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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings and welcome to the third quarter of fiscal year 2024 earnings call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Adam Berry, Vice President of Investor Relations. Thank you. You may begin.

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

Good morning, and thank you for joining Jabil's third quarter fiscal 2024 earnings call. Joining me on today's call are Chief Financial Officer, Greg Hebard; and Chief Executive Officer, Mike Dastoor. Over the next few minutes, we will review the following, review our Q3 results, provide an update on current demand, and preview our Seventh Annual Virtual Investor briefing.

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 ask that you view the slides on the website and follow along with our presentation beginning with the forward looking statements. During this conference call, we will be making forward-looking statements, including among other things, those regarding the anticipated outlook for our business.

These statements are based on current expectations, forecasts, and assumptions involving risks and uncertainties that could cause actual outcomes and results to differ materially. An extensive list of these risks and uncertainties are identified in our annual report on Form 10-K for the fiscal year ended August 31, 2023, and 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 hand the call over to Greg.

Gregory Hebard *- Jabil Inc - Chief Financial Officer*

Thanks, Adam. Good morning, everyone. It's a great privilege to be a part of the call today. I'd like to begin this morning by walking through our third quarter results, the team delivered approximately $6.8 billion in revenue, $265 million above the midpoint of the guidance range, better than expected growth in our connected devices and networking and storage end markets.

Core operating income for the quarter came in at $350 million or 5.2% of revenue, an improvement of 40 basis points year over year. Net interest expense for Q3 came in better than expected at $64 million. This was due to lower levels of inventory during the quarter, reflecting improved working capital management by the team. From a GAAP perspective, operating income was $261 million, and our GAAP diluted earnings per share was $1.06. Core diluted earnings per share was $1.89, $0.04 above the midpoint of our guidance range.

Now turning to our performance by segment in the quarter. Revenue for the DMS segment came in at $3.4 billion, $65 million above our expectations, driven by better than expected growth within our connected devices business, offset slightly by the lower than anticipated revenue in our automotive and healthcare businesses.

On a year-over-year basis, our DMS segment revenue was down approximately 23%, driven primarily by the mobility divestiture. Core operating margins for the segment came in at 4.6%, 50 basis points higher than the same quarter from a year ago, reflective of the ongoing mix shift within our DMS business.

Revenue for our EMS segment came in at $3.4 billion, approximately $200 million above our expectations, driven by higher than anticipated revenue in our networking and storage end markets in the quarter. Compared to the prior year quarter EMS revenue was down roughly 18%, driven mainly by lower revenue in end markets like 5G, renewable energy, and digital print, offset slightly by good growth in cloud.

For the quarter, core margins for the EMS segment came in at 5.7%, up 20 basis points year over year. Next, I'd like to begin with an update on our cash flow and balance sheet metrics. Inventory at the end of Q3 came in six days lower sequentially at 81 days. Net of inventory deposits from our customers' inventory days were 58, which was a quarter-on-quarter improvement of four days.

As a result of the teams, good working capital management in the quarter, our third quarter cash flows from operations came in quite strong at $515 million, while net capital expenditures totaled $100 million, resulting in [$415 million] in adjusted free cash flow during the quarter. In Q3, we repurchased 3.7 million shares for approximately $500 million, leaving us with approximately $700 million remaining on our current $2.5 billion share repurchase authorization as of May 31.

We remain fully committed to completing the share repurchase authorization by the end of FY24. We exited Q3 with a healthy and solid balance sheet with debt to core EBITDA levels of approximately 1.2 times and cash balances of approximately $2.5 billion.

And as a management team, we are fully committed to maintaining our investment grade credit profile. With that, let's turn to the next slide for our fourth quarter guidance. For Q4, we expect total company revenue to be in the range of $6.3 billion to $6.9 billion. Core operating income for Q4 is estimated to be in the range of $365 million to $425 million.

GAAP operating income is expected to be in the range of $285 million to $355 million. Core diluted earnings per share is estimated to be in the range of $2.03 to $2.43. GAAP diluted earnings per share is expected to be in the range of $1.40 to $1.88. Net interest expense in the fourth quarter is estimated to be approximately $67 million. And our core tax rate for Q4 is expected to be 20%.

