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JBL.N - Q3 2025 Jabil Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

Gregory Hebard *Jabil Inc - Chief Financial Officer*

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

CONFERENCE CALL PARTICIPANTS

Ruplu Bhattacharya *Bank of America - Analyst*

Mark Delaney *Goldman Sachs - Analyst*

Steven Fox *Fox Advisors, LLC - Analyst*

Melissa Fairbanks *Raymond James - Analyst*

Tim Long *Barclays - Analyst*

Samik Chatterjee *JPMorgan - Analyst*

David Vogt *UBS - Analyst*

PRESENTATION

Operator

Greetings and welcome to Jabil's third-quarter fiscal year 2025 conference call and webcast. (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 of Investor Relations and Communications*

Good morning, and welcome to Jabil's third-quarter fiscal 2025 conference call. Joining me on today's call are Chief Financial Officer, Greg Hebard; and Chief Executive Officer, Mike Dastoor.

Please note that today's presentation is being livestreamed, 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 fiscal year net revenue and earnings. These statements are based on current expectations, forecasts, and assumptions involving risks and uncertainties that could cause actual outcomes and results to differ materially.

An extensive list of these risks and uncertainties are identified in our annual report on Form 10-K for the fiscal year ended August 31, 2024, and other filings with the SEC. Jabil disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

With that, I'd now like to hand the call over to Greg.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Thanks, Adam. Good morning, everyone. Thanks for joining our call today. I'm very pleased with our third-quarter performance, which at the enterprise level came in well above our expectations across revenue, core operating income, and core earnings per share.

In the quarter, we saw significant upside in our intelligent infrastructure business, led by the segment's AI-related revenue. At the same time, our regulated and CLDC segments came in largely as planned. The environment remains dynamic, but our performance this quarter demonstrates the strength of our operating model and our ability to deliver consistent results even as conditions shift.

Let's walk through the details for the quarter. For Q3, the team delivered $7.8 billion in net revenue, up an impressive 16% year over year, and $800 million above the midpoint of the guidance range we gave in March. Upside strength in revenue was primarily driven by cloud and data center infrastructure.

Additionally, it's worth noting both our capital equipment and connected living and markets also saw higher than expected demand in the quarter. Given all this strength, core operating income for the quarter came in solidly above our range at $420 million. Our operating margins were at 5.4%, a 20 basis point improvement year over year.

Net interest expense in Q3 was $66 million. On a GAAP basis, operating income was $403 million, and our GAAP diluted earnings per share was $2.03. Core diluted earnings per share for Q3 was $2.55, up 35% compared to Q3 of last year.

Turning now to our performance by segment in the quarter. Our regulated industries reported revenue of $3.1 billion, roughly in line with our expectations and flat year over year. This reflects ongoing softness in the EV and renewable end markets, partially offset by growth in our healthcare business.

Core operating margin for this segment was 5.5%, up 70 basis points sequentially. However, this is down 50 basis points year over year as EVs and renewables remain below normalized levels of profitability.

In the intelligent infrastructure segment, we saw a revenue of $3.4 billion, up approximately 51% year on year and well ahead of our expectations for the third quarter. This growth continues to be driven by sustained strong demand in our AI-related cloud and data center infrastructure business, including power, cooling, and server rack solutions.

Capital equipment was also strong in the quarter, as the need for testing gear remains robust. This growth was offset slightly by lower demand in our networking and communications end market due to softer 5G demand. Core operating margin for this segment was 5.3%.

In our connected living and digital commerce segment, revenue was $1.3 billion, slightly higher than what we thought 90 days ago. On a year-over-year basis, this segment was down approximately 7%. This is mainly reflecting softness in consumer-driven products, offset by growth in areas such as warehouse and retail automation. Core operating margins for this segment came in at 5.3% in Q3, up 210 basis points year over year, reflecting both the benefits from the restructuring actions taken earlier this year to reduce costs, as well as a changing mix of business within this segment.

Next, I'll provide an update on our cash flow and balance sheet metrics for the end of Q3. Inventory days decreased sequentially by 6 days to 74 days. Net of inventory deposits from our customers, inventory days were 59, an improvement of 2 days sequentially and within our targeted range.

