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JBL.N - Q1 2024 Jabil Inc Earnings Call

EVENT DATE/TIME: DECEMBER 14, 2023 / 1:30PM GMT

OVERVIEW:

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PRESENTATION

Operator

Hello, and welcome to the Jabil First Quarter Fiscal Year 2024 Earnings Conference Call and webcast. (Operator Instructions) As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Adam Berry, Vice President, Investor Relations. Please go ahead, Adam.

Adam Berry

Good morning, and welcome to Jabil's First Quarter of Fiscal 2024 Earnings Call. Joining me today are Chief Executive Officer, Kenny Wilson; and Chief Financial Officer, Mike Dastoor. In terms of our agenda today, we plan to focus on the following: review our Q1 results discuss the trends underway within the end markets we serve and provide Q2 guidance. We'll also reiterate our capital allocation plans, reinforce our core margin and EPS outlook for the year. And in doing so, provide you with the detail as to why we feel confident in achieving these goals for this year and next, despite our updated outlook as discussed on November 28. But 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 today's call, the entirety of today's presentation will be posted for audio playback I'd now like to ask you to follow along with our presentation with slides on the website, 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 and 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 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 first quarter results, where the team delivered approximately $8.4 billion in revenue, near the low end of our guidance range provided in September and in line with our updated expectations announced on November 28. It's worth noting the majority of the year-over-year decline was driven by the previously announced move to a consignment model, where we transition certain components we procure and integrate into the cloud space to a customer-controlled consignment services model.

Core operating income for the quarter came in at $499 million or 6% of revenue. This is up 120 basis points year-over-year due to an improved mix of business, normal seasonal patterns within our mobility business and the previously announced accounting impacts of assets held for sale. Excluding the impact of assets held for sale, Core operating margin was roughly 5.3%, up 50 basis points year-on-year. Net interest expense for the quarter came in $3 million better than expected at $70 million, reflecting lower levels of inventory during the quarter as a result of lower revenue and better working capital management by the team.

From a GAAP perspective, operating income was $303 million, our GAAP diluted earnings per share was $1.47. Core diluted earnings per share for the quarter was $2.60, a 13% improvement over the prior year quarter and at the midpoint of the range we provided in September. Now turning to the performance by segment in the quarter. Revenue for the DMS segment came in at $4.8 billion, down approximately 6% from the prior year, driven by continued weakness from our connected devices end market. These declines were partially offset by year-over-year growth in our automotive and transportation and health care businesses.

Core operating margin for the segment came in at 7% and 180 basis points higher than the same quarter from a year ago, given solid mix, normal seasonal pattern within our mobility business and the aforementioned previously announced accounting impact of assets held for sale. Excluding the impact of assets held for sale associated with the mobility sale, core operating margins for DMS were 6%. Revenue for our EMS segment came in at $3.6 billion, down roughly 21% year-over-year. This decline was driven by our move to a consignment model and a softening in demand in end markets like 5G, networking and digital print.

Given this combination of consignment and mix, core margins for the EMS segment were an impressive 4.6% up 30 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 Q1, beginning with inventory which improved 2 days sequentially to 78 days. Net of inventory deposits from our customers, inventory days were 58 in Q1, consistent with our strong Q4 performance. Our first quarter cash flows from operations came in at $448 million, while net capital expenditures totaled $275 million resulting in $173 million in adjusted free cash flow during the quarter.

In the quarter, we repurchased 3.9 million shares for $500 million leaving us with $2 billion remaining on our current repurchase authorization as of November 30. With this, we ended the quarter with cash balances of $1.6 billion, and total debt to core EBITDA levels of approximately 1.1x. So in summary, Q1 was largely a very good quarter. While our top line growth came in a bit lower than expected, the team still delivered good year-over-year growth in core margins, core EPS and adjusted free cash flow.

At the same time, we were incredibly active in terms of repurchasing our own shares, and we made solid progress on the sale of our mobility business. With that, thank you. I'll now hand it over to Kenny.

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

Thanks, Adam, and good morning, everyone. As Adam mentioned, on November 28, we announced a reduction in our outlook for fiscal year '24 based on a broad slowdown of demand across multiple end markets. In short, customers adjusted demand schedules as we reacted to a slowdown in end markets heading into the end of the calendar year. Although we feel this slowdown will be temporary in nature, it is incumbent on us to react and adjust our model appropriately to align with our customer requirements. Agility in our industry is key. Being able to absorb changes in demand signals effectively across our network, is a critical part of our value proposition.

This agility is part of our DNA and is reflected in our ability to effectively absorb downside in revenue. Tangible assets, flexible automation, single instance of SAP, common manufacturing execution systems, focus on margin-rich value-added services and multi-customer sites set up specifically to manage disparate end markets. [In one] campus are just some examples of disciplines embedded in our model. These core areas of focus are a large part of why we believe we can manage margins consistent with our Q1 guide and EPS at $9 plus while absorbing a broad-based slowdown.

