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JBL.N - Q1 2025 Jabil Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings, and welcome to the Jabil first quarter fiscal year 2025 earnings conference call and webcast. (Operator Instructions)

It's now my pleasure to introduce your host, Adam Berry, Senior Vice President, IR and Communications. Adam, please go ahead.

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

Good morning, and welcome to Jabil's first quarter fiscal year 2025 earnings call. My name is Adam Berry, and I'm Senior Vice President of Investor Relations and Communications. Joining me on today's call are Chief Financial Officer, Greg Hebard and Chief Executive Officer, Mike Dastoor. We're happy to be joining you today from St. Petersburg, Florida.

As a reminder, we conducted our September earnings call hours before Hurricane Helene made landfall in the Tampa Bay area, followed by Milton thereafter. Although these storms caused significant damage to the Southeast, our two sites in St. Petersburg, Florida and our two sites in North Carolina were all operational within 10 days. The tireless efforts of our employees to get these sites back up running considering many of them experienced damage to our own homes and communities was incredible. Thank you to all those that helped.

With that, 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 the 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 that the 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 turn the call over to Greg.

Gregory Hebard - *Jabil Inc. - Chief Financial Officer*

Thank you, Adam. Good morning, everyone. Thanks for taking the time to join our call today. I'm pleased to report that we're off to a solid start for FY25 with Q1 revenue coming in at $7 billion, up 1% year-on-year excluding the approximately $1.45 billion associated with the Mobility divestiture in the prior year quarter. Core operating income for the quarter came in at $347 million.

Core operating margins came in at 5% in spite of a roughly 10 to 20 basis points of hurricane-related impact. Net interest expense in Q1 came in better than anticipated at $60 million, reflecting continued good working capital management by the team. On a GAAP basis, operating income was $197 million, and our GAAP diluted earnings per share was $0.88. Core diluted earnings per share was $2. Turning now to our performance by segment in the quarter.

Our Regulated Industries segment reported revenue of roughly $3 billion, down 7% year-on-year due to continued weakness in our renewable energy and EV markets. Despite this, core operating margins for the segment increased by 10 basis points to 4.7%. In the Intelligent Infrastructure segment, we saw revenue of $2.5 billion, up 5% year-on-year. 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 4.8%, a 10 basis point improvement compared to the prior year quarter.

In our Connected Living and Digital Commerce segment, revenues were $1.5 billion, down 46% year-on-year due to our mobility divestiture. Excluding the Mobility divestiture from the prior year, revenue growth for this segment was approximately 12%, reflecting strong year-on-year growth across our digital commerce and warehouse automation markets. Core operating margins for the segment came in at 5.8% in Q1.

Shifting gears to our cash flow and balance sheet metrics where we continue to see robust results. Inventory at the end of Q1 was flat sequentially at [56] days. After adjusting for inventory deposits, net inventory days were 56, a 2-day increase quarter-over-quarter, but as expected and within our long-term target range of 55 to 60 days. Thanks to disciplined working capital management by the team, our first quarter cash flow from operations were very strong, coming in at $312 million.

Net capital expenditures for the first quarter were $86 million. And 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 first quarter performance in cash flow generation, adjusted free cash flow for the quarter came in at $226 million. We continue to expect strong free cash flow for the year to come at $1.2 billion. We exited the first quarter with a healthy balance sheet with debt to core EBITDA levels of approximately 1.4 times and cash balances of approximately $2.1 billion. In Q1, we repurchased 1.8 million shares for $232 million. We have $768 million remaining on our current $1 billion share repurchase authorization as of the end of Q1. We remain fully committed to completing the current share repurchase authorization by the end of FY25.

Before I discuss the next quarter guidance, I would like to conclude my remarks on Q1 by acknowledging the Jabil team's strong execution this quarter which delivered solid results to start FY25 amid a highly dynamic environment. The company continues to demonstrate high resilience and is well positioned for future revenue growth, margin enhancement and robust free cash flow generation. With that, let's turn to the slide for our Q2 FY25 guidance.

Beginning with revenue by segment. We anticipate revenue for our regulated industry will be $2.7 billion, down 8% year-on-year, reflecting continued softness in the renewable energy and EV markets. For our Intelligent Infrastructure segment, we expect revenue for the quarter to be $2.4 billion, up 8% year-over-year, reflecting broad-based growth across capital equipment, advanced networking, cloud and data center infrastructure markets.

