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JBL.N - Q2 2022 Jabil Inc Earnings Call

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OVERVIEW:

Co. reported 2Q22 revenue of approx. \$7.6b, GAAP operating income of \$313m, core operating income of \$344m, GAAP diluted EPS of \$1.51, and core diluted EPS of \$1.68. Expects 2022 revenue to be approx. \$32.6b and core EPS to be \$7.25. 3Q22 total revenue to be \$7.9-8.5b, GAAP diluted EPS to be \$1.24-1.64 and core diluted EPS to \$1.40-1.80.

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PRESENTATION

Operator

Hello, and welcome to the Jabil Second Quarter Fiscal 2022 Earnings Call and Webcast (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Adam Berry, Investor Relations. Please go ahead.

Adam Berry - *Jabil Inc. - VP of IR*

Good morning, and welcome to Jabil's second quarter of fiscal 2022 earnings call. Joining me on today's call are Chief Executive Officer, Mark Mondello; and Chief Financial Officer, Mike Dastoor.

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 our Investor Relations section. At the conclusion of today's call, the entirety of today's session will be posted for audio playback on our website.

I'd like to now ask that you follow our earnings presentation with the slides on the website, beginning with the forward-looking statement. During this conference call, we will be making forward-looking statements, including, among other things, those regarding the anticipated outlook for our business, such as our currently expected third quarter and 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, 2021, and other filings.

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 Mark.

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Thanks, Adam. Good morning. I appreciate everyone taking time to join our call today.

To begin with, our hearts go out to everyone impacted by the war in Ukraine. When I think about our team, along with their families, what comes to mind are words like admiration, courage and heart. Please know, we're in constant communication with those on the ground, and we continue to provide resources and financial assistance, as the safety and security of those in Ukraine is our top priority.

At Jabil, we're one corporate family with people located all over the world. And despite the physical distance between us, we'll always face difficult situations together. To all of our employees, thank you for being servant leaders, thank you for your spirit, and thank you for looking after one another.

Let's now turn to Slide 6, where we'll take a look at our second quarter results. Q2 was another strong quarter, both top line and bottom line, driven by double-digit revenue growth year-on-year and exceptional execution, respectively. Altogether, the team delivered core earnings per share of \$1.68 and revenue of \$7.6 billion, resulting in a core operating margin of 4.6%, a 40 basis point increase year-on-year.

All in all, I'm pleased with the quarter, as our performance during the first half of the year gives us positive momentum as we push towards the back half of fiscal '22 and into fiscal '23. And when I think about a key catalyst driving our momentum, what comes to mind is the makeup of our commercial portfolio, which I'll now address on the next slide.

Slide 7 is a wonderful picture, which shows the construct of our portfolio today. Jabil's large-scale diversification serves as a solid foundation from which we run our business. The team has built this foundation over the past 5 to 6 years, as we target new end markets and optimize our legacy business.

The output of this effort is twofold: one, a higher level of resiliency across the company; and two, a substantial presence in secular end markets, markets that include 5G, electric vehicles, personalized health care, cloud computing and clean energy.

If we dissect the pie chart a bit differently with an emphasis on financial contribution and economic relevance, we see a terrific blend of reliable margins and sustainable cash flows, again, a real tribute to the diversified nature of our business today.

Lastly, if we look at a third dimension of our portfolio, we find a library of essential capabilities, capabilities that allow us to simplify the complex for many of the world's most notable brands. And when done correctly, our unique set of capabilities offer Jabil a real competitive advantage, as we lean into a massive market where things need to be built and supply chains need to be developed or modified.

Moving on to Slide 8. You'll see management's outlook for the year. We've increased core earnings per share to \$7.25, an increase of nearly 30% year-on-year. As for revenue, FY '22 now looks to be in the range of \$32.6 billion, up more than 10% year-on-year.

In addition, we remain committed to delivering a minimum of \$700 million in free cash flow for the year, while increasing core operating margin to 4.6%, a 40 basis point improvement year-on-year.

For me, this is a positive testament on how the team is managing the business as our strategy has been consistent, and what needs to be done is well understood throughout our company.