Turning to end markets. When we take a deeper look, we still expect growth in key areas like electric vehicles and renewables, albeit at a modestly slower pace than previously anticipated. In health care, our business remains robust and foundational intent of what we are trying to accomplish at Jabil. Our ability to provide key solutions and capabilities to customers in complex areas we're outsourcing is underpenetrated and quality is paramount underpins our confidence that we will continue to go in this end market.

In cloud, our team continued to drive forward within the data center space. Remember, this business moved into a consignment model last year, which makes revenue look unusually low relative to previous years, while in reality, the business is growing volumes by roughly 20%. In connected devices, we've seen softening for some time, and this doesn't seem likely to change in the near term. While in enterprise communications and 5G, we continue to expect softness based on global rollouts.

Turning to renewables. We've seen softness in solar and wind driven by a combination of reduced channel inventory sell-through, impact of interest rates and incentive uncertainty. Outlook-wise, we remain optimistic based on multiple new business wins and some supply chain consolidation within our current customer base. On the sale our Mobility business, I'm really pleased with the progress we are making. The [selfish] collaboration between our teams, we are working on closing the deal, ensuring the needs of our customers remain top of mind, has been really pleasing to see. Focusing on your day job, keeping product flowing while managing a complex transition is hard.

The fact that we are managing this so successfully is another proof point of our belief that BYD Electronics is a correct partner for this transaction. Taken altogether, we never expect revenue not associated with the mobility divestiture to be down 5% year-over-year on a like-for-like basis. Reflecting on all of the above, it's pretty satisfying to see the resilience of our model despite end-market choppiness, we expect to post year-on-year growth in core margins and EPS, while also driving in excess of $1 billion in free cash flows.

Further, we remain committed to our previous fiscal year '25 guidance, inclusive of margins at 5.6% plus and EPS in excess of $10.65. In closing, I want to share the final thought. In Jabil we are always planning our future and a Saturday have to say goodbye to my colleagues as they transition to BYD Electronics. I would like to welcome the procurement services team from Procurability and the silicon photonics technical team from Intel as I joined our company. Welcome and we look forward to your contribution as we focus on the next chapter of our company's growth and diversification. Thank you for joining us today and for your interest in Jabil. I will now hand the call to Mike.

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

Thanks, Kenny, 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 Q2 and FY '24, which remains largely consistent with our announcement on November 28. And then I'll provide an update on our accelerated buyback execution plans. With that, let's turn to the next slide for our second quarter guidance.

We anticipate the Mobility transaction to close during Q2 of FY '24. The exact date of the close will drive where we land. For Q2, we expect total company revenue to be in the range of $7 billion to $7.6 billion. The midpoint of this range assumes the Mobility transaction closes January 31, which is consistent with our modeling assumptions in September. Core operating income for Q2 is estimated to be in the range of $339 million to $399 million. GAAP operating income is expected to be in the range of $216 million to $301 million. Core diluted earnings per share is estimated to be in the range of $1.73 to $2.13. The GAAP diluted earnings per share is expected to be in the range of $0.77 to $1.37. Net interest expense in the second quarter is estimated to be $62 million. Before turning to our full year guidance, it's worth noting that our Q2 guidance is materially influenced by the Mobility transaction close date.

I thought it would be helpful if I provide you with the financial impact of an earlier close. For modeling purposes, a December close would reduce the midpoint of our Q2 revenue and core EPS outlook ranges by approximately $400 million and $0.30, respectively. For the year, it would also reduce our revenue outlook by $400 million while the loss in core EPS would be expected to be offset through accelerated repurchases and lower interest expense given the earlier receipt of net funds. Now moving on to full year guidance on the next slide. As we announced a few weeks ago, towards the end of our quarter, we noticed a widespread slowdown in customer demand.

The majority of the slowdown we're seeing is being driven by excess inventory in our customers' channel, which we view as short term in nature. In our view, once the excess channel inventory plays up, we're optimistic that the secular trends across our business remain intact and gives us confidence in future growth. It is important to note that Jabil's net inventory days is in good shape and remains consistent with our target range of 55 to 60 days. For FY '24, we expect revenue to be approximately $31 billion for our modeling assumption of a January 31 close for the Mobility transaction.

Importantly, for the year, we continue to expect year-on-year growth across the end markets that are experiencing strong multiyear tailwinds and notably in renewable energy infrastructure, electric vehicles, AI cloud data centers and health care. Moving to the next slide. Despite the revenue headwinds in the near term, we are confident that Jabil will able to be more resilient as we've diversified across geographies, products, customers and end markets. Because of this, we don't expect the same level of margin erosion traditionally seen in past slowdowns.