Before moving to our full year guidance on the next slide, I'd like to provide a brief update on our net interest expense and core tax rate beyond FY24. We now anticipate interest rates to remain elevated and expect our net interest expense to remain at FY24 levels in FY25 and be at approximately $275 million. And for core tax rate in FY25, we anticipate our core tax rate will be impacted by Pillar Two global minimum tax legislation. We will be required to adopt this only in FY25.

We are evaluating the impact this will have as we sit today, we anticipate our core tax rate in FY25 to be in the range of 22% to 24%. Now moving on to full year guidance on the next slide. For the year, we continue to expect $28.5 billion in revenue in the face of what continues to be a very dynamic demand environment.

Compared with our thoughts in March, our expectations for growth in our automotive and transportation business has softened further. In particular, the market in China has been impacted due to overcapacity, resulting in a surplus of cars affecting local demand there. And new global EV platforms that we originally expected to begin launching in the next 100 days or so have now shifted out several quarters.

On the healthcare side, we see softness in medical devices, which we expect will create a headwind to revenue in the near term. These declines were offset by strength in connected devices and our AI data center end markets, which today are reported across industrial, cloud, and networking end markets. All other end markets are largely in line with previous expectations.

Given this updated end market outlook, let's move to the next slide to review our FY24 guidance. We continue to expect core margins for the year to come in at 5.6% of 60 basis point improvement over the prior year. We also expect to deliver EPS of $8.40 for the year. And importantly, we remain committed to generating over $1 billion and adjusted free cash flow this year. With that, I'd like to thank you for your time this morning and your interest in Jabil.

I will now turn the call over to Mike.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

Thanks, Greg. Good morning, and thank you for joining our call today. Before I jump to my prepared remarks, a couple of comments. I am truly humbled by the trust placed in me by Mark and the Jabil board. For the past 24 years, Jabil has been my professional home and with the same, the company's journey from $3 billion in 2000 to $28 billion is a true testament to the care we offer our customers. As CEO, I'm excited and carry a tremendous amount of gratitude to steward an amazing team.

As Greg highlighted, the team has executed well in FY24 amid a dynamic environment. Consider this, we divested our mobility business, a key strategic decision with capturing growth in the AI data center space, and we're working towards that commitment to repurchase $2.5 billion of our shares, all while dealing with end-market softness in renewables, EVs, and semi-cap equipment, which we expect to be short-term in nature.

Yet when you take a step back and put it all together, the company remains resilient and on track, and we expect to deliver on key metrics, including 5.6% core margins and strong free cash flow in excess of $1 billion on $28.5 billion of revenue.

More importantly, we remain well-positioned to benefit from many of the world's powerful trends in areas like AI, data center infrastructure, healthcare, pharma solutions, and automated warehousing to name a few. At the end of the data world needs complex manufacturing to enable innovation in nearly everything we do in our everyday lives.

Jabil is at the forefront of providing solutions around a rapidly evolving technology landscape with complex supply chains in an ever-changing geo-political environment. As a management team, it's incumbent upon us to ensure we're focused on the right end markets with the most innovative customers, thereby delivering incredible solutions. And I think it's safe to say we're right in the middle of that ecosystem today.

Moving ahead, we'll continue to reshape our diversified portfolio and remain focused on growing new and existing value added businesses, driving margins and generating free cash flow. So let me share that I've been spending my time over the last six to eight weeks, I've been focused on our customers, our investors, our suppliers, and our people. Some of the key takeaways are as follows.

From a structure standpoint, I have chosen an organizational approach that has served us well over the last decade with an intense focus on speed, precision, and solutions. This focused approach, I believe targets our ability to serve each distinct market effectively by creating domain expertise in our core areas and better positions Jabil for growth.

From a capital allocation standpoint, we'll remain committed to returning value to our shareholders by prioritizing organic investments in our business and aggressively pursuing share buybacks at attractive valuation levels. This balanced approach ensures that we can reward our shareholders while simultaneously investing in next-generation capabilities. All the while we will take care of our customers and suppliers, while treating our people here at Jabil with respect.

Turning to the business side of things. As you recall, on May 20, we chose to rescind FY25 guidance, and it's worth noting there was no singular issue that led to that tough decision, but rather three key factors (technical difficulty) the end markets we serve remain soft and the timing of recovery in these end markets remains unclear, particularly in EVs and semi-cap equipment.

