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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to Jabil's second-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. You may begin.

Adam Berry *- Jabil Inc - Senior Vice President, Investor Relations & Communications*

Good morning, and welcome to Jabil's second-quarter fiscal-year 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 live streamed. And during our prepared remarks, we will be referencing slides. To view these slides, please visit the Investor Relations section of jabil.com. After today's presentation concludes, a complete recording will be available on 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'll now turn the call over to Greg.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Thanks, Adam. Good morning, everyone. Thanks for taking the time to join our call today. I'm extremely pleased with our strong Q2 results, where the team delivered solid margins and cash flows on $6.7 billion in revenue. When excluding approximately $250 million associated with the divested mobility business in the prior-year quarter, revenue increased 3% year on year.

Core operating income for the quarter came in at $334 million. Core operating margins came in at 5%. Net interest expense in Q2 came in at $61 million. On a GAAP basis, operating income was $245 million, and our GAAP diluted earnings per share was $1.06. Core diluted earnings per share was $1.94.

Turning now to our performance by segment in the quarter. Our Regulated Industries segment reported revenue of roughly $2.7 billion as guided. On a year-over-year basis, this represents a decrease of 8% due to expected weakness in our renewable energy and EV markets. Despite this, core operating margin for the segment increased year over year by 20 basis points to 4.8% based on favorable mix in the segment.

In the Intelligent Infrastructure segment, we saw revenue of $2.6 billion, up 18% year on year, above what we expected in December. This growth was primarily driven by strong demand in our AI-related cloud, data center infrastructure, and capital equipment markets. The core operating margin for the segment was 5.3%, a 110-basis-point improvement compared to our prior-year quarter.

In our Connected Living and Digital Commerce segment, revenue was $1.3 billion, down 13% year on year due to our Mobility divestiture. Excluding revenue associated with the divested Mobility business from the prior year, revenue growth for the segment was approximately 4%. This reflects strong year-on-year growth across our digital commerce and warehouse automation markets, which was partly offset by weaker demand in consumer-driven Connected Living products.

On a sequential basis, segment revenue was down 13%, which is consistent with the historical seasonality typically observed in the Connected Living sector following the holiday period. Core operating margins for the segment came in at 4.5% in Q2.

Next, I'll provide an update on our cash flow and balance sheet metrics for the end of Q2, starting with inventory. As anticipated, during the quarter, inventory days increased four days sequentially to 80 days, which reflects typical seasonality in our business. However, on a year-on-year basis, inventory days decreased by seven days.

Net of inventory deposits from our customers, inventory days were 61, a quarter-on-quarter increase of five days, which is slightly above our targeted range of 55 to 60 days. This was mainly due to timing within our Intelligent Infrastructure segment as we support strong growth. As we progress through the fiscal year, we anticipate that inventory days will normalize into our targeted range. In Q2, cash flow from operations for the quarter were solid, amounting to $334 million.

Net capital expenditures for the second quarter were $73 million. For the full year, we continue to expect net CapEx to be between 1.5% to 2% of revenue. As a result of the solid second-quarter performance and cash flow generation, adjusted free cash flow for the quarter came in at $261 million, bringing our year-to-date adjusted free cash flow to $487 million. With our strong first-half results, we now anticipate free cash flow for the year to exceed $1.2 billion.

We exited the second quarter with a healthy balance sheet, with debt to core EBITDA levels of approximately 1.4x times and cash balances of approximately $1.6 billion. In Q2, we repurchased 2.5 million shares. The quarter ended with $364 million remaining on our current $1 billion share repurchase authorization, which we expect to complete by the end of FY25.

Before I move on to guidance for the next quarter, I'd like to wrap up my remarks on Q2 by recognizing the Jabil team's strong execution this quarter. The team's effort have yielded strong results through the first half of FY25 despite a highly dynamic environment. The company continues to show remarkable resilience and is poised for future revenue growth, improved margins, and robust free cash flow generation.

With that, let's turn to the next slide for our Q3 FY25 guidance. Beginning with revenue by segment, we anticipate revenue for our regulated industries will be $3 billion, down approximately 1% year on year, reflecting appropriate caution in the EV market.