In Q3, cash flow from operations was strong at $406 million. Net capital expenditures for the third quarter were $80 million. As a result of this solid performance, adjusted free cash flow for the quarter came in at $326 million, bringing our year-to-date adjusted free cash flow to $813 million. With our results through three quarters, we are well on track to generate over $1.2 billion in free cash flow for the year.

We exited the third quarter with a healthy balance sheet with debt-to-core EBITDA levels of approximately 1.4 times and cash balances of approximately $1.5 billion. In Q3, we repurchased $339 million of our shares. We're on track to complete our current $1 billion share repurchase authorization in Q4.

With that, let's turn to the next slide for our Q4 FY25 guidance. Beginning with revenue by segment, we anticipate revenue for regulated industries will be $2.9 billion, down 5% year on year as we maintain a prudent near-term outlook on the EV and renewable markets. We are also closely monitoring potential impacts, positive or negative, arising from the impending legislation in the US.

For our intelligent infrastructure segment, we expect strong growth to continue with the revenue for the quarter to be $3.3 billion, up approximately 42% year over year. We expect this increase to be driven by sustained, broad based, AI-related growth in cloud, data center infrastructure, and capital equipment markets.

In our connected living and digital commerce segment, revenues are expected to be $1.3 billion, down 21% year on year, reflecting continued softness in consumer-centric products, offset slightly by growth in warehouse and retail automation markets.

Putting it all together at the enterprise level, total company revenue for Q4 is expected to be in the range of $7.1 billion to $7.8 billion. Core operating income for Q4 is estimated to be in the range of $428 million to $488 million.

GAAP operating income is expected to be in the range of $331 million to $411 million. Core diluted earnings per share is estimated to be in the range of $2.64 to $3.04. GAAP diluted earnings per share is expected to be in the range of $1.79 to $2.37. Net interest expense in the fourth quarter is estimated to be approximately $65 million. Our core tax rate for Q4 and for the full year is expected to remain at 21%.

In closing, the JBL team's execution thus far in FY25 amid heightened geopolitical uncertainty has been tremendous. Our ability to execute effectively is a testament to the strength of our diversified portfolio and our strategic alignment with high growth, secular trends such as AI and industrial automation. This resilience not only reinforces our competitive position but also sets the stage in the coming years for continued revenue expansion, margin enhancement, and robust free cash flow generation.

With that, I'd like to thank you for your time this morning and your interest in Jabil. I'll now turn the call over to Mike.

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

Thanks, Greg, and good morning, everyone. I want to start by acknowledging the tremendous work of our global team. Their consistent execution in a complex environment is a driving force behind our performance and our ability to deliver for our customers. The dedication I see across the organization is remarkable, and I am grateful for their efforts, a dedication which is fundamental to our strategy, especially as we navigate the evolving geopolitical landscape.

Today, most of our manufacturing has migrated local for local and region for region. This focus in manufacturing, mainly in region, has continued to play out well for us, particularly in today's geopolitical environment. And furthermore, I continue to see our global and growing US footprint as a significant competitive advantage. Our ability to offer customers diverse, resilient, and localized manufacturing solutions has become more valuable than ever.

Being a US domicile company with deep experience across 30 countries allows us to partner with customers to navigate issues like potential tariffs and supply chain complexities, a capability I believe is unmatched in the industry.

Now turning to our performance in the quarter. As Greg detailed, our third-quarter results were very strong, reflecting higher than expected growth in cloud and data center infrastructure, capital equipment, and connected living end markets.

At the same time, healthcare, automotive, digital commerce, and networking and communications were largely in line with our expectations from March. As a result, the team delivered $7.8 billion in revenue, 5.4% core operating margins, and $2.55 in core delivered earnings per share, up 35% from Q3 last year.

As I contextualize these strong results with our year-to-date performance and projected FY25 revenue by end market, several key points become evident. First, our intelligent infrastructure segment continues to stand out as it remains squarely at the epicenter of the AI revolution. Demand for AI hardware is not slowing down. If anything, it's accelerating. The need for complex server and rack integration, advanced networking, and innovative power and cooling solutions is surging.