With that, let's move to my final slide, where I'd like to start with the importance of our purpose. At Jabil, with purpose comes expectations, expectations around certain behaviors, behaviors such as keeping our people safe; servant leadership; protecting the environment; giving back to our communities; and offering a workplace, which encompasses tolerance, respect and acceptance.

Within Jabil, these behaviors have never been more important than they are today. I'm proud of our team as they fully grasp our purpose. And in doing so, their conduct is exceptional.

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In closing, our improvement is steady commercially, financially and operationally. Quite simply, here at Jabil, we build stuff, and we do it really well.

One factor that makes good companies great is having a value set, a culture, if you will, that enhances the way in which they solve problems. As a team, we embrace this as we take on the challenges put forth by our customers each and every day. To our entire Jabil team, thank you for making Jabil, Jabil.

I'll now turn the call over to Mike.

Michael Dastoor - Jabil Inc. - Executive VP & CFO

Thanks, Mark, and thank you for joining us today. I'm really pleased with the resiliency of our diversified portfolio and the sustainable broad-based momentum underway across the business, as several of our end markets continue to benefit from long-term secular trends.

As Mark just summarized, our Q2 results were very strong. During the quarter, revenue, core operating income, core EPS and free cash flow all exceeded our December expectations. Given the higher revenue, I'm particularly pleased with our ability to drive an extra 30 basis points of margin improvement compared to our expectations in December mainly through broad-based strength in several key end markets benefiting from long-term secular trends as well as outstanding execution by our business, operations and supply chain teams.

For the quarter, revenue was approximately \$7.6 billion, up 10.6% over the prior year quarter and ahead of the midpoint of our guidance from December. The additional upside was mainly driven by our 5G and cloud businesses, while our automotive, health care and retail end markets remain very strong.

Our GAAP operating income during the quarter was \$313 million, and our GAAP diluted earnings per share was \$1.51. Core operating income during the quarter was \$344 million, an increase of 21% year-over-year, representing a core operating margin of 4.6%, up 40 basis points over the prior year. Core diluted earnings per share was \$1.68, a 32% improvement over the prior year quarter.

Now turning to our second quarter segment results on the next slide. Revenue for our DMS segment was \$3.8 billion, an increase of 4% on a year-over-year basis. The solid year-over-year performance in our DMS segment was broad based, with strength across our health care, automotive and connected devices businesses. Core margin for the segment came in at 5.1%.

Revenue for our EMS segment came in at \$3.8 billion, an increase of 19% on a year-over-year basis. The stronger year-over-year performance in our EMS segment was also broad based, with strength across our digital print and retail, industrial and semi-cap and 5G wireless and cloud businesses. Core margin for the segment was 4%, up 90 basis points over the prior year, reflecting improved mix and solid execution by the team.

Turning now to our cash flows and balance sheet. In Q2, inventory days came in at 86 days. The sequential increase in days was driven largely by 2 factors. Firstly, the ongoing tightness in the supply chain continues to weigh on our inventory balances. It's worth noting that we've offset a portion of these increases with inventory deposits from our customers, and these deposits reside within the accrued expenses line item on the balance sheet. Net of these inventory deposits, inventory days was 71 in Q2.

And second, at the end of the quarter, we experienced a timing difference on the sell-through of finished goods within our DMS segment. I anticipate this timing difference to reverse in Q3.

In spite of these 2 factors impacting inventory, our second quarter cash flows from operations were very robust, coming in at \$246 million, and net capital expenditures totaled \$201 million.

From a total debt to core EBITDA level, we exited the quarter at approximately 1.3x and with cash balances of \$1.1 billion.

During Q2, we repurchased approximately 2.3 million shares for \$145 million. And for the year, we've repurchased 4.4 million shares for \$272 million, as we remain committed to returning capital to shareholders.

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Turning now to our third quarter guidance on the next slide. DMS segment revenue is expected to increase 17% on a year-over-year basis to approximately \$4.2 billion, while the EMS segment revenue is expected to increase 11% on a year-over-year basis to approximately \$4 billion. We expect total company revenue in the third quarter of fiscal '22 to be in the range of \$7.9 billion to \$8.5 billion.

Core operating income is estimated to be in the range of \$300 million to \$360 million, representing a core margin range of 3.8% to 4.2%. At the midpoint, this is an improvement of 20 basis points over the prior year and down sequentially, reflecting planned investments in our Q3 quarter.