We also expect to accelerate reshaping our portfolio away from end markets and geographies with less attractive risk and financial outcomes. As a result, our revenue in FY25 may be negatively impacted by approximately $800 million. However, this will set us up to be a much stronger company in the years to come.

And lastly, in FY25, we now expect interest expense and the tax rate to be higher due to a pushout of interest rate kind of expectations and the global minimum tax, as Greg noted earlier. Over the next couple of months, the management team will be spending a lot of time reviewing our plans for FY25 and beyond.

And in September, I fully anticipate providing a full year outlook per usual with our normal color and commentary surrounding our strategy, the end markets we serve, and our anticipated capital allocation methodology for the year.

From an end-market standpoint, you will hear how we have aligned technology-driven capabilities in our intelligent infrastructure business to help not only hyperscalers, but also silicon providers accelerate their own technology.

Our manufacturing model leverages our automation capabilities to navigate the rapid growth in AI demand, how we're prioritizing growth in certain end markets like healthcare and energy infrastructure, how we're helping retailers automate solutions in both the retail environment as well as warehousing to robotics.

We'll also offer color on the businesses we anticipate deemphasizing in the future. And of course, we'll do our best to provide our expectations and our road map for the timing of recovery in key areas like renewables, semi-cap, electric vehicles, connected devices, and 5G.

And when you put this all together, we'll describe how the seasonality has changed and how the capital intensity of our business has improved and the subsequent free cash flows we will generate given our new mix of business. I am confident that the roadmap we develop will propel Jabil towards an even brighter future.

I can assure you that all of these actions will remain squarely focused on driving margins higher in the long run and generating robust, sustainable cash flow, all while taking care of our customers, suppliers, and people. Jabil's success is not the result of individual efforts, but rather a collective achievement of our entire team.

Looking ahead, I'm excited about the long-term trajectory of the company. We have a strong track record of talented and dedicated leadership team and a clear vision for the future. Together, we will continue to drive innovation, deliver value to our shareholders, and execute for our customers.

Before handing the call over to Adam, I would like to take a moment to say thank you to the entire Jabil team for your commitment and dedication to our customers, communities, and to each other. Thank you for your time and for your interest in Jabil.

I now hand the call over to Adam.

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

Thanks, Mike, Greg, and congratulations to each of you on well-deserved new roles. I look forward to working alongside both of you. Before we move into our Q&A session, I'd like to take a few minutes to broadly summarize some of our key messages you heard today. First off, our fiscal '24 outlook is on track with the update we provided in March and subsequently reiterated in May.

Notably, this includes $8.40 in core EPS, 5.6% core margins, and $1 billion-plus in free cash flow. And as we move through Q4, we fully anticipate completing the balance of our $2.5 billion share repurchase authorization. As we turn our attention to the end markets, we remain fully committed to our year-over-year growth plans in our AI data center end markets in both fiscal '24 and '25, which today are reported across our cloud, networking, and industrial end markets.

At the same time, we're actively evaluating our portfolio to see if there's any opportunity to further optimize as Mike just described. And for early modeling purposes, please keep in mind that our seasonality in fiscal '25 will be reflective of the mobility divestiture.

As such, our quarterly earnings progression will be more like that of our EMS business, where we typically earn 40% in the first half of the year and 60% in the second half of the year. Interest expense in fiscal '25, although rate dependent is shaping up to be approximately $275 million. And our core tax rate is expected to increase from fiscal '24 to fiscal '25 as a result of Pillar 2 global minimum tax legislation.

And finally, in just generally speaking, Jabil remains extremely well-positioned to benefit from a recovery in many of the end markets that are proving to be headwinds in fiscal '24. And while the timing remains uncertain, the ultimate recovery will lead to solid revenue growth, further margin expansion, and even more cash flow generation on an already installed capacity. We look forward to updating you on these matters and more on our Seventh Annual Investor briefing, which is tentatively scheduled for September 26.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ruplu Bhattacharya.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Hi. Thanks for taking my questions. Mike and Greg, congrats on your new assignments. Mike, what do you see as the biggest opportunity for Jabil over the next year? And what do you see as the biggest risk? And Greg, a similar question to you as CFO, what are your main focus areas for the next year?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

Thanks, Ruplu. I think you're aware I've been CFO for six years. And during this time, my focus areas have always been and always will continue to be margins and free cash flow and utilization of that free cash flow for buyback purposes. We still do think we're undervalued.