Our holistic approach to the data center, our deep engineering and design architecture collaboration, and our ability to execute complex high-volume production at scale makes us a good partner for the world's leading hyperscalers and silicon providers. Our teams are executing with urgency, ramping capacity, optimizing supply chains, and staying ahead of customer needs. Whether it's racks, photonics, advanced networking, or storage, we're delivering.

Given this momentum we now project, our AI-related revenue will reach approximately $8.5 billion this fiscal year, a 50%-plus increase year on year. And to support this growth, I'm excited to share that this morning we announced we will be opening a new site in the southeastern US to help fulfill the ongoing increase in AI data center infrastructure demand.

As part of this plan, we expect to invest approximately $500 million over the next several years to expand our US footprint as we remain focused on supporting cloud and AI data center infrastructure customers. With the addition of this new factory, we will now operate more than 30 sites across the United States. This investment is a significant commitment, and there are a few things to keep in mind.

We're in the final stages of site selection now, and we expect the facility to be operational by mid-calendar year 2026. This site will further enable our design, architecture, and large-scale manufacturing capabilities in high-complexity AI racks with increased power requirements and infrastructure fit out to liquid cooling.

We fully anticipate that this new site will help diversify our revenue growth in the AI hyperscale space. We do not expect this investment to change our outlook for annual CapEx spend, which currently stands at 1.5% to 2% of revenue. And finally, it is important to highlight that as the new site is projected to come online towards the end of FY26, we do not expect it to have a material impact on our financial results until FY27.

Another area of exciting growth in FY25 and beyond is digital commerce. The team continues to drive innovation in retail and logistics, helping a diverse set of customers automate everything from the warehouse to the aisle and checkout.

As we've discussed before, labor dynamics and fulfillment speed are driving structural investment here, and our solutions are resonating with customers. As we look further down the road, we see a long runway ahead as robotics, automation, and even humanoids become central to the future of day-to-day life.

Turning to regulated industries where trends have been more mixed. As expected, EV and renewable energy markets in the US remain soft. Moving forward, we continue to monitor the potential impact of the impending US legislation on these end markets. We're managing these potential headwinds with discipline, staying close to our customers, and continue to focus on markets with accretive long-term margin potential.

Healthcare, on the other hand, remains a bright spot. We are focusing on higher-value segments such as drug delivery devices, diagnostic equipment, and pharma solutions, where our Pii acquisition is already opening new doors. We continue to believe this business will be a margin and cash flow contributor over the long term, as we continue to add vertical capabilities in various areas of this end market.

With that, let's move to our updated outlook for the full year. We are raising our revenue guidance for fiscal 2025 to approximately $29 billion, while we believe core operating margins will be in the range of 5.4%. As a result, we now expect to deliver core diluted earnings per share of $9.33 for the year. And importantly, we expect to generate an excess of $1.2 billion in adjusted free cash flow.

As we close out fiscal 2025, it's worth noting that our diversification strategy continues to aid our results as the demand profile of the end markets we serve are considerably dynamic. For instance, despite persistent weakness in EDs, renewables, and 5G, we're approaching record levels of core EPS.

Looking ahead, we remain focused on enhancing core margins, optimizing cash flow, and returning value to shareholders, primarily through share repurchases and targeted investments in higher margin opportunities. This focus, together with our disciplined financial approach, creates a favorable setup for sustained value creation in the coming years.

To close, I want to thank the Jabil team for their outstanding contributions and our investors for their continued confidence in our strategy. I am incredibly optimistic about the future we're building together.

I will now turn the call back over to Adam.

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

Thanks, Mike. Before moving into Q&A, I'd like to quickly summarize our key messages from today's call. First, Jabil delivered strong Q3 results with core EPS above the high end of our guidance, driven primarily by an outstanding performance in intelligent infrastructure. And we provided Q4 guidance that reflects continued robust momentum in AI and data center markets, balanced with a prudent assumption for other areas.

Second, we announced further US investments in our AI and data center footprint, which will position us well for future growth. And finally, Jabil remains exceptionally well positioned due to our diversified portfolio, advanced manufacturing and engineering capabilities, and a clear strategy focused on profitable growth and shareholder returns.