Our diversified approach, global footprint and strong relationships with customers gives us confidence in weathering these near-term challenges. We're adapting, staying focused on margins and cash flow and committed to delivering value. Notably, for FY '24, we still expect core operating margins to be in the range of 5.3% to 5.5%. And I would now like to walk you through the dynamics of how we are able to maintain margins despite lower revenue.

As a reminder, we have completely changed the construct of our business. We're in the process of divesting one of our highest fixed cost businesses. Additionally, 4 of our end markets, EVs, health care, renewables and cloud are growing volumes year-on-year, albeit at lower levels than previously anticipated, which means deleveraging is limited as we are able to push our planned investments and costs which have not been incurred yet.

In addition to pushing our ramp in investment costs, we're also moving ahead with reducing our SG&A in the back half of the year and optimizing our global footprint. All of this gives me confidence in our ability to deliver core operating margins in the 5.3% to 5.5% range in FY '24. Next, I'd like to provide an update on our share repurchases for the year. In Q1, we executed the previously mentioned $500 million accelerated share repurchase. In September, we originally expected to do a series of accelerated buybacks totaling $1.7 billion in FY '24 and $800 million in FY '25. We now intend to execute a series of accelerated buybacks of the entire $2.5 billion repurchase authorization in FY '24.

As a result, I now expect (inaudible) to be in the range of $124 million to $127 million for FY '24. We also now expect interest expense to be lower this year in the range of $250 million to $260 million compared to our expectations in September as we expect working capital levels to decline with lower revenue. All of these actions gives me confidence that we will offset lower income and deliver core earnings for FY '24 to be in excess of $9 per share. And our cash flow outlook for the year remains robust, and we are committed to delivering adjusted free cash flow in excess of $1 billion in FY '24.

In my view, Jabil is well positioned to navigate the current economic environment, evidenced by our performance over the past several years. We are not only well diversified, but also markedly 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 are undergoing multiyear secular growth. Thank you for your time today and for joining us this morning. I'll now turn the call over to Adam.

Adam Berry

Thanks, Mike. So as you can see, we remain well positioned and extremely bullish on the future of Jabil. Thank you for your time. Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Ruplu Bhattacharya from Bank of America.

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

Can you address how you're managing risk in this environment? For example, what gives you confidence in the $31 billion and $9 plus in EPS guidance for fiscal '24. Can you likely have limited visibility in the second half? The question would be how we can revenues be for you to still hit that $9-plus EPS target for this year? And can you also comment on any risk with Jabil's own inventory? And I have a follow-up.

Adam Berry

Ruplu. So first, let me take the last part of your question there, which is I think our model is relatively consistent that we don't take inventory risk. So everything that we buy is underwritten by a forecast or a purchase order. So we're pretty comfortable in that. And if you look at where we are in Q1, with the slowdown at 58 days, it's still industry-leading, and so we're pretty confident there. If you look at the way where our company is set up, we run divisions look at division leads, you will then get a leadership team to support that. So we're pretty intimate with our customers.

All of our teams have been very, very active with our customer base. You're looking at what happened in Q1, what's going to -- what's happening for the balance of the year. And the feedback, although none with different impacts in different end markets. What we see is relatively consistent. And incidentally, myself -- I mean in Europe and in Asia over the last month, meeting a lot of our customers also. So the feedback is -- and remember, we get forecast 12 months forecast pretty much for all of our customers. We see their feeds, we look at what they're pooling and what they're selling. So the feedback generally is, look, we expect the next couple of quarters to be inventory correction, and we think beyond that, we're in decent shape.

And we've baked that into what we see for the back half of the year. The other thing I'd like to emphasize is that in the discussions we're having, times like this ultimately can be good for us from a consolidation perspective. So we're pretty active in a number of discussions with our customers about how can we make the business easier by helping them consolidate supply chain so that their business is simple to manage. So I mean I would say that we're really close with our customers. The data we get is pretty consistent. We're monitoring it really closely. I mean we'd like for the inventory to be sold through, but it's not -- we think it will be over the next couple of quarters. But we'll bake that into our guide for Q2 for the balance of the year.

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

And Ruplu, if I could just add, if you look at our revenue, we've taken revenue down by $2.5 billion, about $1 billion of that is the first half. So we're not taking the second half as it's absolutely going to recover. We're still being conservative about the second half of the year, rather than $1.5 billion coming out visibility is a little limited right now, not from our perspective, but from our customers' perspective as well. So we think $1.5 billion for the second half is appropriate at this stage.

And then if I can, let me just walk you through how we expect EPS to change because this is a very critical and important piece -- if you look at what we provided in September, we've said the range of $930 million to $970 million. So if I take a midpoint of $950 and start from that, the revenue loss about bit $2.5 billion impacts us by roughly $1.20.