So that's a key area of capital allocation that will continue. The focus on margins continues, focus on free cash flow. We are not in the right sort of end markets as well. So from an opportunity standpoint, these other end markets that were not in, we'll be looking into that. That's one of the reasons we are structured the way we are in the new organization.

But right now, yes, there's some softness in some of our end markets. But over the long term, these end markets are right for recovery. And I'm not suggesting that happens in the next one or two quarters. I think we have seen some of that shifting -- the recovery shifting to the right.

Overall, from an opportunity perspective, I think the key is when does this whole AI proliferation in almost everything we do? So we are a hardware company, AI is going to require hardware refreshes across the board and we'll take it to almost all the right end markets.

So I do expect the entire AI proliferation to be a tailwind for us. Does that happen in the next one or two quarters? Perhaps not, right now it's more data center focused. But over the long run, I do expect that to proliferate across the entire range of end markets we serve.

From a risk standpoint, Ruplu, I think it's the timing of the recovery. Yeah, I think there's various anecdotes outside externally, internally. Some would suggest things are recovering a little bit slower than we anticipated. Some would suggest that it might be okay. So we'll take the stand in the next three or four months to figure out our plan. That was one of the reasons we rescinded in our FY25 guidance and we'll provide much more color on our analyst briefing at the end of September.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, hi, Ruplu. This is Greg. Just to reiterate some of the things Mike just said, definitely expanding operating margins, that will be a key focus, continuing to generate strong free cash flows, as you saw, quite a strong Q3 we had and then we'll return capital to shareholders. And we continue to be super thoughtful on this and believe share repurchase is still a great use of our cash for Jabil.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay, got it. Mike, you talked about AI. I mean when I look at things, AI is getting to be a very competitive space. And so how do you see Jabil's investments in AI trending over the next few years? And do you think margins on the AI side trend lower or higher than the rest of the business, given the increased competition?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

So I think you're absolutely right. There is a large amount of competition, Ruplu. Today if you think about where we play in AI, it's mainly around the server rack equipment. As we look at data center, building infrastructure, we're looking at power, we're looking at cooling, we're looking at value add services around some of the data center pieces as well.

So that will be at a margin sort of will slow down, but will start picking up again over time as we start expanding around an AI data center driven strategy. So we're looking at other pieces in the periphery along the lines of silicon photonics, we're looking at packaging, there's a whole bunch of things that we look at from an AI perspective. And I think margin does some notable jump up quite a bit right now, but it will go down and come back up pretty fast.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay. Maybe I'll try and sneak one more. You talked about some weakening of the auto and the healthcare space. And also on semi-cap, I think you've said that it's two weaker than expected. When do you expect a recovery in these? And if revenues continue to be week, what are some of the levers you have to continue to drive margins and free cash flow? I think you've said margins are a focus. So what are some of the levers you have on the margin and free cash flow side even if revenues are weak? Thanks for taking my questions.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

So Ruplu, we're probably going to answer your auto question first. I think in auto, we are seeing some weakness, particularly as it relates to China. I think there's an oversupply situation there that does impact manufacturing for us, local for export purposes as well.

So we're seeing some push out in the whole EV recovery space because of this situation in China. From a semi-cap standpoint, our initial expectation was a full-scale recovery in December or January, in December '24 or January '25. That's pushing out a little bit to the right.

And I think you'll see little bit of a -- we had situation a there where China is a dominant player right now. There is sell through into China, but a lot of that sell through is coming from existing inventory. So we expect a Jabil impact to start around the middle of calendar year in calendar year '25.

From a margin standpoint, Ruplu, we do expect all of these end markets to start coming back at some point or the other. We are not in a full-blown recession or we go in completely close down facilities and take down costs because we lose out when the recovery does come through. So you might see some level of temporary margin impact there.