To that end, I'm pleased to share that we'll be hosting our eighth annual virtual investor briefing in late September. During that briefing, we intend to provide a comprehensive full-year outlook. This will include our customary commentary on the markets we serve, our growth priorities, and our disciplined approach to capital allocation.

Specifically, we will outline our expectations for fiscal year 2026 across core operating margins, core EPS, and adjusted free cash flow. I remain incredibly optimistic about the future we're building, and we look forward to sharing our plan with you at that time.

Thank you. Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. The floor is now open for questions. (Operator Instructions)

Ruplu Bhattacharya, Bank of America.

Ruplu Bhattacharya *- Bank of America - Analyst*

Hi. Thank you for taking my questions. Mike, you're seeing strong growth in data center and cloud revenues, and today you guided AI-related revenues to $8.5 billion for fiscal '25. What's a reasonable level of growth to expect in this segment for fiscal '26 and beyond, and can you help us rank order the revenue growth and margins for the different segments within intelligent infrastructure? For capital equipment, cloud data center, and networking comms, how should we think about revenue growth and margins for these?

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

Hey, Ruplu. So I think before I even start, I think the $8.5 billion of revenue in the AI world is a big achievement for the team. I think the team has performed and executed solidly. I think they worked 24/7 over the last few weeks, so a really good result in our Q3 quarter. I think the $8.5 billion is just testament to the growth rate from '24 to '25 being almost 50%, so really well done there.

From a growth rate and margin, Ruplu, we'll provide more guidance in September for '26. I don't want to touch on '26 right now. But I think overall, if you look at margin in the three different end markets in that segment, I do think capital equipment would be accretive.

I think if you look at wafer fab equipment side on the capital equipment, that's a slightly higher margin. The automated testing where the bulk of our growth has been, is slightly lower margin than WIP. So a mixed sort of margin profile in capital equipment. I think cloud data center, we've mentioned this a few times before, it's at enterprise level and I think the explosive growth that we continue to see in that area will be good for '26.

And then from a networking and comms perspective, networking, I expect that to be slightly accretive, while communications and mainly 5G is a lot more dilutive to our margin. So mixed profile, I think it's different for different end markets, even within the same segment.

Ruplu Bhattacharya - *Bank of America - Analyst*

Okay. Thanks for the details there, Mike. Can I ask fiscal year '25 operating margin, you're holding steady at 5.4%. What needs to happen for operating margins to get to 6%-plus? I mean, what do you need to see in terms of revenues and other things to get the operating margin to that level?

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

Sure. So if you look at -- we've talked about this in the past. Today we find ourselves with a little bit of underutilized capacity. Our normal capacity utilization is in the 85%, 86% range. Today we're still at the 75% range. Even with the explosive growth that you see in the AI world, the underutilized capacity still exists because there's a mismatch in geographies. The AI growth is all in the US, while the underutilized capacity is in countries outside of the US.

So I do expect 20 bps to come back from a better utilization, and I'm not suggesting that would happen next year. It would all depend on recovery of end markets and our ability to execute to those end markets.

20 bps on utilization, I would expect another 20 bps on SG&A leverage. I think as we continue to grow our SG&A, especially at the corporate level, will continue to hold steady, and that will have a big impact on margins going forward. Again, not suggesting 20 bps in '26. It's a very high-level number over the next two, three years.

And then last but not least, 20 bps from a mixed standpoint. It's growth in higher margin business. As we get into some of the other better-performing markets, I think that 20 bps does come through. And then if you go beyond 6% as well, we're not just going to stop at 6%. There's a whole bunch of political integration. We've talked about things like pharma filling. We've talked about other parts that we can collaborate on with customers in a deeper end-to-end solution. That will get us to that next step beyond 6%.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Congratulations on the strong results, and thanks very much for taking my questions. First, I'm hoping to better understand how you're assessing the potential risk that some of the strong sales that you saw in the third quarter was due to pull-in buying perhaps because of tariff uncertainty. And is that a factor in the guidance for sequential moderation in revenue in the fourth quarter?