And that is sort of the deleveraging when you're growing year-on-year, especially in the 4 end markets that we've been focused on in automotive, health care, renewables, cloud, we're growing year-on-year, which is not going down. So when you grow year-on-year deleverage is very limited. You can actually push out a whole bunch of investments and costs and ramps to quarters out from here.

So there's a little bit of new ads here that most people are ignoring and that we're in the right end markets. All of them are still showing growth year-on-year, albeit at lower levels, but still year-on-year growth. some of the lower-margin businesses, even if you double the deleveraging there from a 3% or 4% to 8%, you still we're losing some level of income, but it's not that much. The margin is not that impacted on the lower margin businesses. And then I talked a little bit about buybacks in my prepared remarks. We completed the $500 million buyback in September.

That was huge. That was the biggest buyback we've ever done in a single quarter. And what I mentioned in my prepared remarks is that we are going to double down on that. So in September, we anticipated doing an additional $1.2 billion in '24 and $800 million in '25. Now all of that $2 billion left over is going to be done in FY '24. We think this is a good time. It's a good appropriate time to do it when there's a slowdown going in, we still feel we're highly undervalued. And buybacks is the best return we can get from our free cash flows from the proceeds of the funds that we will get once the mobility divestiture is done.

So it's a bit of a long-winded answer, but you could pick up $0.40, $0.50 quite easily between buyback and lower interest costs as well, interest will be lower because working capital will be lower because of lower revenue, plus after yesterday's news, if interest rates do what the Fed is saying, I think there's a little bit of pickup there as well. So there's a whole bunch of puts and takes, but we feel pretty strong about the $9-plus.

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

Okay. Mike and Kenny I appreciate that. Let me ask you a follow-up question, which is really the same question for fiscal '25. I mean you're guiding for $10.65-plus EPS and you're maintaining the operating margin target of 5.6% plus. What -- again, the question is, what revenue level do you need to see in fiscal '25 to be able to hit that $10.65 target and you mentioned that you can push out some investments, but is there any risk to doing that in terms of hurting future revenue growth. So just your thoughts on maintaining the guidance that you have for fiscal '25 and how confident you are in that? I appreciate the details.

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

Yes. So Ruplu, if you look at our Q3 and Q4 run rates, obviously, we provided $31 billion as the annual revenue number that we've done in Q1 and Q2, so you can extrapolate the second half of the year. If you take those run rates into FY '25 some small level of recovery. We're not even thinking of a big recovery coming through. Some level of new business, which is already in the pipeline, by the way. So we're working on multiple new business wins. And overall, if you even from a smaller base, if you grow by 4%, 5%, 6%, the margin, we're going to be doing 5.4% at least at the midpoint from 5.3% to 5.5% that we said in '24, it's 5.6% in '25 is not a stretch. So margins, we expect that to be higher. If you look at -- if you look at the lower (inaudible) we'll have not only in FY '24 as a result of us doing the entire $2.5 billion share repurchase authorization in '24.

There's an impact in '25 as well because you're getting the entire (inaudible) impact in '25. So overall, I think FY '25 is in really good shape.

Operator

Next question is coming from Steven Fox from Fox Advisors.

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

I just wanted to follow up on some of the comments you just made on the revenues and how it's playing out by the different served markets. So you mentioned that new program costs are down.

So I guess you're seeing pushouts in certain markets. But then you also mentioned that customer forecasts are coming down, which I assume is for existing programs mainly. So I was wondering if you could sort of dissect not every single line item, but just sort of big picture where you're seeing more new program pushouts and why and where it's more related to current end demand? And then I had a follow-up.

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

Yes. Thanks, Steve. So I would say, I mean, if you want to just -- if I run through our end markets, just to give you some color, so 5G is obviously soft, and you see that from the customers that we serve, a slowdown in end markets there. Our network and switching business we see the kind of compass and enterprise space softer with an inventory globe, we're really going great guns and accelerated switching around the AI space. So that's been pretty positive for us in health care.

orthopedics, pharma med devices are up. And then in auto, which I think is a -- in terms of your question about new products, we see the new products getting pushed out there to some degree. What I would always say is that what we've always said is that look, we think our auto business is going to be up and to the right, but it's not going to be linear. It's going to be lumpy. And we see that. And if you look at the auto market, we are people are saying that the expectation is it's going to grow 20%, 30%, but you look at inventory in the lots right now. So we see some pushout in automotive, although to Mike's earlier point, we're still growing pretty nicely there. And then on renewables, so we look at look at the residential slowing down with interest rates effectively, commercial is still going reasonably okay.