But overall trajectory and our position when the recovery starts will be extremely strong. And I'll give you an example, I think today, we're probably capacitized for about [$32 billion, $33 billion] of revenue. And if you look at well then FY25, obviously it will be considerably lower than that.

So we'll have a little bit of surplus capacity. We do want to take that out. I don't think the answer is take capacity out. I think we're going to wait for that recovery to come back and there might be some level of temporary margin impact, but long term really well-positioned.

Ruplu Bhattacharya - *BofA Global Research - Analyst*

Okay. Thanks for all the details. Congrats again on the new assignments.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors LLC - Analyst*

Hi, good morning and congrats, Mike and Greg, on your appointments. I guess I have two questions. First of all, just following up on your last comments, Mike, I mean the guidance for Q4 implies you hit that magical 6% operating margin number. So I'm just curious if you could put that number in that context. You just described a lot of seasonality and some mixed market. So like how sustainable is 6% as more of a Q4 number versus like something that's ongoing as you think out to next year? And then I have a follow-up.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

Yeah, so thanks, Steve, first of all, I do think there is an amount of seasonality that we see in almost every single Q4s. You'll see margins go up because of that for sure. And I think Adam highlighted even FY25, we think about that we expect the second half going forward second halves to be much lower than the first half of the year was because of a mobility divestiture.

There is some level still a fixed cost recoveries and when you have fixed cost recoveries, but no revenue flowing through, there is definitely a bit of a margin impact. I don't think 6% is what we're going to be seeing. It's not sustainable in Q1.

If you look at historical seasonality, Q1 things go down, Q2 is consistent with Q1, and then we see another sort of Q3 and Q4 uptake in margins. So 6%, I would say a little bit of one-offs in it, and is not sustainable for the first half of the year. But Q3, Q4 of next year, you'll see a similar sort of seasonality from a volume perspective.

Steven Fox - *Fox Advisors LLC - Analyst*

Great. That's helpful. And then in terms of your prepared remarks, I guess there's one area I was hoping you could dig into a little bit. You mentioned with your second point some reshaping geographically end market is on the table now for next year. Can you just sort of expand on what you saw in your last six to eight weeks? That makes you want to sort of, I guess, change strategy just incrementally a little bit. Thanks.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

So Steve, I've always been focused on margins and free cash flow. I think you've seen that over the last six years, We continue to prioritize margins and cash flow. If we see some level of accounts where the one or two of these metrics are going to shape up, do well, we're looking at it from a reshaping our portfolio sort of away from some of those end markets and geographies as well with less sort of attractive risk and financial outcomes. So it's spread out a little bit.

I would look at legacy networking is one of the areas where you see this the legacy networking going down, you will see the AI piece is replacing some of that. You'll see an increase in AI, but you'll see little bit of a decrease of the legacy networking piece as well. Again, this positions us really well.

So I'm not saying margins will jump up in '25 because of this. But over the long-term in FY26 and beyond the margin structure will improve along with better cash flows. And I think Greg talked about free cash flows coming in really strong in Q3. We continue to be focused on free cash flow going forward because that's where we think the valuation lies is in the free cash flow.

Steven Fox - *Fox Advisors LLC - Analyst*

Great. That's helpful. Thank you.

Operator

George Wang, Barclays.

George Wang - *Barclays Investment Bank - Analyst*

Guys, congrats on the new role. So I've got two parts. Firstly, you mentioned the 3Q driven by connected devices and networking storage, and you also raised the full-year forecast subsequently for the two segments, just kind of talk about kind of what's driving a better kind of results and outlook for the connected devices and networking. Just is this an industry growth or share gains?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

I think it's probably neither of those. It was a little bit of conservative forecasting from our perspective. If you see connected devices over the last maybe a couple of years, post-COVID, it's been a little bit down. And we've always sort of tried to make sure that our forecasts are accurate.

In this particular instance, the numbers came in. I don't think we're seeing a big jump up in the end market. But I think the whole impact in Q3 was mainly because of the conservative forecasting that we had sort of anticipated.

