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JBL.N - Q1 2022 Jabil Inc Earnings Call

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OVERVIEW:

Co. reported 1Q22 net revenues of \$8.6b, GAAP operating income of \$350m and GAAP diluted EPS of \$1.63. Expects FY22 revenues to be \$31.8b and core diluted EPS to be \$6.55. Expects 2Q22 total Co. revenues to be \$7.1-7.7b, GAAP diluted EPS to be \$1.19-1.39 and core diluted EPS to be \$1.35-1.55.

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CORPORATE PARTICIPANTS

Adam Berry *Jabil Inc. - VP of IR*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

Shannon Siemsen Cross *Cross Research LLC - Co-Founder, Principal & Analyst*

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

PRESENTATION

Operator

Greetings, and welcome to the Jabil First Quarter of Fiscal Year 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the call over to Adam Berry, Vice President of Investor Relations. Thank you. You may begin.

Adam Berry - Jabil Inc. - VP of IR

Good morning, and welcome to Jabil's First Quarter of Fiscal 2022 Earnings Call. Joining me on today's call is 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 entire call will be posted for audio playback on our website.

I'd now like to ask that you follow our earnings presentation with the slides on the website, beginning with a 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 second 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 on 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'd now like to shift our focus to our strong quarter and outstanding results.

First off, the team delivered \$400 million of core operating income on roughly \$8.6 billion in revenue, resulting in a core operating margin of 4.7%. These results were primarily driven by broad-based strength in several key end markets, including health care; industrial and semi cap; and of course, mobility as customary for our first fiscal quarter. And finally, it's worth noting that our team was able to accomplish all of this in spite of the chaotic global supply chain environment.

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In summary, we delivered strong results, grew in key end markets and successfully navigated a dynamic global supply chain, clearly demonstrating the power of Jabil by way of our scale, tools, team and relationships. In a few moments, both Mike and Mark will provide more details on the quarter, while also addressing our improved outlook for the year. But before I hand it over, I'll pass along some thoughts from Jabil's procurement and supply chain team, as you may find it helpful when modeling our year.

In short, demand continues to outstrip supply, particularly as it relates to semiconductors, an issue that has persisted since 2019. That said, Jabil continues to leverage best-in-class tools and relationships to maximize our allocation and keep the factories in production to the best of our ability. So far, we have been extremely successful, and we would like to thank our supplier partners for their continued support and commitment to Jabil.

As we move ahead, we anticipate continued supply chain challenges, which have been incorporated in our guidance similar to previous quarters. We do expect some relief towards the back half of the fiscal year, but the general consensus is that demand will remain ahead of supply for the next 6 months.

With that, I'd now like to turn the call over to Mike.

Michael Dastoor - Jabil Inc. - Executive VP & CFO

Thank you, Adam, and thank you for joining us today. As Adam just highlighted, Q1 was an exceptional quarter. The team delivered strong results on 3 fronts: revenue, core operating income and core diluted earnings per share. Our results were better than expected due to a combination of continued end-market strength and excellent operational execution by the entire Jabil team, along with lower tax and interest expense.

Net revenue for the first quarter was \$8.6 billion, up 9.4% over the prior year quarter. GAAP operating income was \$350 million, and our GAAP diluted earnings per share was \$1.63. Core operating income during the quarter was \$400 million, an increase of 9.6% year-over-year, representing a core operating margin of 4.7%. Core diluted earnings per share was \$1.92, a 20% improvement over the prior year quarter.

Now turning to our first quarter segment results on the next slide. Revenue for our DMS segment was \$4.7 billion, an increase of 11.1% on a year-over-year basis. The strong year-over-year performance in our DMS segment was broad-based with strength across our healthcare, automotive and mobility businesses. Core margin for the segment came in at 5.4%. Revenue for our EMS segment came in at \$3.9 billion, an increase of 7.4% 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 3.8%, 40 basis points higher than the prior year, reflecting solid execution by the team.