For our Intelligent Infrastructure segment, we expect revenue for the quarter to be $2.8 billion, up approximately 22% year over year on broad-based growth across our capital equipment, advanced networking, cloud, and data center infrastructure markets. This strength is expected to be slightly offset by lower demand in our 5G end market.

In our Connected Living and Digital Commerce segment, revenues are expected to be $1.2 billion. This is down 16% year over year, mainly due to weaker year-on-year demand in our Connected Living markets, offset slightly by continued growth across the digital commerce space.

Total company revenue for Q3 is expected to be in the range of $6.7 billion to $7.3 billion. Core operating income for Q3 is estimated to be in the range of $348 million to $408 million. GAAP operating income is expected to be in the range of $282 million to $352 million. Core diluted earnings per share is estimated to be in the range of $2.08 to $2.48. GAAP diluted earnings per share is expected to be in the range of $1.50 to $1.99.

Net interest expense in the third quarter is estimated to be approximately $61 million. For FY25, we now expect it will be in the range of $240 million to $245 million. Our core tax rate for Q3 and for the year is expected to be 21%.

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

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Thanks, Greg, and good morning to all those joining our call today. To begin, I'd like to take a moment to thank our incredible team here at Jabil for their commitment, dedication, and hard work in a particularly dynamic operating environment. As the world continues to evolve, so does this team, always striving to ensure Jabil solutions and our customer supply chains remain nimble, agile, and resilient. Thank you.

Speaking of nimble, agile, and resilient, next, I'd like to touch on a topic that remains top of mind for customers, shareholders, and employees alike: potential tariffs. Consistent with my comments in December, we place considerable value on maintaining a large-scale global manufacturing footprint.

And as the geopolitical situation continues to evolve, our ability to adapt, combined with our designation as a US-domiciled manufacturing service provider and our significant US footprint, is becoming increasingly important for our customers. And in my opinion, Jabil is among the best positioned companies in the world to help customers navigate these complexities.

As a reminder, while tariffs may impact end customer demand, any changes in tariff costs are a pass-through cost for Jabil. Since our last call in December, tariff expectations have broadened to now include China, Canada, and Mexico, along with reciprocal tariffs.

Addressing each of these, for starters, most of our business in China is predominantly local for local or local for regional, with a very small portion of our revenues generated from that region being US bound. We have extremely limited exposure to Canada. And in Mexico, 80% to 90% of our business today is USMCA compliant.

While implementation mechanics of reciprocal tariffs are unknown, I believe it does level the playing field for manufacturing, as hardware still needs to be built somewhere. Once again, I feel Jabil is well positioned to help customers navigate these complexities.

And finally, with 30 sites in the US, our manufacturing footprint here has never been bigger than it is today. And while I do feel there could be some challenges to overcome such as labor, our investments and experience in tried and tested automation lines and robotics will certainly help expedite any lift and shift transfers. I personally feel there is no company better positioned than us to grow manufacturing in the US.

Moving on to our results. As highlighted by Greg, our second-quarter results were quite strong, driven by better-than-expected growth in capital equipment, cloud and data center infrastructure, and digital commerce.

At the same time, healthcare, automotive, renewables, and Connected Living were all in line with our expectations from 90 days ago. As a result, the team delivered approximately $6.7 billion in revenue, 5% core margins, and $1.94 in core earnings per share, up $0.26 from Q2 of last year. As I review these results in context with our updated outlook for the balance of the year, a few things stand out to me.

First, our strong year-to-date results underscore the resilience and strength of our diversified portfolio where certain end markets like capital equipment and data center infrastructure continue to outperform, while some areas of our business like EVs and renewables continue to warrant caution.

We now believe our Intelligent Infrastructure business is well positioned to deliver 17% growth in FY25 on a reported basis and approximately 27%, excluding the legacy networking business we exited at the end of FY24. With this updated outlook, AI-associated business is now expected to represent approximately $7.5 billion in revenue this fiscal year, as demand for servers, racks, photonics, advanced networking gear, storage, and testing equipment all continue to climb higher during the quarter. This represents an approximate 40% year-on-year increase for AI-related revenue.