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

So no. I think if you look, the bulk of our revenue [beat] was in capital equipment and in the cloud data center infrastructure. Both of those are US centric. Tariff impact is minimal there, so I don't expect to see any pull-ins.

We're not overall even beyond that, Mark. I don't think we're seeing pull-ins of any magnitude. Right now, the whole tariff situation is still fluid, still dynamic. Things are moving around, and nobody wants to make decisions based on paying too much of a tariff or too little of a tariff. So I think at this stage, we're just customers and stable. We're collaborating. We're obviously having a lot of discussions, but no pull-in of significance. At least we're not seeing that.

Mark Delaney - *Goldman Sachs - Analyst*

Very helpful. Thanks, Mike. My second question was around the announced planned expansion in the US. Is this primarily to support current customers and programs? Or do you see incremental opportunities that's giving you the confidence to commit more capital domestically? Thank you.

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

No, so I think the best part about this new investment, it's not due to just existing customers. It's a portfolio that we're looking at. It's diversified, expanding a hyperscaler base, expanding a polo base. So I think overall it is expanding a customer base in a really positive manner. I really have good thoughts about this site. Once it's up and running, it's not just going to be in the cloud data center. We're going to look at liquid cooling, power management. Everything associated with that entire AI ecosystem will be sort of showcased in that facility.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors, LLC - Analyst*

Please go ahead. Hi. Good morning. A couple questions, if I could. First, just looking at the quarter just recorded, can you just sort of discuss the [II] margins quarter over quarter? So it looks like you were flat at 5.3% on almost an $800 million increase in revenue. So what specifically were the puts and takes there that we should consider and how those apply maybe going forward? And then I had a follow-up.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, so, hey, Steve, good morning. It's Greg. So on margins for AI, was it 5.3% similar to what we saw in Q2? What we did see with the very strong growth during the quarter, we did incremental investments during the quarter that did put some pressure on margins for the segment. And as we get that to scale, we do see that improving to get at and above our enterprise level margins.

There's always some level of cost associated with an explosive growth level at this scale, Steve. So I think overall, we will continue to get leverage going forward. We did get some leverage, by the way, on the cloud and DCI side. I think you don't see it all in the intelligent infrastructure because our communications 5G side is a little bit diluted there. So there's a little bit of a mixed effect going on in intelligent infrastructure as well.

Steven Fox - *Fox Advisors, LLC - Analyst*

Great. That's very helpful. And then just sort of looking ahead, not just necessarily for this quarter but beyond, Mike, how do we think about just managing all of this growth? You mentioned -- you highlighted a new plant coming online, new customers. There seems to be vendor consolidation going on, new opportunities for other technologies for you guys to focus on. How do you sort of ensure that you're adding capacity at the right rate, focus on the right technologies, et cetera? Just any thoughts there given how great the growth is going forward?

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, so the team is really focused on this expansion, Steve. They're talking to customers constantly. One of the things we were seeing in the chicken-and-egg situation with capacity versus new customers and new orders, customers -- potential customers want to see a site as well.

So I think the team is fully engaged. They've been talking to multiple players. They've been talking to multiple customers and potential customers. And obviously we feel like there's certainly a path to filling out that site over the next few years.

So overall, I do think that expansion continues in good shape. Don't forget, beyond cloud data center, we have the photonics side. We're winning some liquid cooling sort of customers as well. So it's across the board, thermal management, power management, all of that will come into play here. And it just allows us to showcase our entire end-to-end solution, again, in that site across the entire ecosystem.

Operator

Melissa Fairbanks, Raymond James.

Melissa Fairbanks - *Raymond James - Analyst*

Great news on the US manufacturing investment. You mentioned that this is largely AI-driven or AI-related data center business that's driving this investment. Are there any other segments or end markets that are exploring moving to the US or maybe consolidating in other geographies longer term? Are you seeing more customer conversations about this, given the tariff uncertainty?

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

So Melissa, I think overall, if you look at what we've done over the last few years, we've regionalized our manufacturing base. A lot of our manufacturing is done in the region. So there's not that much of a tariff impact. Sure, there will be odds and bids here and there in terms of tariff impact. But I think from a customer perspective, we seem to be in a decent shape in terms of where they're located. And most of the locations are close to their end consumer markets.