In our Connected Living and Digital Commerce segment, revenues are expected to be $1.2 billion. This is down 20% year-over-year, mainly due to our mobility divestiture. Total company revenue for Q2 is expected to be in the range of $6.1 billion to $6.7 billion. Core operating income for Q2 is estimated to be in the range of $286 million to $346 million. GAAP operating income is expected to be in the range of $183 million to $263 million. Core diluted earnings per share is estimated to be in the range of $1.60 to $2. GAAP diluted earnings per share is expected to be in the range of $0.69 to $1.27. Net interest expense in the second quarter is estimated to be approximately $60 million. And for FY25, we now expect it will be $235 million, down from what we thought in September. Our core tax rate for Q2 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 to dive deeper into our strategic growth areas and the exciting opportunities ahead.

Mike Dastoor *- Jabil Inc. - Chief Executive Officer*

Thanks, Greg. Good morning, and thank you for joining our call today. As Greg just highlighted, our first fiscal quarter results came in stronger than we had anticipated, driven mainly by incremental strength in our Intelligent Infrastructure segment. As a result, the team was able to deliver strong core EPS, margins and cash flows during the quarter. Furthermore, we distributed the majority of the generated free cash flow to shareholders by dividend and buyback programs.

To summarize, I'm extremely pleased with these financial results and the positive trajectory of our year. As a management team, we are collectively working together to deliver strong core operating margin expansion and consistent free cash flow growth, which will allow us to continue to invest in the business and return capital to shareholders. In a few moments, I'll provide some details regarding our updated outlook for the balance of the year.

But before I jump into those details, I want to take a moment to thank the global team here at Jabil for their commitment, dedication and hard work in a highly dynamic operating environment. As the world continues to evolve, this team is working hard to ensure Jabil remains nimble, agile and resilient for many years to come. For instance, during the quarter, our team opened a large-scale manufacturing site in Croatia, which currently supports a European-based automotive OEM.

And beginning in FY27, the site will also support our healthcare customers, specifically in the GLP-1 drug delivery space as demand continues to exceed supply. The team also relocated and ramp multiple existing programs (inaudible) as many of our customers continue to seek a broader geographic manufacturing solution. We added to our capabilities during the quarter to through the acquisition of Mikros Technologies, a leader in engineering liquid cool solutions. These capabilities will support our future growth in verticals in both the data center ecosystem and other end markets that require thermal management like automated test equipment for semiconductors, batteries, energy storage systems and electric vehicles.

And all the while, our team was benching through major hurricanes in St. Pete, Aspell and Hendersonville, I would like to take this opportunity for a quick shout out to our teams for not only taking care of each other, but also taking care of our communities during this trying time. The Jabil culture was truly on display. I'd now like to shift our focus to fiscal year 2025 and our outlook by both end market and segment.

I'll begin with regulated market segment where we anticipate continued year-over-year weakness in automotive and transportation, driven by lower global sales of electric vehicles. Over the longer term, we feel comfortable that our automotive and transportation business will improve as our technology agnostic capabilities position us to capture growth in both EV and hybrid vehicle solutions. In healthcare and packaging, as we previously anticipated, we continue to execute on our pipeline of new wins, including the launch of GLP-1 auto-injectors and continuous glucose monitors.

As a reminder, due to the long qualification cycles in healthcare, it often takes 18 to 24 months to ramp these programs. However, once these programs are ramped, they generally enjoy very long product life cycles and multiyear stable returns. Renewables and energy infrastructure, the energy infrastructure space continues to do well with solid growth in battery power management. This growth is largely offset by previously indicated weakness in renewable applications primarily focused on solar. Throughout the solar downturn, we've worked hard to better position ourselves as we wait for a recovery in the end market. This includes share gains with key customers and operating cost reductions. In the near term, renewals continue to weigh on segment core operating margins.

Turning to Intelligent Infrastructure segment, which is driving the majority of our growth in FY25. In capital equipment, the rise of AI is driving demand for semiconductor fabrication and test equipment, which we expect to continue throughout FY25 and beyond. In addition, in the data center space, we continue to deepen our existing relationship with our largest hyperscaler with continued strength in their custom AI-driven GPU rack integration business. As we had previously indicated, we've also won programs with a new hyperscaler in the silicon photonics side of our business. Over the longer term, we anticipate that our capability investment in liquid cool systems will allow us to participate in solutions that address the immense power and thermal demands of AI service.