Contrary to market fears, the deployment of GPU integrated racks and liquid-cooled data centers continues to accelerate. Our strategy to lead with design architecture and engineering allows us to keep pace with the accelerated development cycles with higher yields at launch.

We can now transition from older compute architecture to GPU-led system-level design and hardware production at scale, which has been critical in establishing Jabil as a trusted partner for data center infrastructure build-outs. As we look to future growth in this space, I'm particularly excited about our expansion opportunity in India.

During the quarter, we announced our plans to expand in Gujarat to support our photonics capabilities. Over the longer term, we expect Jabil to play a significant role domestically in India, as the combination of domestic demand and infrastructure, young workforce, and a business-friendly environment continue to support the manufacturing of advanced technologies and products, including sovereign data center build-outs that are in very initial stages.

And secondly, digital commerce with our Connected Living and Digital Commerce segment is expected to increase by 14% in FY25, as the team continues to help several customers drive automation in retail and digital commerce, be it in the warehouse, in the aisle, or at checkout. And in healthcare, I would like to welcome the team from our exciting acquisition of US-based Pharmaceutics International, Inc.

This acquisition, completed in early February, allows us to better serve our pharmaceutical and healthcare customers in aseptic filling and dry oral dosage, which opens up a $20 billion addressable market by enhancing Jabil's existing pharmaceutical solutions offering, which includes the development and commercial production of auto-injectors, pen injectors, inhalers, and on-body pumps. With Pii's advanced capabilities and state-of-the-art manufacturing facilities, we're now in a stronger position to meet the growing demand for high-quality drug development and manufacturing in the US.

In other parts of our business, we continue to be prudent with our expectations for the year. In automotive, we continue to be cautious with the EV outlook for the year, while at the moment, we're not seeing much recovery in the renewable energy space outside of energy storage.

Putting it all together for the year on the next slide. We now anticipate approximately $27.9 billion in revenue, with core operating margins of 5.4%. Core earnings per share now are expected to be $8.95. And importantly, as Greg indicated earlier, we now expect free cash flow generation in FY25 of more than $1.2 billion.

In closing, I want to say thank you to the entire Jabil team for your dedication and to our investors for your continued trust and support. I will now turn the call back over to Adam.

Adam Berry - *Jabil Inc - Senior Vice President, Investor Relations & Communications*

Thanks, Mike. Before moving into Q&A, I'd like to take a quick moment and summarize our call today. We're closely monitoring all things associated with the potential tariff situation. As Mike highlighted, we are extremely well positioned as a US-domiciled manufacturing service provider supported by our global footprint and with a significant US manufacturing footprint.

And as Greg highlighted, the resilience of our diversified portfolio is evident. Certain end markets, such as capital equipment, data center infrastructure, and digital commerce continue to perform exceptionally well; while other end markets, including electric vehicles, renewables, and 5G warrant near-term caution. All of this has been considered in our raised outlook for fiscal '25.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ruplu Bhattacharya, Bank of America.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Hi, thank you for taking my questions. Mike, can you talk about your existing footprint in the US? You mentioned that several times. And your ability to support customers who want to move manufacturing, do you think such moves are possible? And would that make sense from a landed cost standpoint?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure, Ruplu. I think in my prepared remarks, I tried to address what we know today. We're obviously a US- domiciled manufacturing service provider. We're US headquartered. We've been in the US for 60 years. So we have a lot of experience, a lot of knowledge about the US.

Today, if you look at the number of sites we have, we have 30 sites in the US all over the place. And I think if you look at the expertise that we have, the knowledge, the experience, and all the capabilities that are required to move to the US, we have all of that.

Today, if you look at some of our end markets like healthcare, almost the entire segment in Intelligent Infrastructure is mainly US-based today as well. So we already have footprint which is generating a large part of our revenue stream. And I think the ability to move manufacturing is obviously based on end markets.

Some of the end markets are more price elastic, where prices can be passed on to customers. There are some which are not as price elastic. And that -- there will have to be a landed cost sort of determination in terms of what moves and what doesn't move.