We see a kind of slowdown in energy storage as people wait for the IRA to really get bedded in. But we think the backlog here, we're going to recover relatively quickly the year after. So I think -- I mean, that's some of the key end markets. I mentioned in cloud, where AI is really driving our cloud business. We're operating in a new facility to support that. So we're up there. So generally, renewables is a little bit softer with some new products being delayed. We do see consolidation in the renewable space, which we think is going to help us for sure, as the industry recovers there and automotive is just a pushout of some orders. But -- so hopefully, that answers your question.

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

And if I could just add a -- if you look at EVs, I think everyone's seen the choppiness, everyone has seen the increased inventories at dealers, et cetera. I think the early adopters have already played out and they've got their EVs. It now becomes a question of cost. All the OEMs, all the EV companies are going to try and get their cost out. Who do you go to when you want to get your cost down to an EMS company. So this value proposition that EMS provides from a from an EV manufacturing perspective, we're well positioned for EVs.

We're well positioned for hybrids. If you look at the battery management systems, the compute cardial, the optics, all of that, we're in a good pace to actually provide some value to OEMs who have to now take their costs down a bit because that's the second wave of EV will be cost based, not the early adoption wave that we just wrote a few quarters ago.

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

Great. That's very helpful. And then just as a follow-up, Mike, I know you're still saying $1 billion plus for free cash flow, but off of the November announcement, if I just changed the revenue assumptions and kept my working capital turn numbers that the lower sales was like worth $200 million more of free cash flow by my calculation. Is that the type of sort of change in free cash flow we can see off of the revised guidance? Or am I missing something?

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

So obviously, part of free cash flow is income, Steve, and when you lose $2.5 billion, you do lose income even though your margin is maintained the dollars to come out. So there's an offset. You're absolutely right on the working capital, working capital does go down and that is sort of baked in, but you also lose the income.

The other area that we're looking at is CapEx very carefully. We've always been disciplined. In these times, we're even more disciplined and we're pushing out investments. We're pushing out some level of CapEx that would help free cash flow as well. In its early days, Steve. That's why we stopped with the $1 billion plus, but do I expect it to be higher than that?

Operator

Next question is coming from Matt Sheerin from Stifel.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

I had just another question related to inventories and free cash flow. You talked about that gross number of days, I think 78 days, which is down. And the net number, I guess, roughly 25% of your inventory is backed by customer deposits. But given that lead times are pretty short for components, wouldn't we assume that customers will want that cash back. In other words, as you reduce inventory, you have to pay them back and they don't need to give you more cash deposits because there isn't that need for buffer over the shortage situation that we years ago? And how does that impact the future free cash flow?

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

So let me just answer that in a slightly different way than you've asked it. I expect always expect inventory days to be in the 55- to 60-day range. When inventory goes up, the inventory deposits go up in sync, but inventory days start coming down or normalizing, yes, there is a level of return inventory deposits. So a quick answer to your question is, are we going to see a pop in free cash flow because inventory is going to go down? The answer is no. It's start a pop in free cash flow -- it will still be in the 55 to 60 days.

It's just a matter of the gross number going down and the inventory deposits going down in sync. So that's something we're good at managing. That's something we have really good relationships with customers, and we're always working on that particular front. So no, free cash flow won't get a pop. It's already baked into our numbers at that 55%, 60%, and that's where it will stay.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. And then, Kenny, just back to the pre-announcement from a couple of weeks ago, that came a couple of months after you had guided for the November quarter, and then you saw obviously a big cut across your customer base. And you seem to be lagging some of your competitors in terms of what they saw, right? We saw someone of your big competitors month earlier, take down numbers in a similar way. So what do you think the difference is in terms of -- and I know that the supply -- we are seeing a rolling correction, right, different end markets. But why do you think you're seeing it later than some competitors because of end markets or because of other reasons?

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

Yes. I mean I think there's a little bit of when people report the results. And -- but from our perspective, we've seen that later in our quarter. We're in some of the markets are new to some degree as of the customers. But generally, we've seen it broad-based across our customers. And we also see that a lot of our customers report calendar quarters. And it was really the back end of the announcements we have they took actions to reduce our outlook. So I mean, I would push back quite strongly that our visibility into our customer base is disconnected and we don't do a good job of that as our competitors, to be honest.

I think it's just time and based on it was that we got that feedback in towards the back end of our quarter. So that would be my answer.

Matthew John Sheerin - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Okay. I appreciate that. Yes, I wasn't suggesting that at all. I was just trying to figure out the perspective.