Year-on-year, we now expect the Intelligent Infrastructure segment to be up by approximately $1.5 billion after adjusting for the exit of legacy networking businesses last fiscal year. Our Connected Living and Digital Commerce segment has two distinct aspects: Connected Living, which largely focuses on consumer-oriented devices remains under pressure while at the same time, we remain bullish on our digital commerce business, which is being driven higher by the automation of the retail and warehouse experience.

Now let's discuss our global network of factories, which we believe is a significant competitive advantage. Consistent with my comments in September, we placed 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.

Next, even though it's very early days, I would like to spend a couple of minutes on the topic that has received considerable attention over the past few weeks, potential tariff implications. Here is what we can share as of today. As a reminder, while tariffs impact end customer demand, any changes in tariff costs have historically been largely a pass-through cost for Jabil. For starters, most of our business in China is predominantly local to local [or] local or regional with a very small portion of our revenues generated from that region being US bound.

Secondly, Mexico, our footprint has evolved over the past eight years as bringing of our customers' manufacturing solutions that were closer to the final customer. We remain well prepared due to proximity and corporate resources for any reverse lift and shift of operations from Mexico to the US. Third, our manufacturing footprint has never been bigger than it is today. And while I do feel there will 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 transfers.

I personally feel there is no company better positioned than us to grow manufacturing in the US. Of course, we'll have to see how all this plays out over the next several years. But right now, I see our large-scale manufacturing footprint as a major competitive advantage. Shifting now to full year guidance. I'd now like to take a moment and explain why we expect higher earnings and margins in the back half of the fiscal year as reflected in our Q2 and full year guidance.

This is mainly due to the following drivers: First, as a reminder, our mobility divestiture last year makes the historical seasonality more pronounced. And then the ongoing programs in the first half of the year in cloud data center infrastructure and warehouse automation have weighed on core operating margins. Additionally, the anticipated continued recovery of our relatively higher-margin semi capital equipment business will contribute to higher earnings in the second half. And lastly, our cost optimization initiatives, which we discussed during our last call, will also deliver improvements in margins and operational efficiency as the year progresses.

For all these reasons, we anticipate stronger earnings and margins in the second half of the year. Putting it all together for the coming year, we now anticipate approximately $27.3 billion in revenue with core operating margins of 5.4%. Core earnings per share now are expected to be $8.70 Importantly, we continue to foresee another robust year of free cash flow generation in FY25 of $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 would like to wish everyone a safe, happy and prosperous new year.

I will now turn the call back over to Adam.

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

Thanks, Mike. That concludes our prepared comments. 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*

Congrats on the quarter. Can you talk about the relative margins of each segment and what we should expect for fiscal '25, so for regulated industries and Intelligent Infrastructure and Connected Living. How do you -- how should we think about margin recovery in each of these segments, which segment has the most upside to margins?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Thanks, Ruplu. So I think from -- for the three different segments, I would expect margins to be north of 5% for three of them. Right now, we're seeing some level of underutilization of capacity on our EV side and on the renewable side, which is a little bit of a drag, but that means the opportunity for increased margins going forward once these end markets recover a little bit is much higher there. I do see our intelligent infrastructure is above 5% as well. I think that's where -- we see the biggest level of growth over the next few years as well. So doing relatively well on that whole piece with capital equipment. Obviously, we're expecting a bit of a recovery in the second half of the year, which is still very much in play today, and our margins, as you're aware, there is slightly higher than our other end markets.