I think the key takeaway here is we're here. We have 30 sites. If you go back and look at what we did last year, within six months -- we started from zero. We didn't even have a site. We started from zero, and we set it up, hired all the people, put all the equipment in, did all the infrastructure around the factory, and had it up and running in six months.

And that's the speed at which we can operate. Now it depends, obviously, on the end market, but it's highly doable. So we're actually looking forward to helping our customers if they want to shift to the US.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay. Thanks for the details there. Can I ask you about the cloud revenues? And you raised the guidance for that as well as for AI-related revenues.

Can you talk more about the opportunity with silicon photonics? And how do you see that market growing and your revenues growing? You mentioned Gujarat. Just elaborate on what you plan to build there and how do you see that market trending.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. So I think if you look at the AI piece -- I think you referenced that. Obviously, our Intelligent Infrastructure business is going up from previous outlook and considerably from last year. AI revenue, if you look at last year, where it was in the region of $5 billion, I think we took it up to $6 billion at one stage. Then we took it up to $6.5 billion. Now we're taking it up to $7.5 billion, which is quite a big deal.

If you go -- if you look at the year-on-year growth, that shows a 40% growth rate. So really happy with how we're progressing from AI revenue perspective. A lot of that today, to be fair, is coming from the data cloud infrastructure piece.

Silicon photonics, you talked about that. I think you're aware we made this acquisition from Intel that was about 18, 24 months ago. That gave us a capability. That gave us engineering. That gave us clean rooms. That gave us a whole bunch of capability to go out and build these photonics and transceivers -- transceiver modules. So it started off, today, we have 300 million to 400 million with hyperscaler. We're aggressively working with the new hyperscaler on increasing that.

And I had really good thoughts about silicon photonics. In fact, at OFC in a couple of weeks' time, we'll be showcasing 1.6T capability. Today, from the front end, the 100 to 400 seems to be more applicable. The 800 on the back end today, moving to 1.6T towards the end of this calendar year. So we're really well positioned from a silicon photonics perspective. And like I said, today, it's a smaller base, but the future outlook is really good on that one.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay. Thanks for all the details there. Maybe I'll sneak one more in. Just looking at the forecast, it looks like you tweaked down networking and healthcare forecast for fiscal '25. Just what should we read into that, if anything? Thank you so much.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. So I think that probably is just a slide. It's not on the switch. It's not on the gear. It's not on AI-related revenue. It's mainly on the 5G infrastructure side. There's a little bit of uncertainty today with the network providers as well. So that's what's causing some of the reduction from our outlook.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Thanks for all the details. Appreciate it.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Thanks, Ruplu.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - *J.P. Morgan Securities LLC - Analyst*

Hi, folks. Thanks for taking my question. Mike, it does seem like when I look at Intelligent Infrastructure, something changed materially for the positive this quarter. Because all through last year, you're doing about $2.2 billion, $2.3 billion revenue run rate per quarter. You extended that sequentially into $2.6 billion this quarter, and you're guiding to $2.8 billion. Also, you're raising the AI guidance by about $1 billion after raising it by $0.5 billion last quarter.

So it just seems like there's an increase in the confidence. And I'm just wondering if there was something noticeable that happened during the quarter in terms of either sort of more design wins or more visibility into ramps that is driving that confidence? And I have a quick follow-up after that. Thank you.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. So I think it's in two main areas. If you look at semi-cap that, not on the wafer fab, it works inside, more on the automated testing piece. That part of the business is doing really well with the sort of advent of custom chips that need to be tested, newer technologies coming through.

The testing requirements are just going through the roof there. So semi-cap, sort of outlook there. And then on the cloud data center infrastructure piece, I think that's -- I hear stories of it slowing down. It's not slowing down at all. It's actually gaining momentum at least as far as Jabil is concerned.

So those are two main areas. Obviously, some network and communication, the switch gear offset by some of the 5G infrastructure piece that I mentioned on the earlier call. So I think that whole Intelligent Infrastructure outlook, again, growth expectations in my books are very robust.