George Wang - *Barclays Investment Bank - Analyst*

Got you. Just a quick follow-up if I can. I just want to confirm, is it still $6 billion AI revenue for FY25? You guys talked about in the prepared remarks, you didn't really change the forecast. So I just want to confirm if it's still $6 billion, but also I just want holding on the power and the cooling, you guys talked about some of the value add, it all just -- power cooling has been massive shortage with higher margins. So can you talk about your differentiation and some of the initiatives on table from Jabil's standpoint to capture the coming hearings, shortage with the demand associated with power and cooling in the data center?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

Let me address the power and cooling question, first. One of the things we are seeing in the data center space, the legacy data centers are going to do a retrofit. And that retrofit, we were looking at capabilities there where we can offer services to data centers from a cooling distribution unit perspective. If you look at new deployments, the legacy ones are more liquid to air, the newer deployments, liquid cooling, we have internal capabilities around that.

And we'll be continuing to look at small capability driven transactions in that space. One of the key here is to expand our service around server rack integration and into the whole data center building infrastructure as well. And I think that will be a big differentiator.

George Wang - *Barclays Investment Bank - Analyst*

Okay. Thank you.

Operator

Matt Sheerin, Stifel.

Matt Sheerin - *Stifel Nicolaus & Company, Inc. - Analyst*

Yes, thanks. Good morning, everyone. I wanted to drill down a little bit more on your commentary on networking, the strength, but also the customer base. You indicated that you may -- to walk away from some of the legacy business, I'm guessing you're talking about the traditional OEM market.

But I know that you've got a growing a data center hyperscale customer base, particularly on the server side. But are you also working with those customers on network products like switches? And could you tell us exactly what you're doing for those partners on networking side?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

Yeah, so I think that's a great question. I think you're absolutely right. It's the legacy piece from the networking side that we're sort of walking away. A lot of that is being replaced anyways by a future forward-looking AI liquid-cooled sort of switches out. We're definitely getting involved in that.

If you look at silicon photonics space, if you're looking at the whole transceiver business, which gets attached to that space quite a bit as well. So overall networking and storage, think of it as a transition where we're transitioning from a legacy network to a new era of networking and switching. And we're going to be playing heavily on the new networking and switching. At the same time, the legacy business will go down a bit.

Matt Sheerin - *Stifel Nicolaus & Company, Inc. - Analyst*

Okay. In the networking side, we're seeing some of your peers are having ODM model where they're actually doing custom work for customers and others are building to customers' design. Are you going through both routes or mostly on the more traditional EMS side?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

Well, I think it will be a hybrid. We're not going full ODM at this stage. We are definitely going to continue it in the EMS space. Historically, we've stayed away from competing directly with our customers and will continue to do that.

Matt Sheerin - *Stifel Nicolaus & Company, Inc. - Analyst*

Okay, great. Thank you. And just turning to the balance sheet in your forecast for that higher interest -- net interest expense next year or basically flattish. Could you just talk through the capital allocation? I know you've done aggressive buyback significant, but why not take down some of the short-term borrowings or some of your debt to reduce that?

And also, if you look at your inventory, inventory days, they've come down a lot, but there's still a well above where they were post-pandemic. So is there work to be done in terms of inventory or the working capital to bring that net interest expense down?

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, hi, this is Greg. So yeah, I think there's a few parts to that question. I'd say first on the interest expense and share buyback, we definitely look at the two combined and making sure we have the most effective EPS results from that.

Interest expense, we do see rates continuing to stay elevated for most of the calendar '24 into '25, so being conservative on that number. From working capital perspective, I think we've been doing a really good job. We do see our net inventory in the 55 to 60 day range.

And we do see some cyclicality of that during the year and inter-quarter. So obviously, this quarter we had a good number that hit. But one thing to remind you as well, we do have inventory deposits that does offset some of that pickup when we do just look at our gross DII coming down. So we're continuing to be very focused on net inventory and getting it down closer to 55. But there is some cyclicality on that.

On the share repurchase, we are committed to completing our $2.5 billion share authorization in Q4. We do need a new Board authorization as we go into '25, so stay tuned for that, but looking to get our [WASO in the 110 to 113] range by the end of FY25.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

And, Matt, if I can just add, provide some more color on the interest. If you go back to FY23, so not this year, but previous years, our interest was in the range of $150 million. I think if you look over time, it was in that range. I'm not suggesting we go back to $150 million.

