for 20-some years. So that performed really well. We're doing a really nice job, and we're just waiting for the gates to reopen and as we start to build and allow that -- and get that to be installed in the network. So that will come back. We just didn't expect it to stop, I mean, completely stop with no future demand. We've taken the demand there for the balance of the year.

Operator

We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Adam Berry for closing report.

Adam Berry

Thanks for your interest in Jabil. Please reach out to us if you have any further questions. Thank you.

Operator

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