Samik Chatterjee - *J.P. Morgan Securities LLC - Analyst*

Okay. Got it. And then for my follow-up. On the margin, particularly on a segment basis, when I look at Connected Living and Digital Commerce, obviously, there's some headwind related to Mobility on the revenue side.

But when we look at margins, what's driving some of the weakness here? Obviously, there are probably some revenue leverage. But otherwise, how you're thinking about the road map in terms of improving the margin for that particular segment.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Yeah. So I think you hit the nail on the head there when you talked about Mobility. I -- that's why the year-on-year comp looks a little weird. We did have one month of Mobility in Q2 of last year, which sort of -- which skews the number a little bit. But overall, our margin structure is going reasonably well. We have seasonality.

If you remember in Q1, we outperformed on the Connected Living piece by quite a big number. And Q2 is only a slower quarter for us, having gone through the holiday season and a Q1 sort of quarter. So I think that's doing well. I think going forward, the CLDC piece -- the Digital Commerce piece is one I'm more excited about.

That's literally humanoids, automation, warehouse automation. We're looking at Digital Commerce, whether it's in the warehouse, whether it's in the aisle, on checkout. There's plenty of options there. And then this whole humanoid thing, very early sort of situation there, but has very high potential. And I'm not suggesting that comes in the next 6, 12 months. But eventually, over the medium to long term, that's another growth engine for us.

Samik Chatterjee - *J.P. Morgan Securities LLC - Analyst*

Great. Thank you. Thanks for taking my questions.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Yes, good morning. Thanks very much for taking my questions. Thanks for the comments you've provided so far on tariffs. I'm hoping you can expand a bit on that topic and help us better understand what you're seeing from customers currently in terms of how they may want to respond to tariffs and potential tariffs.

Are there a meaningful number of customers that have already started to work on plans to shift sourcing into the US or told you that's something they want to do? Or is it more that customers are working through scenario analysis and planning in the event that higher tariffs do go into effect?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

So let me just hit on what we've already covered in our prepared remarks. If you look at the current situation, as we know today, which is Canada, Mexico, and China, I think I addressed all three. The exposure there is minimal. The reciprocal tariffs, no one knows what the mechanics of that will be. It's supposed to be April 2. I don't know what the actual implementation dates would be and what it would involve.

But I think the opportunity -- I think you have to look at this holistically as well, Mark. You've got to -- we've been -- we're in all these countries. Reciprocal tariff, in my view, actually levels the manufacturing playing field quite a bit, which means that we can manufacture anywhere. And if you look at the capabilities and the expertise that we have, we're in 30 countries. We can use our local knowledge quite a bit to help our customers there.

So overall, the tariff situation, I see that as a net positive. Obviously, the uncertainty could lead to some level of demand reduction by the end customer. We're not seeing any of that today, but that could happen. But that's more a macro level issue than a Jabil issue. I do think the potential for moving to the US -- obviously, I mentioned earlier. It's very end market-focused.

I think if you look at healthcare, very difficult to move things around. We're already mainly in the US anyway. So healthcare is a lot more sort of price elastic impactful. The pricing is a little bit more tolerant of these movements or the tariff situation itself as well.

So we've got our Intelligent Infrastructure business here doing really, really well already in -- most of that is already in the US. And I think if you look at Digital Commerce, Connected Living, those are a little bit more price elastic, especially on the consumer side, consumer-related products. Those will be a little bit more difficult to move across from a pricing standpoint. So we'll have to wait and see how things progress.

But it's very early days, Mark. The reciprocal tariffs, don't know anything about that. And we've already addressed the three countries that we know of today. So I hope that answered your question.

Mark Delaney - *Goldman Sachs - Analyst*

No, that's helpful. And I understand there's a lot of moving parts here. I did want to make sure investors and we understand what is embedded into your fiscal '25 guidance with tariffs. Are you assuming tariffs on imports from Mexico and the reciprocal tariffs go into effect on April 2?

And then similarly, have you tried to bake in any revenue headwinds from potentially higher prices or even just some conservatism because of the uncertainty and perhaps, timing to move products around the world? Thank you.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

So let me again just address China, Mexico, and Canada. The China situation, we have very little exposure of products that eventually come to the US. So we're good on China. We have almost zero exposure in Canada.