So we're in good shape there. We'll constantly look at moving things around. I think the end markets that suit better to the US, obviously healthcare is a big one. The entire intelligent infrastructure segment is one. And then if you look at digital commerce as well, that's an area that we're focused on. And bits and pieces could move to the US on that as well as automation, as robotics, as some of the capabilities that we have in that space get more meaningful and more necessary as we expand in the US.

Melissa Fairbanks - *Raymond James - Analyst*

Okay, great. Thanks. And then just to give you a little break from the cloud and AI questions, I was wondering, the stock has obviously moved up pretty considerably recently. Free cash flow is outstanding. Just wondering how you're thinking about capital allocation. You mentioned that this US investment was not going to change your CapEx levels, but thinking about how you're looking at deploying cash in the future.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, good morning, Melissa. What I would say is that we continue to remain committed to returning value to our shareholders. To your point, free cash flow is looking very strong this year at $1.2 billion. Returning 80% of our free cash flow to buybacks we're committed to that. We do see our current $1 billion share authorization program being completed in Q4. And our typical cadence of new authorizations and continuing that type of policy, we typically announce between July and September. So more to come on that in the coming months.

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

And Melissa, if I may just add, I think if you remember the mobility divestiture, once we completed that divestiture, our CapEx requirements have gone down considerably. Our free cash flow is in really, really good shape. We're almost a completely different company from a capital allocation perspective. We continue to see share buybacks as a major sort of part of our strategy. So everything is moving in the right direction as it relates to cash flows.

Melissa Fairbanks - *Raymond James - Analyst*

Great. Thanks very much. Fantastic job managing it. Thanks very much.

Operator

Tim Long, Barclays.

Tim Long - *Barclays - Analyst*

Yeah, two as well, if I could. First, back to the cloud data center, obviously upside in the quarter and in the guide pretty meaningfully. Just give us a little update on, I think you talked about some of the product breadth that you're seeing in that upside. Could you just maybe double click on that and also talk about kind of customer diversity within that bucket, how broad that's getting?

And then to follow up on that, I was hoping you could update us on the transceiver business, anything new on customer activity there, and now that we're a few months away from the release of the 1.6T. Any customer feedback or outlook on timing there would be helpful. Thank you.

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

So a couple of drivers in the intelligent infrastructure segment, we talked about capital equipment. I think the automated testing cycle is in full play, I think, with the custom chip requirements, with new technologies, with all the complexity with AI-based infrastructure. I think that whole testing is expanding considerably, and I think it's got pretty long legs overall.

So WFE on that side is a little bit sluggish, but AI on WFE is actually doing quite well. The sluggishness is more on the automotive consumer side.

And then the cloud data center itself, if you, the bulk of the increase in revenue was driven by our server rack integration. Don't forget that server rack integration is heavily, heavily driven by our design architecture and engineering teams, where we create a situation where the handshake between the hyperscaler and us brings the use to launch to a much more acceptable percentage.

So it's not just by chance that we're winning that business. Obviously, end market is growing. It continues to grow. It's actually accelerating, in my view. And we're winning market share there as well. Obviously, for the future, we'll be looking at liquid cooling and some of the other power management, thermal management pieces, but those are in early stages yet. And again, big drivers for growth in the future.

Tim Long - *Barclays - Analyst*

And on the transceiver side?

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

Yeah. So on the transceiver side, we're seeing really good growth. I think if you go back a couple of years, we made the photonics acquisition from Intel. We acquired a design and engineering capability, so there was a whole bunch of engineers that we acquired with clean rooms and capacity to build out the transceivers.

Demand for transceivers is obviously on the rise today. Today, we're moving to 800G. We showcased our 1.6T capability at OFC two or three months ago, and that's been well received by our customer base. Obviously, 1.6T is more advanced, and probably towards the end of the year, early part of next calendar year is when we'll see an uptick there. So we're definitely seeing 200, 400s moving to the 800s, and at some point in time, that will continue into the 1.6Ts as well.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - *JPMorgan - Analyst*

I guess maybe if I start with the Q4 guide, and, Mike, the run rate that you have for Q4 in regulated industries and connected living and digital commerce, both of them are down modestly in Q4, while intelligent infrastructure is growing rapidly.