Today, it's at $275 million. But as interest rates start coming down and we have a full year impact of that more towards the end of our calendar year '25, you'll see interest start going down quite a bit as well, because $275 million is not going to be the norm. It's going to continue to go downwards. It won't go back to $150 million, but low-200s is highly possible and all of that just drops directly to the EPS line.

Matt Sheerin - *Stifel Nicolaus & Company, Inc. - Analyst*

Got it. Okay. Thank you for that. And just if I can just sneak in a last question regarding the $800 million headwind you talked about for next year, most of that coming from end demand weakness. But is there a part of that also coming from deselecting customers, as you said, as you put in the portfolio, could you break that down for us?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

All of that comes from deselecting, not deselecting, but renegotiating with customers. It's coming down. I think the number I provided was $800 million. That is a part of our strategy. Like I've mentioned before, margins and free cash flow continue to be front and center of everything we do. And it's reshaping our portfolio sort of away from end markets and geographies with less attractive risk and financial outcomes. So it's all that.

And then I think I mentioned legacy networking being one of the big ones there. So it's all driven by literally reshaping the numbers. I think if you look at all the other end markets, they are more than soft, I'd say the recovery -- the timing of that recovery has been pushed out, it's continuing to be pushed out a little bit. So the other end markets will be down, but there's no reshaping going on around that and that $800 million that I referenced was purely a reshaping number. There will be some level of revenue impact as the timing of recovery gets shifted to the right as well.

Matt Sheerin - *Stifel Nicolaus & Company, Inc. - Analyst*

That's very helpful and clarifying. And I would imagine that $800 million revenue is at that margin and return profile is below your company average. So that would be accretive in other words to the business.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

Absolutely. Again, I'm not suggesting FY25 will see a big accretion because of that. I talked about us being capacitized for [$32 billion, $33 billion] of revenue. Our revenues are going to be considerably short of that. So we will have a little bit of overcapacity, but we need that capacity when things start to recover.

And I think it will be very short-sighted of us to go and address that incremental capacity that we have today. So yes, there will be margin accretion in these businesses overall from a company standpoint, just keep in mind that there is a little bit of an overcapacity situation right now as well. But think of that as an opportunity. When things start coming back, it will have a big margin impact.

And does that happen towards the end of '25? Does that happen in FY26? We just don't know right now. And that's why we've asked for a little bit more time and that's why we withdrew our FY25 guidance. We will provide more color at the end of September to the best of our abilities.

Matt Sheerin - *Stifel Nicolaus & Company, Inc. - Analyst*

Got it. Okay. Thanks so much.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs Group, Inc. - Analyst*

Yes. Good morning, and thanks for taking my questions. First, a follow-up on the $800 million of revenue that the company is looking to deselect. Can you help us better understand what the margin profile is of that? I know you said it's below the corporate average, but is it just above breakeven, low single-digits, slightly below corporate average? Any more color on the EBIT margin associated with that $800 million would be helpful.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

It's south of enterprise margin. It's not just the margin. We look at the free cash flow profile as well that both of those metrics are critical for our success. I think one of the things we're looking at is risk as well. So obviously, the financial metrics have to tie out, the risk has to tie out as well, risk in different parts of the world, risk in the end markets that are seeing a downward trend all being replaced by a new perspective.

So it's all of that and the margin will be south as I was mentioning on the previous question from Matt. Don't expect margins to jump-up in '25 because of this. There is a little bit of an overcapacity situation. So the margin does get impacted. And it's over time, I do expect maybe towards the end of FY25 or even in FY26 to see a pickup in margin because of this. So it's a mid to long term payback or a return.

Mark Delaney - *Goldman Sachs Group, Inc. - Analyst*

Helpful color. Thanks for that, Mike. And then my second question was around hybrids. You mentioned in the presentation that you have some ability to grow with hybrids, not just with BEVs. Can you double-click a little bit more, talk to us around where Jabil is participating in hybrids and to what extent you have the design wins that would support growth in hybrids as some of the traditional OEMs are planning to grow faster in hybrids over the next few years? Thanks.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

So I think when I talked about EVs, I think the point I was trying to make was that we're almost agnostic to whether it's EVs that succeed or hybrids that succeed. And I think if you look at some of the three or four areas that we participate in, I think it's software-defined vehicles, that applies across combustion, hybrids, and EVs.