It's also worth noting, sequentially in Q4, we expect robust core margins driven by our scaling automotive business, along with typical seasonality in our mobility and EMS businesses.

In Q3, GAAP operating income is expected to be in the range of \$276 million to \$336 million. Core diluted earnings per share is estimated to be in the range of \$1.40 to \$1.80. GAAP diluted earnings per share is expected to be in the range of \$1.24 to \$1.64. The core tax rate in the third quarter is estimated to be approximately 21%.

Next, I'd like to take a few moments to highlight our balanced portfolio of businesses by end market. Today, the outlook for our business is strong, with end markets across both segments continuing to benefit from multiyear secular trends.

We believe these markets will continue to drive our growth, as we concentrate our efforts on long-term secular growth markets with strong margin and cash flow dynamics, markets such as electric vehicles, personalized medicine and health care, semi-cap, clean and smart energy infrastructure, cloud, 5G infrastructure and the associated connected devices.

Our electric vehicle business, in particular, continues to outperform, in spite of global supply chain issues as the transition to EV accelerates. We've seen this rapid acceleration manifest in top line revenue growth in excess of 50% this year alone in our automotive end market.

We're also expecting double-digit growth from the health care, automotive retail, industrial and semi-cap and 5G wireless and cloud end markets. And importantly, the broad-based growth associated with these secular trends is expected to drive solid year-over-year core operating margin and free cash flow expansion.

All in all, our performance during the first half of the year gives us excellent momentum as we look to close out another strong year. We're now anticipating core EPS will be in the neighborhood of \$7.25 per share on revenue of approximately \$32.6 billion.

Notably, this incremental revenue will improve mix and drive operating leverage, thereby giving us the confidence to raise our core margin by 10 basis points to 4.6% for FY '22, as we continue to drive the organization to 5% and beyond.

Importantly, for the year, we also remain committed to generating in excess of \$700 million in free cash flow, in spite of the higher revenue and associated working capital. We've been working extremely hard as a team to expand margins and drive strong cash flows. I am very pleased with our team's exceptional execution of our strategy on all fronts.

With that, I'll now turn the call over to Adam.

Adam Berry - Jabil Inc. - VP of IR

Thanks, Mike. Before we move into the Q&A portion of the call, I'd like to remind our participants that we cannot address customer-specific or product-specific questions. Thanks.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Jim Suva from Citigroup.

James Dickey Suva - *Citigroup Inc., Research Division - MD & Research Analyst*

Congratulations on the results and extremely strong outlook, despite all the uncertainty in the world. I was wondering if you could give us a little bit of confidence or conviction about the operating margins and sustainability. Of course, your full year guidance increase is so big, you have to assume the operating margins continue to see the strength.

But I'm just curious, is that due to mix or the location and visibility from customer contracts that you're getting or the value added or maybe a combination of all? But if you could just pontificate a little bit on operating margins and your confidence in the sustainability of them.

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Jim, I think the overall margin profile, if you just go back to, let's say, pre-COVID to fiscal '19, we were running the business at around 3.5% margins. And our focus at that point in time was really about reshaping the overall portfolio and a big focus on diversification, both top line and bottom line. I think the team did a really nice job of that over a 4- or 5-year period.

And then starting in fiscal '21, so last year, we really started taking that portfolio at scale and focusing hard on the margin side of the business, largely around cost and optimization, while still being what I think is very competitive in the marketplace in terms of our pricing.

This year, we've taken margins up. I think September, we said margins would go up to 4.5% from the 4.2% last year. And then this morning, we're taking it up another 10 basis points to 4.6% for the year.

I think the main catalyst driving it is our execution has been outstanding and, I think, sustainable. I think the overall platform around the operational network, the tools, our IT systems also sustainable, and the advances we've made there are terrific.

And then lastly, and maybe most importantly, is just the overall portfolio that we have, Jim. When we think about how diverse we are, when we think about the contributions of the business, we look at the blend between automotive and transportation, health care, connected device, mobility, digital print, retail, industrial, cloud, 5G, networking, semi-cap, et cetera, it's just a wonderful, wonderful book of business today. We think that will continue to scale.