From a Connected Living perspective, look, that's mainly all consumer-driven. There's a high level of seasonality, especially with (inaudible), doing really well on the consumer side. As always, I think the digital commerce piece is a bit that's driving the future. That will be high margin. It's new product lines, new technologies, new design engineering capabilities in their high-tech high-tech sort of stuff going on in the market. And I feel really good about that having double-digit growth rates, albeit from a lower base. But the opportunities are there in all three segments today.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay. Mike, has your expectation for AI-related revenues changed? I think you had guided $6 billion last time for AI revenues in fiscal '25. But since cloud is doing well, do you think your revenues can -- related to AI can be higher -- and can you talk about some of the new opportunities you have in this segment going forward?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Sure. So I do think -- I think last time we said it was $5 billion to $6 billion -- we did increase that to $6.5 billion. So we -- all $500 million of that increase is in the AI space about -- about $100 million of that is being driven by semi cap. We already had a recovery baked in semi cap so $100 million there. And I reckon about $400 million is on data cloud infrastructure piece where we seem to be doing really well with our largest hyperscaler. We've actually deepened our relationship there. So again, the AI piece is the one that's going to drive a lot of our future growth, $1.5 billion year-on-year, is a big number on that $5 billion base from last year. So that's a 30% growth rate right there.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay. Got it. And maybe the last one for me. Can you talk about your capital allocation plans. How should we think about the cadence of buybacks you did -- can you talk a little bit more about the acquisition you talked about what is the revenue contribution from that? And what is your focus on further M&A in this year?

Gregory Hebard - *Jabil Inc. - Chief Financial Officer*

Ruplu, this is Greg. I'll take the first part of that question. So from a capital allocation perspective, we're still going with the approach of 80% of our free cash flow going to share buybacks. We are committed to completing our $1 billion share authorization in FY25 I would say from a buyback perspective, we'll be weighted a little bit more heavily in the first half versus the second half with the execution of that. But again, we feel Share buybacks is a really good use of cash for Jabil as we continue to feel our shares are undervalued and still have a guidance of [1.10 to 1.12] on the (inaudible) for the year.

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

And then on the acquisition piece, Ruplu, I think you're referring to the Mikros liquid cooling acquisition that we did. It was all around core thermal engineering, collate manufacturing capabilities. There's a whole bunch of engineers. We've been designing coal plates for a very, very long time. We're really excited to have that team join Jabil, the revenues that we've acquired are relatively small. It's not -- we did not acquire it for revenue -- direct revenue, I should say. It was the engineering capability -- this opens up a complete vertical solution for us for hyperscalers or other cloud solutions and the whole data center infrastructure piece as well. The opportunity here is huge. Right now, I would temper the revenues a little bit as a -- from a direct acquisition perspective. But over the next few years, as we expand vertically in that segment, I think we'll see the benefits of the acquisition for sure.

Operator

Matt Sheerin, Stifel.

Matt Sheerin - *Stifel Nicolaus and Company, Incorporated - Analyst*

Mike, I wanted to just follow up on your comments regarding the hyperscale customers. Could you mention that you're deepening your relationship with your largest customer. Could you elaborate, does that mean your just winning more business? Or are you doing other things for that customer? And then in terms of that second hyperscale customer that you announced on the photonics side, could you give us the potential size of that opportunity?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Sure. So I think our current customer that I referred to, yes, we're winning new business. We've been working with them for a very long time. There's a very good relationship. It's a very good sort of performance that we've sort of performed for that customer. So definitely good growth potential there.

As it relates to the second hyperscaler, that was more in the silicon photonic piece, not on the data cloud infrastructure side. It's mainly [100,200, 400] G right now that we're working on. We're actually looking at sort of quoting [800] in the first half of '25. And then [1.60 G] as we get into '25 or towards end about '25. And if you recall, we made this acquisition from Intel. I think it was last year, we're seeing the benefits of that acquisition. It's always been our play. We go out and acquire capability. That's what we did with this one as well. And I'm glad to see that it's actually being really good dividends based on what we paid for it.

Matt Sheerin - *Stifel Nicolaus and Company, Incorporated - Analyst*

And as part of the strategy, with that new customer, for instance, to cross-sell the systems integration skill sets that you have and as you look at other hyperscale customers as well?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Yes. I think the -- if you think of it as an ecosystem, one of the things we've always done with our intelligent infrastructure strategy, we're not product-based. We don't go in and try and double down on product or just focus on single products. We're providing an engineering design architecture sort of platform, then we codesigned with our customers. We integrate all sorts of vertical solutions. So it's not just [reconcile] sort of business, there's a very high level of complexity in engineering linked to that.