Operator

Next question is coming from Samik Chatterjee from JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

If I can just start with one on the end markets and -- just wanted to confirm for -- I know you're mentioning broad-based weakness that you saw across your end markets, but just trying to rank out of the weakness that you're seeing and what you're embedding in that sort of $2.5 billion reduction in the guide. Looks like it's more autos and industrial and semi cap and why one confirm that I'm sort of interpreting that right. Secondly, how do you just overall, you're describing a lot of the weakness is temporary, but how do you address concerns on the EV market, in particular, when I think the average investor out there is thinking that EV penetration looking 5 years out is now going to be probably a lot lower than what it was expected to be, just given sort of the deep demand profile that we are seeing now.

So any thoughts around how this changes the more sort of long-term growth profile on EVs for you? And I have a quick follow-up after that.

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

Yes. So let me take the EV one first. I mean we've always -- I mean, we've been growing 40%, and we've said that, that would slow down this year. I mean we are still bullish on the EV space in the longer term. And remember that although that the demand moves up and down, and we look at this in the longer term, 5, 6, 7, 10 years. So from our perspective, and then what we do is we look at where there's the demand patterns, and we've got a global footprint. We do things consistently across the globe. So the fact that there's growth in Asia, and it slows down in other markets means that we've got a footprint in each of those regions.

The customer base that we have is really positively -- we've got a really good customer base focused in North America, Europe and in Asia. So we're able to adapt to changes and demand cycles. And if you look right now in China, where the demand is picking up, we build EVs in China. We've got multiple customers here. So we think the long-term trend is good there. We think we're in the right areas. We think we're in the right markets, and we think we'll get the right capability. So -- we think it's going to be up and to the right. It's going to be 20%, 30%, 40%. We think we can adapt to any of those numbers. So we're pretty confident in the long term of our EV strategy.

So in terms of other markets, we're still growing. I think we said in the prepared remarks that our auto business is going to grow 11%. Health care and packaging, 6%.

So as Mike mentioned, the areas of our business that we're really focused on growing with secular tailwinds, we think are still continue to grow renewables at 7%. So yes, we think that we're in a good spot across all of those end markets.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

And for my follow-up, the question that we're getting most from investors on margins today, as you mentioned the push out in terms of investment. When you think about margin guidance for next year, is the assumption that some of those investments don't need to sort of be put back into the model next year as we're pushing them out of fiscal '24? Or is the margin guidance maintained despite assuming those investments come back next year?

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

No, I think the way to think of this is if the revenue comes out, the cost comes out. When the revenue comes back as we expect it to be sometime in FY '25, those costs will come back, but there will be an offset. So net-net, the impact on margin will be neutral. I think we've said 5.3% to 5.5%.

But I think we've got to remember, we've changed the construct of our business completely. Yes, the 4 end markets do not underestimate that those continue to grow it's not by chance that we happen to be in those 4 end markets over the last few years. We've intentionally focused on those end markets because we always thought those are the long-term secular end markets. So I think, overall, the way to think about cost pushouts, it's completely dependent on whether that revenue is there. If the revenue suddenly comes back, those costs will come back.

So I'm not saying a 5.3% to 5.5% will suddenly jump up if those revenues come back. We have other plans on making margin continue to go up as we continue to change the mix as we continue to add new operational efficiencies, the automation side, AI, ML, robotics, all of that will continue to provide on an annualized basis, in my view, at least 10 to 20 basis points by itself and the mix of the business, the revenue piece will provide the balance. So yes, I think the pushout is completely revenue-driven.

Operator

Your next question is coming from George Wang from Barclays.

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

Yes, just kind of want to double-click on the connected devices. You guys didn't elaborate too much in the prepared remarks. Just you guys took down now expecting down 25% versus 15% last time and kind of on the heels of down 15% last year, FY '23. Just curious kind of any mostly broad-based slowdown within the connected devices or kind of -- a of the few customers kind of driving the weakness? Maybe you can kind of double-click there.

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

George, thanks for the question. So we always talk about connected devices is effectively what we do for consumer. We view that as being an area where we can incubate capabilities that can support us across the rest of our business. What we do find is that we'll be going to be quite selective there because, a, is consumer short life cycles, you're dependent sometimes and if products are successful or not. Sometimes there's an expectation in margins that the margins will be pretty tight for us. So it's not a case of us defocusing on that side of our business but it's a case of us being selective in terms of the margin profile for some specific programs. So I think you'll see -- and you should see across our network. And I think to the previous question on margins.

Look, we're going to continue to focus our footprint and our people and our capabilities and areas of the business that we think will be long-term accretive to support our capabilities and that support our cash flows and margins. So I think in this instance, it's a case of -- it's really maybe 1 or 2 other areas of our business where we're just choosing not to engage because we think that then we can add more value for our customers with the capabilities in different end markets.

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

Okay. That makes sense. I just have 1 quick follow-up. Just kind of in terms of the AI, data center kind of in terms of the consignment model shift, how much additional margin you guys can extract from this consignment shift, obviously, is additive to the bottom line and the kind of margin profile. And also maybe you can talk about kind of slightly more just on the projects ramping within the AI, that's being a pretty popular topic with investors nowadays.