And as I said, at some point in the last 18 months or so, I really believe, as this business continues to get beyond \$35 billion, \$37 billion, \$40 billion, we're going to effort internally to run the business at 5 points of margin on the operating line.

Operator

Next question today is coming from Steven Fox from Fox Advisors.

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

Two questions, if I could. First of all, just building off of that last answer, Mark, can you help us conceptualize a little bit how you're growing at scale so quickly? The challenges there, given the global footprint that you have and managing new programs into, like, we're talking about 8%, 10% growth off of a \$35 billion type of sales base.

And then secondly, how is your global footprint? Just maybe a better way to ask this, how is your -- can you give us an update on your global footprint and how maybe it's changing versus what you would have thought 6 or 9 months ago?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Okay. There was a lot, let me try to break that out. So if I think about the growth at scale, which I think was the first part of your question, I think I break that up to say, one, the team, as we went through diversified the company, and really, we're able to step back once we got to what I maybe call significant scale. The team, call it a little bit of luck, call it some good planning, call it a lot of thoughtfulness. We have really, really been fortunate to get into some like really substantial, very real secular markets. And I think in my prepared remarks, I talked about things like electric vehicles, personalized health, cloud computing, clean energy, et cetera.

So strategically, the way we run strategy in the company is not so much top down, but through each of our sectors, and that's where our experts are. So the last 2, 3, 4 years, we've done a really nice job of placing our bets from a revenue perspective into some pretty powerful secular trends. That's number one.

Number two is we continue to pick up market share. So sometimes, it's always difficult when people are trying to triangulate our numbers to current macro situations because what ends up getting left behind is the market share gains. And I think in my prepared remarks today, I used -- I think I used a term like massive. There's -- the market is massive, and there's always going to be a need for things to be built and supply chains to be reconstructed, and we're pretty good at both of those things.

And then lastly is just the continued growth that we've seen. What I'd say, more of our core legacy business has been strong over the last 18, 24 months. So I would say those are the catalysts.

I don't foresee the company, as we get to \$35 billion, \$37 billion, \$40 billion, I wouldn't imagine the company is going to continue to grow strong double digits. But at least, as we look at the horizon, I think the company is going to grow nonetheless over the next 3 to 5 years for sure.

In terms of footprint, our footprint is exceptional. And whether we look at cutting Asia, Southeast Asia, China, Europe, Brazil, Mexico, U.S., again, when I -- this common theme, and I know it sounds redundant, but this common theme around diversification, we just -- we think about diversification in so many different ways, and a subset of that, certainly our overall global footprint.

Today, our big focus, economics aside, of course, is our footprint in Eastern Europe. And as I said in my prepared remarks, our hearts go out to everyone there at the moment on the ground because what they're going through is horrific, and that's where a lot of our thoughts and time are spent over the last couple of weeks.

But I -- of all the things I worry about -- or said differently, the things I feel good about, our footprint, I feel very, very good about where our footprint is today, Steve.

Operator

Next question today is coming from Ruplu Bhattacharya from Bank of America.

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

Maybe I'll build on some of the prior questions and say that Jabil's performance this quarter is impressive, and you raising the guide annual by \$800 million, \$0.70 is impressive given what's happening with the supply chain and logistics costs and oil prices and geopolitical stuff.

So can I ask you maybe what gives you the most concern when you look into the second half of this year, fiscal '22? And what happened in the past 90 days that is giving you confidence to raise the annual guide? Or was your prior guidance just too conservative?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Yes. I'm hesitating because I'm thinking. I'm always concerned about a lot of things all the time. There's a war going on, and obviously, that's a concern. And for me, that concern, this will be the third time I'll say it, right, is really about the well-being and the safety and security of our people.

And I don't know how to say this, but in terms of a pure financial economic perspective, that doesn't give me a lot of concern. Saying that, though, I do want to emphasize, it's a bit heartbreaking to me and very emotional with that situation over there, and it has our full attention.

So I would say supply chains, we tend to navigate that as good as anybody at the moment. Does that give me concern through the rest of the fiscal year? Maybe. A collapse in the macro in the very near term, not so much. Inflation, I think we're managing that quite well.