And in Mexico, I think I referred to that in my prepared remarks, 80% to 90% of our business is USMCA compliant. A lot of it is done under the USMCA Free Trade Agreement. We don't know the details of reciprocal tariffs versus Mexico.

I know Mexico doesn't charge that big of a tariff on US products. So I'm not that worried about Mexico. I think overall, will volumes get impacted eventually? Yes. I don't think that happens in the next six months, Mark. I think this is a much longer-term sort of impact. There could be some level of pullback towards the holiday season, especially from the consumers' perspective.

We're not seeing any of that today. Until things get cleared, I think we're -- our assumptions right now are still very consistent. I think you asked whether we're being prudent, and I called that out a couple of times in my prepared remarks. We're being absolutely prudent for end markets that we're aware of, such as EVs, such as renewables, even some of the consumer piece.

Just long term, I'll keep repeating this, we're really well positioned, whether it's shifting to the US, whether it's shifting around globally. And I don't think there are that many companies that are actually better suited for this sort of uncertainty or to at least help our customers navigate these complexities.

Mark Delaney - *Goldman Sachs - Analyst*

That all makes sense. Mike, appreciate all your commentary on this topic, and congrats on the solid results and outlook. I'll pass it on.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Thank you, Mark.

Operator

David Vogt, UBS.

David Vogt - *UBS Equities - Analyst*

Great. Thanks, guys. I want to follow up on that, but not necessarily on the actual gross margin impact of tariffs, but on revenue. And maybe this is for Greg to start.

So Greg, I just want to make sure I understand sort of the year-over-year compares. I know you have the divestiture of Mobility last year, but you also exited some legacy networking businesses last year. Is that in sort of the commentary in terms of how you're thinking about the growth rates going forward?

Because I thought it was my understanding that in February of last year, you had a couple of hundred million from that business and a little bit similar number in May. So I'm trying to understand kind of the pro forma growth rate for Fed revs. I think you said 3%, but it suggests to me that it should be stronger than that. And then I have a follow-up.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, David, thanks for the question. If we take out that networking legacy business out, our quarter -- year-over-year growth would have been 8.5%. So we had about $300 million of revenue in Q2 of '24 on that. So again, when you look at that, the growth for Intelligent Infrastructure, which we reported 18% year over year would have been 37% year over year.

David Vogt - *UBS Equities - Analyst*

Got it. Okay. So then my follow-up to that is, so if I just take your guidance at face value for the year, I would imagine in Q4 of this fiscal year, you don't have a tough compare. And so what's implied by the guide, and maybe it goes back to Mike's point about being conservative, is that you have a fairly meaningful deceleration as we move through the summer months into the fall.

Is that a reflection of anything you're seeing from a demand perspective to date or tariff potential impact or just prudence given sort of the uncertain macro? Maybe just kind of help flesh that out, that would be great. Thank you.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, absolutely. It's all about being prudent given where we are today. So we're just being cautious on the guidance.

David Vogt - *UBS Equities - Analyst*

Got it. And then I would imagine that is -- is that prudence in cloud and data center, auto EVs, or across the board? I'm just trying to get a sense for where you feel the most caution is warranted, given the strong demand that you're seeing in semi-cap and cloud and data center.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah. It's a broad stroke across all end markets, David.

David Vogt - *UBS Equities - Analyst*

Great. Thanks, guys.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Sure.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors LLC - Analyst*

Hi, good morning. I had two questions, if I could. First of all, I was wondering if you could expand on the comment, Mike, that you made about GPU racks and liquid cooling continuing to accelerate. And it seems like you were tying it into your ability to deliver higher yields at launch of new racks.

But I was wondering, what does that exactly mean that you're doing and why you're benchmarking, I guess, supposedly better against competition? And then I had a follow-up.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Hey, Steve. So my comments on improving yields at launch were more related to our design architecture, the engineering piece, the capability that we have today, where the handshake between the hyperscaler and us, as far as it relates to data center build-outs, that's what drives improved yields at launch.