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

I think there's multiple ways of looking at the AI piece, AI and the new GPUs that drive our requirements that drive space requirements it's going to exponentially continue to sort of grow on an annual basis. The margin stack on what we do today, it will be relatively stable. It's the new services that we provide, the new value add that we'll be looking at in terms of liquid cooling, photonics. Those are the pieces that we think will be highly margin accretive.

I'm not suggesting that will happen immediately. But over time, I do expect the AI cloud data centers, the margin to go up that entire stack to be more value-add based.

Operator

Your next question is coming from David Vogt from UBS.

David Vogt - *UBS Investment Bank, Research Division - Analyst*

So maybe, Kenny, one for you first. Obviously, since the pre-release, you've had a couple of weeks kind of go back and you sort of, I would imagine, a deeper dive in terms of the categories and what your customers are saying. How do you frame sort of the inventory digestion? I know at the time you said maybe 1 to 2 quarters, and I think I heard you say 2 quarters. Is that kind of the latest feedback that you're hearing from your partners today and then one for Mike on capital allocation, I think I heard you say you're going to do the entire $2.5 billion buyback in fiscal '24. So I know you normally don't talk about the following year, but what do you think that means for fiscal '25 in the context of your $10.65 EPS guidance reiteration?

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

David, thank you. So on inventory correction, David, as I mentioned, subsequent to meeting you in Phoenix, our folks have been meeting our customers as I have I would say that the sentiment certainly hasn't got worse, if anything marginally better, but it's still -- in some areas a quarter and a lot of areas, a couple of quarters so it's relatively consistent with what we discussed in Phoenix.

So no change to the negative, maybe just slightly more positive. But just to reemphasize that the discussions we're having, what we see is we are seeing opportunities to -- we -- our customers are looking to consolidate their supply chains with fewer suppliers. And that's positive for us, long-term positive for us.

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

And David, from a buyback perspective, you're absolutely right, we're going to try and get the whole $2.5 billion down this year that not only has a positive impact on less so by FY '24. I think we've said $124 million to $127 million less so by the end of '24. And then for FY '25, we'll have a normalized buyback program. And if you look back at our history over the last 6, 7, 8, 10 years, we've done about $500 million a year. So it will be safe.

Again, we don't have the authorization of the board yet for that FY '25. It's early days but I'd expect that to be in that $500 million range. And when you add all the early buybacks in '24, plus that, our (inaudible) goes down to 110 to 115 depending on share price sort of -- it is the best use of our funds. And I keep saying that with our history -- what we've done over the last years proves that out that we've been -- we put our money where our mouth is, and we will continue to do so as we feel we're still highly undervalued.

David Vogt - *UBS Investment Bank, Research Division - Analyst*

Great. And can I just make a quick follow-up. I think Mike mentioned lower interest rates could have a stimulative effect on the business. Maybe, Kenny, if you can kind of help us think about where do you think the most impact could be felt by end market, which is the most sensitive to rates given your mix, I would imagine more of the...

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

Renewables for sure. Yes, renewables for sure. I mean, if we look at -- we've got -- we've developing really great capabilities in the renewables space. And we're kind of just waiting for things to be doubt and guidance from -- through with the IRA, but also interest rates for sure are impacting and solar rollouts in the residential space. So I would say out of all of our business, but auto will help us also, obviously. But I think renewables would be the #1 we would expect to see a tailwind there.

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

To expect some level of enterprise level spend to improve. I think a lot of CFOs have been pulling back on purchases, enterprise-level purchases. With interest rates going down, just the whole macro environment changes on that perspective. So we do expect the other end markets to have an impact? Will it happen immediately, probably not. But over time, it will have a positive impact for us and for almost every other company as well.

Operator

Our next question is coming from Melissa Fairbanks from Raymond James.

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

Talk about getting in under the wire. I'm curious about the comment that you've made or the comments that you've made on supply chain consolidation and renewables. I know supply chain services, this is 1 area that's driving more like direct customer engagement in your business overall. So in renewables, are you working directly with these customers managing their supply chain? Or is this consolidation happening further downstream.

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

Hey, Melissa. So I would disconnect the 2 a little bit. So what there been some announcements from us in Supply Chain Services, we just had our supplier summit actually yesterday and today, which is been fabulous to meet with our suppliers. We've been talking supply chain services for a long time, and we're just putting the building blocks in place to make that material for us in the longer term, but obviously, to support our customers.

In terms of supply chain consolidation, what we're finding is that -- and it goes back to, I think, pre-COVID where the world thought that supply chain diversification was good to have multiple suppliers, be dual sourced. And then people found out that, that was hugely difficult to manage. So when you get dislocations like this customers think how can I simplify my life?