I'm just trying to think in terms of when we look below that headline number for regulated industries and connected living, are there drivers that as you go over the next 12 months drive those segments back to growth? Or should the sort of starting assumption for the next 12 months be that those two segments remain a bit sluggish while most of the growth comes from intelligent infrastructure? Thank you. And I have a follow-up.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, good morning, Samik. This is Greg. I'll start with your question on Q4. For regulated, we're still being very prudent on our guidance, especially when you look at EVs and renewables. So that's definitely impacting our guidance for Q4. And then on consumer living and digital commerce, we definitely have been very prudent as well on the revenue guide there. We have been pruning various customers and programs in the consumer-related area.

Still feel good about the margins that we're seeing there, but again, just being prudent and conservative on the guidance for those two segments.

Samik Chatterjee - *JPMorgan - Analyst*

And anything in terms of drivers to call out that changes as we go into fiscal '26?

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

No. No. No specific drivers. I mean, other than just we're not seeing any, any turnaround yet in automotive and also in the renewable energy markets. So still to be determined there. And then also just on consumer, we're just being conservative.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

I do see some level of growth in healthcare and the digital commerce. Those are accretive margins. So really good progress there in terms of what we're seeing coming again in the healthcare space from booking to actually getting in the factory. There's an 18, 24 month time lag. We are winning business. Some of it will head towards the end of '26. Some of it will hit in '27, '28.

So just something to be aware of, but healthcare is definitely an area that we're quite excited about. If you look at digital commerce, that's another area that we're pretty excited about. You're looking at warehouse automation. You're looking at a whole bunch of handheld devices. We're looking at humanoids robots. That's further out. Obviously, that's not going to be anytime soon. And then there's the retail shelf piece as well. So that entire digital commerce is an exciting area for us as well.

Samik Chatterjee - *JPMorgan - Analyst*

And for my follow up, if I can just go back to the announcement of the manufacturing capacity, any broad way for us to think about the $500 million, how to split that between capital versus operating expenses over the time period.?

And maybe Mike, in terms of your reference to this being largely capacity for incremental sort of customer wins in terms of tightening up utilization in the international locations, do you see sort of over time tilting your manufacturing more to the US and maybe sort of restructuring some of the manufacturing in international locations to achieve that better utilization? Or do you see enough demand to fill the international locations where you have a bit more underutilization at this point? Thank you.

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

I do think today, our manufacturing base is really well regionalized. We are manufacturing in regions. So we're in the right locations for manufacturing. Some of it will make sense to bring back to the US. Some of it won't because it's region for region and local for locals. It'll have to be within the region or within the country itself.

I don't think the US -- the site here is specifically going down to the infrastructure. It's not a multi end market site. I do think the whole CapEx piece will be a long term. The $500 million is not a year one, year two, year three. I think it's over multiple years. And it's a little bit of a chicken and egg as well.

As we win business, the capital expenditure will occur as, as it gets pushed out. It will slow down. So there's a whole, there's a whole bunch of dynamics in that site. I wouldn't focus too much on the $500 million. I think we did say from a CapEx standpoint, we're still extremely comfortable with our 1.5% to 2% range. And that's not, that's not going to change going forward. So it'll all be within the 1.5% to 2% range in terms of capital expenditure.

Operator

David Vogt, UBS.

David Vogt - *UBS - Analyst*

Mike, I know you said not to focus on the $500 million, but I'm going to focus on it anyway. You help frame sort of the revenue opportunity that underpins that incremental $500 million of investment over the next couple of years. And without that $500 million, do you have enough capacity to kind of hit your growth plan over the next two to three years, particularly in cloud and data center?

And then my follow-up is on the networking side. Obviously, you called out weakness in 5G. Can you maybe speak to the trends underneath 5G? What I mean by that is [ex-5G], how is networking trends trending over the last couple of quarters and how should we think about that going forward if we strip out the 5G business? Thanks.