And I would say, I don't know, there's been a dust-up here recently with some more COVID issues in Mainland China. And Ruplu, I would say we've been dealing with that literally, like firsthand, since the issues in Wuhan in January of 2020. And when I think about our campuses in places like Wuxi and Weihai and Huangpu and Shenzhen and Shanghai and Tianjin and Chengdu, we got a great team over there. We've been navigating that quite well.

So as we think about the balance of the year and maybe first part of '23, as I sit today, as we sit today as a management team, we got pretty good confidence in the guide for the balance of the year and the beginning outlook for '23.

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

Okay. Can I ask about maybe if you can give us an update on your capital allocation priorities? Specifically, when I look in the past, you've focused on small tuck-in M&A. But given valuations have pulled back, do you see the possibility of any larger M&A? And how would you contrast that to the possibility of a dividend increase or focus on buybacks?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Okay. So I'll split that into two. We're always out in the market shopping. We do a very nice job, I think, in terms of small M&A. I would say our focus is going to be on maybe further transactions that look like -- a little bit like the JJMD transaction in terms of big brands getting out of manufacturing. That would be one area we continue to spend a bit of time on.

Small M&A around capabilities, I wouldn't imagine anything too sizable in terms of direct M&A just because, even with the recent correction in the U.S. equity markets, the prices are still quite high.

And then if I think of the other derivative of capital allocation in terms of buyback and dividend, we're still -- we've got authorization out to complete our \$1 billion buyback. And if there's any benefit whatsoever in the recent equity market correction is the fact we're out in the market buying back our stock.

So I think, today, with the outlook for the business over the next couple of years, where I think we're headed, what we could do in terms of margin, what we could do in terms of some continued growth, I think buybacks make a lot more sense than any type of change to our dividend. I do believe at some point in time that a well-thought multiyear dividend plan will make sense, just not now.

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

Okay. And if I can just squeeze one more, a quick one in for Mike. Looks like inventory was up 15% sequentially, but you are maintaining your free cash flow guide of \$700 million plus on higher revenues and earnings.

So can you just talk about your CapEx requirements for this year? I don't know if you mentioned that on the call yet. And how should we think about the cash conversion cycle and the cadence of free cash flow?

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

Thanks, Ruplu. So if you go back a couple of years, we were in the 3%-plus range for CapEx over time. We brought it down to about 2.6%. I feel pretty comfortable with that level. Obviously, revenues have gone up a little bit.

At the start of the year, we said about \$825 million, maybe that's now \$850-ish million. So we're still maintaining that 2.6% CapEx level. And our free cash flow yield is something we focus on quite a bit.

We're not where we want it to be, yes, and we'll be taking it up slowly through the next few quarters and get in the 50% range at some point in time, and that's what the management team is focused on.

Operator

Next question is coming from Matt Sheerin from Stifel.

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

Yes. Mark, I had a couple of questions regarding your segments. If you look at your forward guide for FY '22, it looks like you're taking up the 5G wireless and cloud segment and industrial and semi-cap segment fairly significantly.

Could you give us color there? Specifically on the 5G and cloud, is that from both segments? Or are you still seeing more strength on the cloud side versus 5G?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

It's both. We are -- I mentioned earlier in the last response about the good fortune we've had with really, really smart people in our company at a sector level that really, really understand the end markets. And much like we did with personalized health care per se, much like we did with electric vehicles, our focus on kind of the networking, cloud, 5G wireless part of our business got us integrated heavily into the 5G rollout. So that's starting to pay good dividends in terms of growth.

And then I don't even remember the time frame, but it was around the same time frame when we did the JJMD deal because I remember talking about both of them together. Our team has come up -- or did come up and is executing to an asset-light cloud configuration type of service in region that has just been adopted and performing quite well.

So I would say, when you see -- I don't remember the exact numbers, but I think what we said at the beginning of the year was the 5G wireless business would be around \$5.5 billion, something like that. Last year, it was just over \$5 billion. And I think we're now saying it will be bumping up against \$6 billion. It's equally split.

And then I think your other comment was around industrial and our semi-cap business, and again, that's just -- that's very broad based. So again, if I look at our industrial semi-cap business, a couple of years ago, it was sub \$3 billion, and now that business will be bumping up against \$4 billion.