How can I simplify my world? I mean, people look at our inventory relative to our peers and they're saying, well, maybe that's an indicator of that I should be safe with Jabil. And what we see is just discussions around, look, can you can you manage my supply chain? Can you build it in your sites? It gives me less people to engage with as long as you can trust it and you can deliver. So it really is that dislocation that's driving those discussions. And that's happened -- if I look at other times like this that what we found has been good for our business. If you look at the pre-to-post COVID so we do expect that this will be good for us also in the longer term.

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

Great. Great. Maybe as a follow-up, I'm glad you mentioned silicon photonics a couple of questions ago. I think this acquisition is really interesting in terms of adding value, but we haven't really talked about it a lot. Does the acquisition of the Intel Silicon Photonics business, does this bring any revenue along with it? Or is it simply about bringing in more of the supply stack internally and it's already kind of reflected in your business? And then longer term, does this provide more of a competitive moat in.

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

Yes. So for sure, let me talk about the -- let me just give you a little bit of background on that and then talk about what we're doing. We did that acquisition in 2014 of optical business, a small optical business with -- it's a tuck-in capability like we do. And we've been gradually building that. And the key for us was it was in the telco space. but it was always going to be focused on the datacom space in the longer term. That's why we've seen the value. So we've been growing that capability. It's not usually material for us, but the capability is something that we think we can develop.

So this Intel opportunity is -- it really came out of a discussion with our cloud providers. We are looking for us there looking to disaggregate supply chains and want it to be more vertical. So we pick up a capability that's got 400 gig, we're developing 800 gig and [1.60]. So the technical team that come along with that will help us is really, really engage in that technical road map. What that does is, I think it's a competitive mode because people do look for kind of minimize the number of suppliers and who can add more value. For sure, in the AI data centers, photonics is going to be -- is becoming more and more critical with power related. So we see all of that as a positive.

I think that we have made some of the revenues into our guide through '24, '25 but I do think that as we develop the 1.60 capability there, I think that you'll see that become much, much more (inaudible). I think we look for other areas of our business that's a big play, for example, in automotive, which we haven't talked about because this is focused on telco and data center automotive, there's going to be a player there. And I mean, I'd like to call out macro is driving that, but Kee Wee Manages that for us out of Asia is just an industry expert. So we're feeling and the Intel team that are getting better in are selling in real well. So we're feeling pretty bullish about that in the longer term, Melissa. So thanks for asking.

Operator

Next question is coming from Mark Delaney from Goldman Sachs.

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

Question about regionalization. And are you still seeing customers looking to have more of their manufacturing done in North America in order to improve supply chain resiliency? Or have changes in demand and component lead times meaningfully altered any of those or plans?

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

Mark, it's an interesting question. So I think it's nuanced by end market. So for sure and renewables, we're seeing a real push for -- to get the benefit of the incentives into being and North America. That's 100%. In fact, we're active. And a relatively large scale in that discussion where you expect more from us in the next 3 to 6 months. So definitely in renewables. Outside of that, I think the pace is relatively consistent. We're still seeing -- I mean I think your point about regionalization.

We are still being asked to can we build more EVs for North America and Mexico, can we build them in Europe for the European market and obviously, tariffs, et cetera, and Asia for Asia. So I don't think that's necessarily sped up any or slowed down other than in the renewables space, we're definitely seeing a pickup and ask for us to be localized.

So let me also qualify that by saying -- in the cloud space, the secure supply there becomes quite important, and we think that, that's going to be a tailwind for us in the longer term. We talked earlier with Melissa on Photonics, which I think will be a player also -- so I think cloud renewables and the rest of the business is relatively consistent.

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

My other question is on margins and recognizing the outlook the company has for improved margins and also the progress you've made over the last several years. I'm so hoping to better understand as you're seeing lead times for components normalize as you're seeing weaker demand, have you seen any change in your ability to pass through higher cost and negotiate with customers around pricing in light of those changing market conditions?

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

I mean I would -- we talk about kind of -- people talk about leverage with customers, and we don't view it that way at all. As I mentioned, we've got a supplier summit right now for surely things are coming down. I mean we pass through -- renegotiate a lot of -- and our customers' behalf, and then we pass that through to our customers and we engage with our suppliers. So -- as we've not seen any pickup in our reduction in margins based on lead times (inaudible), and our business is -- we write that up and down. And so no, we don't see any real changes there.

Operator

We have reached end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Adam Berry

Thank you very much for joining our call today. We appreciate your interest in Jabil. Everyone here would like to wish all of those, a very happy holiday, a peaceful holiday. And we are looking forward to joining the S&P 500 tomorrow. So have a great holiday.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.

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