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

So I'll answer your second question first. I think 5G is a little bit dilutive to our business. I think excluding that, the margins are accretive in that networking space. I think we'll provide more guidance in September. I think photonics is ramping in that networking line item. I think we've done maybe $300 million to $400 million in '25. We're looking at maybe [750, 126] and then could be $1 billion beyond that as well. So good growth rates expected for that line item.

Can you repeat your first question, please?

David Vogt - *UBS - Analyst*

Yeah, on the $500 million investment, obviously, you're mostly local for local, as we've talked about pretty extensively. But without the $500 million, could you hit your growth targets today within intelligent infrastructure? Or is this critical capacity addition needed to kind of hit your multi-year plan? And if so, what kind of revenue can be supported by this incremental $500 million of capacity? If we just think about what your gross [PPD] looks on the balance sheet, I'm just trying to make sort of an extrapolation of how to think about what the incremental revenue could look like, particularly within that segment.

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

I think over time, the revenue will be considerable. It will be material. I won't suggest any numbers yet, but the $500 million, again, is a very long-term sort of number. It's not first two, three or four years. It's over multiple years.

I do think the site with all the capabilities that we have, the execution of the team, they should be able to ramp up relatively soon. I did highlight that it only comes online in the middle of calendar year '26. I don't expect much of an impact in '26 itself. In '27, there will be a step up, and '28 will be an even bigger step up. I do think very high potential for the site.

In terms of growth rate for our existing outside of that site, I think we have capacity. We're ramping different parts of that intelligent infrastructure in different locations as well. So overall, we do have a decent path to growth even beyond that site.

Operator

Ruplu Bhattacharya, Bank of America.

Ruplu Bhattacharya - *Bank of America - Analyst*

Hi. Thanks for taking my follow-up. Mike, a lot of things are going strong for Jabil. What's the biggest risk you see to this story today? Also, you've done some acquisitions in the past. Over the last couple of years, you've bought the Intel transceiver business, liquid cooling. How would you prioritize M&A versus buybacks over the next year? Thank you.

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

So a couple of end markets are performing as well, and we've highlighted those over the last several quarters. Obviously, EV has taken a little bit of a downward move, and then renewables.

Now, I do want to highlight that in that line item of renewables, energy, and infrastructure, renewables is only $600 million. So when I say downside, I'm thinking of maybe $200,000, $300,000 or more. There could be an upside of $200,000, $300,000 in that line item as well.

I think even from an automotive and EV perspective, one of the things we've got three or four dynamics going on there, where obviously our China business is doing well. We're actually gaining new customers there.

We manufacture in region in that EV space for most of our customers, so very minimal tariff impact. And then the power business for our largest customer is doing reasonably well, and that's a little bit of an offset lower car volume sales. And most of all, we've been very conservative and prudent already in that line item.

So answer to your question in terms of what risk, those are more small sort of hiccups. I don't see that as major items to get worried about.

What was the second question again?

Ruplu Bhattacharya - *Bank of America - Analyst*

Just on M&A versus buybacks.

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

It's your follow-up to your follow-up?

Ruplu Bhattacharya - *Bank of America - Analyst*

Yeah.

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

So look, we've always made tuck-in acquisitions. Most of them are capability-driven. If you go and look back at our history over the last maybe 24 months, the silicon photonics from Intel, the liquid cooling Mikros acquisition, the Pii drug-filling acquisition, they're all capability-driven. They all open up huge tabs for us, and that will continue to be the approach.

I think right now, the focus is still no change in the whole buyback capital allocation methodology. We're looking at 80% being allocated to buybacks, so no major change there. We'll probably renew our buyback authorization in July with the board.

So I think overall, no major change in the M&A piece. Having said that, if a larger M&A does come through, which we think would be highly accretive for Jabil, we'll execute on that as well. One thing to remember is our debt to EBITDA is very low. It's only 1.4, and there's plenty of room to move around in that leverage as well if needed.

Operator

Thank you. At this time, I would like to turn the floor back over to Mr. Berry for closing comments.

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

Thank you. That's our call today. If you have any questions, please reach out.

Operator

Ladies and gentlemen, thank you for your participation and interest in Jabil. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.