The reference to -- obviously, servers and racks are doing really well. The GPU-related piece is obviously a big catalyst for that. The liquid cooling, the acquisition that we made last year is actually going really well. It's opening up so many doors for us in terms of vertical solutions, in terms of individual customized solutions that we can do.

And by the way, none of that is even in our forecast. We're still in conversations. It's actually going really well. I'm extremely pleased with that liquid cooling acquisition that we've done. And the potential for future growth, again, that was the reason we bought it.

We didn't buy it with revenue. We didn't buy it with a whole bunch of incremental revenue that came with it. It was more a capability that we were selling as a vertical and customized solution. So I think I hope that again answers your question.

Steven Fox - *Fox Advisors LLC - Analyst*

Yeah, that's really interesting. I appreciate that color. And then on the flip side, the Auto and Transport segment, it's still a bit of a melting ice cube for you guys in terms of your forecast.

And I was wondering how confident are you that you have a good handle on what EV production could be like for the second half of the year, and whether you have any offsets within that segment around like new programs or new content, et cetera? Thanks.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Yeah. So I think there are definitely puts and takes in that line item we have. And again, we're being a lot more prudent here. We're not seeing that much of a reduction, but we're taking it upon ourselves to be prudent. We're derating some of the forecast. Some of the forecast reductions are being offset by our Chinese OEM, where the China EV market is really doing really well.

So I think there's puts and takes. We have some of the power stuff with our largest customer in that end market as well, doing really well. So there's a whole bunch of puts and takes. If you -- if we didn't have these puts and takes, you'd be seeing a bigger reduction. I wouldn't characterize it as a melting ice cube. I think it's us being prudent, which is more applicable here.

Steven Fox - *Fox Advisors LLC - Analyst*

Great. Appreciate that color. Thank you.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Thank you.

Operator

George Wang, Barclays.

George Wang - *Barclays - Analyst*

(inaudible) congrats on the quarter and the guidance. And thanks for taking my questions; I have a couple. I'd be remiss not to ask about CPO, especially following the GTC -- NVIDIA unveiled CPO.

Just curious, I thought Jabil could be beneficiary on the CPO assembly, just based on leverage your optics assets. Can you kind of give more color in terms of how Jabil could be positioned to take advantage of the CIPO-based CPU assembly?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Yes, of course. I think we are well positioned. If you look at -- I think at GTC, the comments were more around switching gear, not so much on the GPU side. And again, that's where our capability is on the switching gear side and where we have development lines going on CPO.

Obviously, we have silicon photonics [clued on]. We do -- we are using Intel fix where the laser is embedded on the chip, which actually is a benefit today, particularly in light of the laser shortages that we're seeing.

So really well positioned for CPO. It's not as big a number today as you'd imagine. It's still in development phase, not just for Jabil, but for other companies as well. I think in the next one or two years, it starts going up and it probably starts exploding a little bit more towards '28. But the growth potential is definitely there. The capability is also there in Jabil.

George Wang - *Barclays - Analyst*

Great. Just a quick follow-up in terms of the transceiver. Three months ago, you guys talked about in discussion, in call with the three hyperscalers for 800G now and the 1.6T towards the year-end. Just curious if there's any progress or development in that front? Or are you guys making incremental progress you can report here?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Yes, there has been progress. I think we're doing really well with one of the hyperscalers. We're quoting for the others. I think, again, I'll mention again, I mentioned before, that at OFC, we'll be showcasing our 1.6T capability. That will be another sort of data point for us.

I do think that entire silicon photonics market is about to take off considerably for us. And there's not many companies that are as well positioned as we are, particularly in light of the Intel acquisition that we made and the capabilities that we have today. But yes, so the photonics is going, in my view, quite well.

George Wang - *Barclays - Analyst*

Great. I just want to squeeze in one more quickly, if I can. Just kind of glad to see you guys raised the guidance by $800 million around the server rack. Was it likely driven by your biggest hyperscale customer? Just curious about timing for the ramp.