Matt Sheerin - *Stifel Nicolaus and Company, Incorporated - Analyst*

Okay. And then for my second question, regarding the inventory, you've done a very good job of bringing down inventory improving cash flows. It looks like you're guiding sort of flattish inventory. How should we expect the back half given that you're going to have higher revenue growth in the back half of fiscal '25?

Gregory Hebard - *Jabil Inc. - Chief Financial Officer*

Yes. This is Greg. On inventory, again, there's some cyclicality during the year of , but we still feel the range on our net inventory number will be between in 55 and 60 days. And in the back half, we would say that would be in the lower part of that range. So we still feel confident we're able to manage inventory to those levels.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors LLC - Analyst*

A couple of questions for me. First of all, Mike, can you talk a little bit more about the US footprint from two perspectives. One, you mentioned that you moved some more programs into the US in the quarter. Can you give us a little bit color on what was moved in. And then looking ahead, how do we think about just your ability to meet, say, urgent needs to move production into the US, say, over the next six to nine months versus your willingness to sort of add capacity as we see some changes in tariffs? And then I had a follow-up.

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Sure. So the movements in the US, the ramps that we've had here are mainly in the battery, our management piece. We've actually had some businesses ramp even on the data cloud infrastructure side. Look, we've always -- if you look at the sites that we've grown over the last few years. I think I mentioned in my last call, the number of sites that we have in the US now is 30, 3-0. That's a big number. So we're constantly moving our business across -- that's our model. We move -- we moved manufacturing to wherever the customer wants to go. And there does seem to be more interest in the US today, which we're happy to deliver.

I think we're really, really well positioned. If you think of our geography, you think of the locations that we have, you think of the knowledge that we have, you think of all the people local expertise, et cetera. I think we're well positioned for any sort of move. And I think that's the point I was trying to bring to the table in my prepared remarks. I think this is -- this is a really good opportunity for a company like Jabil as customers and even noncustomers so potential customers will need help -- and that's our model right now. So I think we'll be in a good position to help.

Can you repeat your second question, Steve?

Steven Fox - *Fox Advisors LLC - Analyst*

I'm just wondering sort of like how capacity is currently to meet some of these needs in the near term versus maybe you have to start considering expansions at some of your sites and when that would happen?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Yes. So I think expansion -- so one of the things we try and do is most of our factories have land where we have first right of refusal on the adjacent pieces of land. So we can do that. I'll tell you one thing. We opened up a factory in St. Petersburg. I think it was in a record time. It was in less than six months. We went down hired a whole bunch of people set up the factory clause. So we have the expertise. We have the knowledge. We have the capabilities. we have that experience. Manufacturing is our core. So happy to set anything up for one. Today, the capacity -- we have some level of surplus capacity, but it's not huge. So there will be there will be some pockets of expansion if it comes down to.

Steven Fox - *Fox Advisors LLC - Analyst*

Great. That's helpful. And then on the cloud piece, you covered a lot of the details already, but I was just curious specifically as your largest cloud customer moves to a new silicon, like what does that mean for Jabil in general as we see these advanced silicon to roll out? Is that helping your business neutral? What are the general impacts?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Yes, Steve. So it's early days. But I do think it will be a driver of growth, a driver of new business. I think it's -- I think that the custom ship will drive new revenues for Jabil, I can't sort of put my finger on what exactly that means for revenue. We'll provide more color as we move forward through FY25. For now, we've given our best estimate for FY25. I don't think FY25 is going to change that much. We might have a little bit low growth rate in FY26. And then beyond I do think there's a helpful opportunity to expand that relationship further.

Operator

(Operator Instructions) Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

I guess first to follow up on the tariff discussion. Can you give us a better sense of how costs compare in the US relative to Mexico, maybe, for example, fully loaded labor costs in the US versus Mexico. And as you're engaged with customers and their thinking through potentially having to move some of their capacity. Do you think the cost is something that they can get -- that they would be able to overcome? Or would they more generally just look to absorb tariffs and maybe keep their business in Mexico when they think about some of the cost differential.

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Thanks, Mark. The end markets that we're in. I think we need to sort of look at each end market specifically. There are certain end markets which are more price elastic than others, easier to pass on easier to pass on sort of cost increases there. Obviously, if you move from Mexico to the US, the costs will be higher. The question is how much of that -- is it going to be more than tariffs? Can it be passed on? Can be absorbed by our customers? I'll reiterate, Jabil, this is a pass-through cost for us. It's not something that we that we observe. If you actually look back from a historical perspective, we've almost doubled our revenues ex the mobility divestiture.