But I wouldn't want to break that out just because the contributions or everything from semi-cap to solar to light industrial, heavy industrial, it's sprinkled across that whole sector.

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

Okay. Great. And just as a follow-up just regarding the supply constraints that everyone is seeing. Jabil seems to be managing it as well, if not better, than any of your peers.

Are you seeing any signs of ease in terms of supply opening up, particularly the legacy semiconductor parts that seem to be hard to get? Any signs of relief there?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Let me start with your last part first. I think when it comes to what you'd characterize or think about as legacy semiconductors, it's still challenging when I step back though and I look at the whole business in terms of Jabil. So this isn't a proxy for maybe the market per se. I'm talking about strictly what we use, what we consume, our supply chain across mobility, connected devices, EVs, health care packaging, digital print, retail, the whole deal.

I believe that we started talking last fall that we thought, with our team, the supply chain issues might start showing some improvement in the spring time of 2022. So that's kind of where we sit today, and I think we're starting to see some relief.

I would say the overall supply chain challenges, again, whether it's raw metals availability, and I'm strictly talking about continuity of supply, have gotten moderately better. I would probably take legacy semiconductors and still put that in the bucket of constrained. Although with our relationships, we tend to be managing that quite well as well.

I would also, maybe from a relativity standpoint or a contextual standpoint, suggest that the current guide that Mike gave and the \$7.25, I think we've done a pretty good job of contemplating all the supply chain issues and events in terms of weaving that into our guide for the balance of the year.

Operator

Next question today is coming from Mark Delaney from Goldman Sachs.

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

Congratulations on the good results. I was first hoping to talk about the inventory. The company talked about carrying some additional inventory and also taking some deposits from customers to help manage that.

Would you say that the extra inventory you're holding, is some of that strategic buffer inventory that the customers are compensating Jabil for to hold some extra stock? Or is this also partly an incomplete kitting issue?

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

I think it's all of the above, Mark. Obviously, we have some kitting issues that drives the inventory up. There's a little bit of buffering. There's a little bit of strategic hold, and that's where we offset it with the inventory deposits.

So depending on what -- how we're balancing our inventory numbers, the deposits do offset a considerable amount. I think I talked about 86 days. Sounds like a very high number. But if you take the inventory deposits out, it's about 70 days.

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So I think, overall, am I worried about the inventory? Not so much. I think we're having a temporary tightness in the supply chain, which is causing some of this.

I also talked a little bit about -- there was a little bit of a timing difference in our DMS business with the launch of new products. I fully expect that to reverse in Q3 as well, and that's what gives us confidence to maintain a \$700 million plus free cash flow number as well.

So overall, a little bit of a challenge right now in inventory. Am I concerned mid- to long term? The answer is no.

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

That's helpful, Mike. And then my follow-up was on the China region and the operational situation there given the rising COVID cases. And you touched on it a bit already, but could you comment more about to what extent any of the Jabil facilities are having to take shutdowns? And if so, do you have an expectation for how long those could last?

And then on the related topic, to what extent are other companies that are either suppliers or customers, are you seeing any indirect effects from shutdowns in the region on your business?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Yes. I think you'd be neglectful to suggest that's not a risk. Again, we've got a great global footprint. Moving stuff in and out of China, we've done that as efficiently as anybody.

But in terms of in-region or in Mainland China, it's a risk. We -- and I don't want to make light of the risk. But again, it's something that we've been handling in terms of quarantines, dormitory quarantines, campus quarantines, different province quarantines, city quarantines for 2 years. And at least as we sit today, this time doesn't feel any different.

I think where probably the biggest risk is, is when I think about the stringent protocols that Jabil uses on our own campuses. I feel very good about how we're managing the situation. I think the bigger risk element would be the greater supply chain, getting materials in and out of campuses and/or logistics, et cetera.

As we sit today, assuming that there continues to be pockets of COVID, and it's not extensive in terms of timing of shutdowns, all of that's been considered in our numbers. If the COVID issues inside of Mainland China were to get maybe a magnitude more severe than -- again, that's certainly a risk for consideration.