If you look at the battery management systems and everything to do with the battery, it equally applies to EVs and hybrids. If you look at some of the connectivity piece, again, it applies to all three categories of automotive.

And then if you look at automated driving with optics, with cameras, with a whole bunch of ADAS technologies, again, agnostic to which technology wins out. We still think EVs is ripe for a comeback. I think it's seeing some temporary sort of impact due to price, due to battery range.

Just couple of those issues being resolved and EVs will be back again. But the point I was trying to make is, look, we're going to have an EV or a hybrid. When EVs go down and hybrids go up, there'll always be a little bit of a timing difference as we win programs in the hybrid space for them to come online. But the long-term trajectory for our EV business is actually quite agnostic in terms of which technology wins out.

Mark Delaney - *Goldman Sachs Group, Inc. - Analyst*

Thank you.

Operator

Samik Chatterjee, JPMorgan.

Unidentified Participant

Hi. Thanks for taking my question. This is MP on for Samik Chatterjee. So I just wanted to ask, like, you had included outlook around connected devices, networking storage, 5G, cloud, et cetera. So a lot of AI revenue is recognized in these end markets heavily. So I just wanted to check how much of the increase in the outlook is because of AI versus traditional recovery in the end markets? And I have a follow-up.

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

So in the other end markets, I think Greg talked about the three that are impacting us today from an AI perspective. All the other end markets, something it's a little too early for us to start sort of assuming AI pieces in there. I think AI is definitely coming, AI is definitely going to impact all of those end markets.

Hardware refresh cycles will take place in a number of our end markets, but our assumptions wouldn't bake that in right now. As we see it coming forward, we will start putting some of that in. But the direct answer to your question is, there's very little, there's almost no AI in any of the other end markets at this stage.

Unidentified Participant

Okay. And another one will be on operating expenses. So I believe since the revenues were quite higher than the midpoint of the guidance this quarter, but operating expenses, which is something which I believe drove the operating margins to be below the midpoint of guidance. So what exactly was driving the higher operating expenses? And what's your confidence on bringing this to track for strong 6% margin next quarter? Thank you.

Gregory Hebard - *Jabil Inc - Chief Financial Officer*

Yeah, Samik, it's really a mix that we're seeing recently. So again, some seasonality to that, but all that is related to mix.

Operator

David Vogt, UBS.

Unidentified Participant

Hi. This is Andrew on for David. I wanted to ask a question about your wireless business. As we've moved past the elections in India, have you seen any signs that, that business might pick back up?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

At this stage, not really. I think there's been a mass scale deployment of 5G already in India. I think there's definitely -- I think there's a hope they monetize that and move forward after they've seen some returns. So they're almost -- I think there's 75%, 80% sort of rolled out. I don't think we have some big assumptions of a post-election recovery in India at this stage.

Unidentified Participant

Got it. And I just also wanted to follow-up on the comments about the softness you saw in the healthcare segment. I think you said it was in the medical devices part of that business. I'm just wondering if you could expand on what was driving that softness? Is it macro? What are you seeing there?

Mike Dastoor - *Jabil Inc - Chief Executive Officer*

So, when we say softness, just note that it's just one of the four or five things that we do in the entire healthcare space. I think if you look at the GLP-1 drugs, they're off the charts. They just keep going higher and higher and higher. And we're really well-positioned to play in that space. There is a counter sort of impact, obviously, that impacts surgeries, medical devices.

But there's a whole bunch of other things that we do as well from a diagnostic standpoint, from an orthopedic standpoint, from a pharma solutions standpoint, from other medical devices. So it's a smaller impact. I wouldn't -- Greg called it out, I think it was an issue specifically for our FY24.

We're seeing some short-term headwinds there because of that. But don't forget the GLP-1 piece will continue to grow. I think the only sort of constraint is capacity, putting that capacity in place, which takes a little bit of time due to the heavy automation that's involved on the GLP-1 piece.

Unidentified Participant

Thank you.

Operator

Thank you. At this time, I would like to turn the floor back over to management for any additional or closing comments.

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

That's it for this call. Thank you very much. If you have any further questions, please reach out. We will be happy to talk. Thank you.

Operator

Ladies and gentlemen, 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.