So it's the last time this administration took office. So I see this as a big positive. I'm not suggesting we grew because of it. But we've grown quite a bit, so it's a huge positive. I think the whole US domicile corporation piece, the capabilities that we have across the different end markets. But above all, when you're moving when you're moving manufacturing, automation, robotics, typically a big part, AI, ML that we use across our sites play a huge part in all those decisions. So I think from an automation and robotic standpoint, we're really well positioned to move business across.

Mark Delaney - *Goldman Sachs - Analyst*

My other question is just trying to better conceptualize how you're seeing the business for the full year relative to your prior outlook. Company [B] earnings relative to its guidance in 1Q by $0.15, you took up the full year EPS guidance by $0.10. So it does imply, at least just from the basic math that there's slightly lower expectation for earnings for the next three quarters relative to what you've previously been expecting. Are you actually seeing any meaningful change over the next three quarters in the business environment? Or is that just putting too fine a point on the old versus new EPS guidance?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

So yes, I think it's puts and takes. the piece that we're most excited about is the data cloud infrastructure, we took that up. I think if you look at some of the other end markets, we adjusted our automotive down a little bit post election, there's uncertainty, especially on the EV side as we transition from EVs to hybrids, that comes back. So we have definitely -- we have the capabilities to help companies navigate this transition from EV to hybrid, maybe hybrids come back to EVs. -- we'll be right in the middle of it.

But for FY25, which is being a little bit more prudent. Renewables is another one. I think if you look at some of the solar players, I think we're just being a little bit more cautious, particularly post election. So I think it's a series of puts and takes, Marine overall, we're trying to be as prudent as we can on our forward-looking guidance.

Operator

George Wang, Barclays.

George Wang - *Barclays - Analyst*

Congrats on the quarter strong results. I have two quick ones. Firstly, I just want to double-click on the semi cap equipment Obviously, you guys did up the guidance for share implying 25% growth year-over-year. And can you kind of pass out ATE versus WFE? It seems that AE should still have a relatively better performance this year. And how about any update on the WFE? Are you guys still expecting modest recovery this year?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Yes. So on the WFE, I think the related business continues to be strong. Other parts of the WFE and EVs, Autos, [Zuber] all that is weak as everyone knows there's a little bit of a geographic spread as well with Chinese players. So dominating that piece. For us, the biggest driver of growth is on the automated test equipment side, that is much, much stronger. I think you're seeing a whole bunch of newly fabricated silicon chips out there, more and more customization and people need the testing, hyperscalers need testing.

There's a whole bunch of nuances to the automated testing piece, which is good for us. If you look at some of the scale we're looking at first, it was the shift to [3NM]. Now it's [3NM] going to [2NM]. All that requires additional testing. So I can actually see our shift in this sole capital equipment market shifting from, let's say, roughly 55% ATE to a much larger percentage as well going forward.

George Wang - *Barclays - Analyst*

Okay. Great. Just a quick follow-up on the Sif transceiver business. Obviously, you guys are gaining share heading to [800G, 1.60] potentially. And just concerning kind of the next-generation design, potentially beyond the transceiver, you guys alluded to some sharing in the medium term, just because of silicon photonics on the -- eventually go to CPO, maybe in the intermediate term, you have [LPOLL]. Can you talk about some of the upside for Jabil let silicon photonics design kind of lead to further share gains just as we sort had not beyond the [plugables].

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

So I think the silicon photonics piece started with our acquisition from Intel last year. So it was a very small base. We've actually done a great job in taking it out today. It's in that $300 million, $400 million range. We do expect with the engineering capabilities that we acquired with that acquisition, the design engineers, the capacity, the experience. We expect to sort of try and get that out to a lot more customers. Obviously, this whole front end, back end on the switch gear piece might have slightly different requirements, but the 100, 200, 400 is what we're what we're doing today, for sure, need [100] is catching up next year. And we'll -- we're already looking at the [1.60]. So that could be an exciting piece where we see some level of growth over the next few years. But I do want to caution, it's not a big base to start with. So I think it will be baby steps on that one.