But as we sit today, we're 2 years in. I've got a lot of experience dealing with it, got a great team on the ground there. And again, if things stay kind of like-for-like as they sit today, we'll be fine through the end of the fiscal year.

Operator

Next question is coming from Melissa Fairbanks from Raymond James.

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

Congrats on the great quarter and guide. I was wondering if you could give a little more detail on expectations for core margin per segment. I think we all saw the press release on stepping up hiring in the health care business. Just wondering how that's flowing through margins or if that's not yet expected to impact them.

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Sure. Well, I think on one of the slides today that was posted or shown during the call, if you look at the green box, which we talk about as kind of our diversified manufacturing business, I think what we're suggesting there is, collectively, that group of businesses will run on the core margin line around 5%. And then the blue box on the -- on what we characterized our EMS business is running about 4%.

Both of those margin, call them goals, targets or guide, both of those, I think, on an annual basis -- and again, if I go back 15 years, those are probably the strongest margins we've posted in terms of as we bifurcated the business, EMS, DMS.

We don't break out margins in terms of, I think, both the green box, the DMS box and the EMS box, the blue box. Each of them have 4 sectors defined, and we share the kind of the revenue trends there. But we don't break out margins. I would -- and again, maybe at some point, we'll start breaking those up. But today, we don't.

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

Okay. Great. And then finally, on inventories, you noted, ex deposits, your inventory days are running around 70 days. Can you give us a comparison what that number was last quarter? Or maybe historically what that number has trended toward?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Yes. I would say, all in all, whether you look at the gross line or the net line, we're probably 12 to 14 days of additional fluff with overall inventory. And as Mike just commented on, we're not overly concerned about that.

The balance sheet is in great shape. And we think, in the relative near term, that corrects. And again, I think our goal internally is, at a minimum, to take that down by 12, 14 days.

Operator

Next question is coming from Paul Chung from JPMorgan.

Paul Chung - *JPMorgan Chase & Co, Research Division - VP & IT Hardware Analyst*

So just on the market share gains you mentioned, is this from -- more from Asian-based players or some of your domestic peers or both, and then scale players versus more fragmented, smaller players? And what are some key factors that are kind of closing those deals for you?

Mark T. Mondello - *Jabil Inc. - Chairman & CEO*

Again, it will sound redundant, but it's kind of -- it's across the board. And again, I just think that the market is so sizable, and we've just gotten pretty good at kind of pulling together the IT solutions, the product design solutions. The way we're performing and executing on the factory floors, I think it's been a testament to our supply chain folks the last 2 years in terms of how they've navigated the market.

And I think, all in all, I'd characterize that as people see Jabil as a safe pair of hands. And I also think there's not much good that's come out of COVID. But one of the things COVID has done is really have companies sit back and give much deeper thought to their overall supply chain strategically forward-looking. And I think, all in all, that's what's generated a lot of the conversations in terms of market share gains.

I wouldn't want to sit and handicap whether it's Asian based or domestic based or European based. I think it's across the board.

Paul Chung - JPMorgan Chase & Co, Research Division - VP & IT Hardware Analyst

Okay. Great. And then just on the strong free cash flow guide, most of the strength there is from earnings, which is great. So how big of a drag in your view is working cap for the fiscal year?

Just want to get a sense for more normalized free cash flow, which hopefully reverts later this calendar year and into your kind of next fiscal year.

Michael Dastoor - Jabil Inc. - Executive VP & CFO

So Paul, yes, when we started the year, I think we guided to \$31.5 billion of revenues. We took that up to \$31.8 million. And now we've taken it up to \$32.6 billion. So there's been a decent amount of growth in our revenue numbers.

That obviously drives a higher level of working capital. But we've managed -- we've worked out how to manage working capital really well as a team. We feel confident with our \$700 million free cash flow. In fact, I think we might be able to deliver a little bit more than \$700 million.

I think the inventory probably normalizes not fully by the end of the year, but a little bit. I think I mentioned it's 3 or 4 days of inventory due to timing differences. I expect that to reverse completely in Q3. And overall, our collections, our AP payments, et cetera, give me full confidence in the \$700 million-plus of free cash flow.

Operator

We've reached 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. - VP of IR

Thank you. Thank you for your interest in Jabil. This now concludes our call.

Operator

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

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