Earlier, you guys talked about it will be more FY26 in terms of the ramp, with the sort of custom rack with your biggest customer in the DCI side. Just curious if there's any pull in into the back half of FY25, kind of evidenced by the strong growth in the segment and the kind of guidance you raised. Just curious if you have any refreshed thoughts in terms of nuance just on the cadence for the ramp.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Sure. So I think the increase is driven mainly in two parts. I think if you look at our market share, we are growing our market share. So there's definitely some level of consolidation going on there, and we're winning more than our fair share of the market.

And then the end market growth, again, that -- we're not seeing any slowdown there in the end market. That continues to move upward. I think if you look at -- it's not just in the US. There's areas, other parts of the world where sovereign data centers are just in very early stages. So plenty of legroom for that entire piece, George.

George Wang - *Barclays - Analyst*

Great. Thank you. Congrats again.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Thank you.

Operator

Melissa Fairbanks, Raymond James.

Melissa Fairbanks - *Raymond James - Analyst*

Hey, guys. Thanks so much. So I had a question about some of the supply chain dynamics. I appreciate all of the detail that you gave us about your expectations for tariffs. I'm not sure if Frank is in the room. If he is, he might be able to address this.

But I was wondering if there's been any change in the way your customers are thinking about procuring components. Your manufacturing footprint is what it is, and we know that it's very strong. But either customers pulling in from future demand or managing how or where they expect you to source materials from, has there been any change in behavior there?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

There's definitely been conversations, Melissa. So there's no point moving manufacturing around if the supply chain still (technical difficulty) in one country, yeah. So you're absolutely right. I think the conversations around supply chains being more localized, being more regionalized, I think, is ongoing.

We haven't seen any major changes. That -- if you're going to lift and move an entire supply chain from one part of the world to another part of, that's going to take multiple quarters. That's not going to be an overnight task. So I think it's definitely something we are talking about. We're definitely looking into areas and pockets of movement on the supply chain.

But you're right. The whole supply chain, manufacturing tariffs, all that doesn't make sense unless supply chain moves with it. So we're in active discussions on all of those. But I haven't seen any major moves which have been completed yet.

Melissa Fairbanks - *Raymond James - Analyst*

Okay. Great. Thanks. And then maybe just one quick follow-up. You've talked about some of the M&A that you've done recently. Some of it has been very successful, obviously, with the silicon photonics and the liquid cooling.

Are there any other capabilities that you're looking at that maybe customers are coming to you and saying, hey, we don't want to do this anymore or hey, we see this is where our road map is going, and we need you to be able to do this? Are there any pockets there where you see opportunities?

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

So today -- I think I'm glad you mentioned Mikros. You mentioned other acquisitions. But the one -- the pharmaceutical one that we just did, that's paying good dividends as well. We're getting a lot of interest from pharmaceutical companies on potential dry dosage drugs, aseptic filling.

We have 175,000 square feet that came with this acquisition in the US. And that -- the level of interest actually far exceeds what we expected. I think the whole GLP-1s, the alternatives, all of that, the team that we have there of 300 people, there's a lot of interest in that.

From a further acquisition, Melissa, yeah, we're on -- look, we're on road maps of all the large companies, trillions of dollars of market cap there. We know what technologies are coming. We continue to make appropriate sort of acquisitions. There's nothing I can tell you where we're going to do this tomorrow or do that tomorrow.

We're constantly looking, and we're actually actively working a few of those as we speak. And that's been part of our [MO]. If you go back over the last 10, 15 years, we haven't made big acquisitions. We've made tuck-in acquisitions, capability-driven acquisitions, where we go and identify a gap in our capability and go and fill that.

And this whole pharmaceutical acquisition is a great example of that. We identified that gap. We identified the total available market that could potentially open up for us, and that's what we went in it. And that will be the [MO]. No change there. And I'm -- again, good thoughts in terms of future acquisitions there.

Melissa Fairbanks - *Raymond James - Analyst*

Excellent. Great. That's it for me, guys. Thanks.

Michael Dastoor - *Jabil Inc - Chief Executive Officer*

Thanks, Melissa.

Operator

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

Adam Berry - *Jabil Inc - Senior Vice President, Investor Relations & Communications*

Thank you very much for your time. This now concludes our call. Have a great day.

Operator

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