Operator

Melissa Fairbanks, Raymond James.

Melissa Fairbanks - *Raymond James - Analyst*

I'm not sure if Steve Borges is in the room. If not, I'll just put this out to the team. I wanted to see if we could go into a little more color on what you're seeing in auto and transport over the past earnings cycle, most recent earnings cycle. We've heard of some improvement in the China EV market from across the supply chain. It's also my understanding, you have some new programs coming in transport, like with buses I'm just wondering about some of the moving parts there and what's incrementally weaker?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Right. So Melissa, on the EV side, obviously, there's a little bit of weakness right now, especially again, post election. There's a little bit of uncertainty there. We're well positioned from a capability standpoint. So one is we've obviously done is pivoted, not pivotable. We've always played in those capabilities that go across different platforms. They go across the ICE platform, across hybrid, they go across EVs as well. So I do think as we transition from EVs to maybe hybrids, back to EVs, we're well positioned regardless we're almost.

And I think I used to work technology diagnostic on my prepared remarks. I think the China play is very much the play that is -- it's up right now. Europe and the US on the EV side, not doing as well as the China play. So we're definitely participating in that. Transport, we have an agricultural agriculture development in there. That's a little bit slow to recover. We do have transportation in other sort of segments as well. I think overall, Overall, the EV business, I don't expect it to show some big growth rates suddenly in FY25, maybe not even FY26. But I do think we have the potential to play in multiple platforms. And I do think the China play at some point in time will softened a little bit. We're just being prudent again on that whole piece, Melissa.

Melissa Fairbanks - *Raymond James - Analyst*

Okay. Great. That's great color. As a follow-up, this is something that I get asked constantly, and you may or may not be able to answer it quite yet. When Mobility was a piece of the business, the seasonality of the model was a little bit easier to predict I know with the resegmentation, a lot of people are trying to parse through. Is there any pattern of seasonality within either of the -- any of the three segments -- or do we just kind of -- there are too many moving parts at this point, none of them are as big as mobility was as a monolift to move things?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Absolute's a little bit of that where it is all across -- for the mobility piece, I think we need to clarify a little bit as well and historically have always been ramp orders in that mobility space, and that was always dilutive to our margins. I reckon first half versus second half on that, that's why we feel good about the margins is maybe it's a 25, 30 bps sort of impact -- positive impact to margins because of the mobility divestiture. I just want to since you brought up the margin question, Scott, we do have some ramps in the first half, especially in the DCI and warehouse automation side. We did the higher-margin semi cap business, the recovery is mainly second half. So I think there's multiple reasons.

And then if you take that up with our cost optimization initiatives where Q4 will be the biggest beneficiary of that. That could be a 10, 20 bps pickup there as well. So there's notable reasons for the first half, second half story. It's balanced across three or four reasons that I just talked about, not just the mobility piece.

Gregory Hebard - *Jabil Inc. - Chief Financial Officer*

Melissa, this is Greg. Just one other thing to add on the seasonality and more just on the capital intensity of the Mobility business that was divested CapEx going forward, we see this now below 2%, where the mobility business was very capital intensive. So definitely going to see free cash flow improving with the divestiture. and that CapEx line going down.

Operator

Samik Chatterjee, JPMorgan.

Unidentified Participant

This is MP on for Samik Chatterjee. So my first question is around like I was saying despite some upward revisions to volume for FY25. Your expectations for operating margins are similar to prior. So should we think that you are embedding some level of conservatism there?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

I would get an appropriate conserves -- it's not -- we're not being overly conservative or not -- I think these are the numbers that we provided, the guidance that we provided, I think, are actually extremely valid. I don't I wouldn't say conservative or aggressive, they're appropriate.

Unidentified Participant

Okay. So another question I had is, can you please help us dissect the impact of potential repeal of EV tax credit in US and like how big an impact can that be for your automotive or EV business?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Sorry, can you repeat that? I missed the main part of the question.

Unidentified Participant

Can you please help us dissect the potential -- or the impact of the potential repeal of EV tax credit in US.

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Yes. The EV tax credit, look, it's going to have an impact on certain OEMs for sure, don't forget, our largest customer in that space has the lower levels of credits, if any, their ability to pass on or their ability to pass on some level of rebates, et cetera, is much higher than some of the other OEMs.

I do think OEMs will respond. It's not going to be all consumer impacted. There will be some level of absorption. There will be some level of sort of end market demand. But a lot of that is already baked in. If we were forecasting a huge EV growth I'd say we'll have to adjust the numbers. We're not expecting that in the first place. So as far as FY25 is concerned, we're in good shape. We'll provide more color on FY and beyond if the EV credit piece does have a huge impact. My guidance is just my own personal opinion, that will be a small impact. I don't think it's going to be a huge impact, to be honest.

Unidentified Participant

Okay. And my final question is regarding the cloud and AIP like you saw robust growth there and is also driving upward -- like a large part of the revision to the outlook. So any particular -- any more color around there like which particular product segment, obviously, which sort of infrastructure is driving more impact to the outlook there?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

Yes. So I think I mentioned earlier that we've taken up our AI-driven business up by -- from $1 billion to $1.5 billion. The $1.5 billion is mainly driven by, let's call it, about $900 million of cloud, i.e., capital equipment is another driver of that piece. That's about $400 million -- and then the networking here, the liquid pool switching, et cetera, along with the silicon photonics space, et cetera. So that's about another $200 million year-on-year increase. So the $1.5 billion is spread out mainly among these with cloud being the main cloud and data center infrastructure being the main driver of that growth.

Operator

David Vogt, UBS.

David Vogt - *UBS Equities - Analyst*

Mike, one for you and maybe one for Greg. Can you -- I appreciate all the color on the cloud and data center. Can you maybe talk to the sort of the margin delta from that revenue uplift. I know there's typically in an industry that has some pretty competitive players hasn't been sort of the best gross margin and/or segment margin for you guys. Can you kind of talk through sort of that revenue uplift? And is that impacting sort of your overall margin outlook for the year?

And then one for Greg. You talked about capital return, buybacks and dividend but we didn't hear much in the way of M&A. And I know M&A has been a part of the strategy. Maybe can you kind of talk to where the focus is today. Healthcare has kind of been a flattish business for you, if I factor in sort of the packaging subsegment as well. Is that kind of what we should be focused on in 2025 and beyond is sort of opportunistic tactical deals in other segments outside of the more traditional datacom and networking space at this point?

Mike Dastoor - *Jabil Inc. - Chief Executive Officer*

So let me start with the margin question, David. I think -- I think Greg mentioned in his prepared remarks, I mentioned as well. The hurricane did have a 10, 20 bps sort of impact on our margins in Q1. Obviously, that flows through into FY25. But overall, the data the cloud and data center infrastructure business is that enterprise margin, it's not dilutive. I don't know where that perceptions come from, but it is -- it is an enterprise level margin. Our semicap business is actually above enterprise margins.

So I think there were now answers to FY25. We talked about that on the last call. If you remember, we have about 20, 30 bps impact due to our surplus capacity. We do have capacity -- we did open up Croatia that comes online in Q1, and we only get to fill it up in FY25. We've obviously done a really great job pivoting from the EV end market, which is supposed to be the main driver of that site to GLP-1, the qualifications, et cetera, we take a bit of time, and that's where I suggested GLP-1s will be live in Croatia by FY27.

But overall, look, the margin piece is good. We've set [5.4%]. If you factor in some of the nuances I just mentioned, it's an extremely healthy margin. So I don't I don't see us going backwards on the margin perspective as well at all.

David Vogt - *UBS Equities - Analyst*

Great. And Greg on capital allocation.

Gregory Hebard - *Jabil Inc. - Chief Financial Officer*

Yes. David, it's Greg. So on capital allocation, to continue to focus on M&A. We're continuing to look at capabilities that we want to expand on. I think the Micros acquisition we did in Q1 is a great example of that. In addition to that, and we're really focusing on markets for growth and continue to be really thoughtful in that space. And if you look at the certain markets, end markets that we're focusing on, would be healthcare in the markets intelligent infrastructure, where we do see some focus from an M&A capability and focus. In general, though, we're still doing 80% of our capital allocation to share buybacks at this time at 20% to M&A, but continuing to be super thoughtful in that area to see where we can grow.

Operator

We reach the 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 - *Jabil Inc. - Senior Vice President, Investor Relations and Communications*

That's all for our call today. Thank you very much, and happy holidays.

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.