Turning now to our cash flows and balance sheet. In Q1, inventory days came in at 66 days, a decline of 5 days sequentially. The management team continues to be fully focused on this metric, particularly in the current environment. And I expect over the medium to longer term, our inventory days to normalize below 60.

Cash flows used in operations were \$46 million in Q1, and net capital expenditures totaled \$73 million. We exited the quarter with total debt-to-core EBITDA levels of approximately 1.3x and cash balances of \$1.2 billion. During Q1, we repurchased approximately 2.1 million shares or \$127 million.

Turning now to our second quarter guidance on the next slide. DMS segment revenue is expected to increase 4% on a year-over-year basis to \$3.8 billion, while the EMS segment revenue is expected to increase 14% on a year-over-year basis to \$3.6 billion. We expect total company revenue in the second quarter of fiscal '22 to be in the range of \$7.1 billion to \$7.7 billion. Core operating income is estimated to be in the range of \$290 million to \$350 million. GAAP operating income is expected to be in the range of \$266 million to \$326 million. Core diluted earnings per share is estimated to be in the range of \$1.35 to \$1.55. GAAP diluted earnings per share is expected to be in the range of \$1.19 to \$1.39. The tax rate on core earnings in the second quarter is estimated to be approximately 24%.

Next, I'd like to take a few moments to highlight our balanced portfolio of businesses by end market. Today, both segments are in incredibly good shape. In September, I highlighted several long-term sustainable secular trends in strategically important end markets, such as Healthcare,

Automotive, Cloud, Semi-Cap, 5G Infrastructure and the associated connected devices, along with power generation and energy storage. For the remainder of FY '22 and beyond, we continue to expect these secular trends to drive strong growth.

Our electric vehicle business, in particular, continues to outperform in spite of global supply chain issues as the transition to EV accelerates. And importantly, our broad-based growth associated with these secular trends is expected to drive solid year-over-year core operating margin expansion in both segments, all of which gives us confidence in our ability to deliver strong financial results for FY '22. And a balanced capital allocation framework approach is aligned and focused on driving long-term value creation to shareholders.

I would like to wish each and every one of you a safe and happy holiday. Thank you for your time today, and thank you for your interest in Jabil. I'll now turn the call over to Mark.

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

Thanks, Mike. Good morning. I'll begin today by thanking our folks here at Jabil for making safety their personal priority. I'd also like to recognize their hard work and tireless commitment, which drove solid results for our first fiscal quarter. Again, thank you. And before I get into my prepared remarks, I'd like to wish all of you a safe and peaceful holiday season.

With that, let's move to our next slide, where I'd like to expand on what Mike and Adam addressed in their prepared remarks. Not only did our team deliver a favorable first quarter, but the diversification of our business was fundamental to the results, with each sector having a material contribution in the solutions we offer our customers and with each sector having a material contribution to our financial results. Specifically, the 4 sectors in our DMS segment focus on margins while offering reliable cash flows, while the 4 sectors in our EMS segment focus on cash flows, while offering reliable margins, a perfect complement as the well-diversified construct of Jabil continues to drive our execution.

If we dig a little deeper, we find secular trends embedded within certain sectors, secular markets where we now play and have a substantial presence, we believe these markets will drive our growth with the overwhelming majority of such growth occurring organically as we place our attention on secular opportunities, opportunities such as 5G, electric vehicles, personalized healthcare, cloud computing and clean energy. Furthermore, our commercial portfolio is intentional, and we think quite special.

Each slice of this pie harbors domain expertise, affording us an essential collection of valuable capabilities, although what's most impactful is the way in which we merge these capabilities with precision and speed as we serve our customers. Our approach is further enhanced by seamless collaboration across the organization, combined with our unique Jabil structure. And when done correctly, we simplify the complex for many of the world's most remarkable brands. And we do so as we lean into a massive market, where things need to be built and supply chains need to be optimized.

One of the key outcomes of our approach is the fact that with each passing year, our results become less dependent on any single product or product family, which improves our resiliency, especially during times of macro disruption and cyclical demand.

I'll now take you through an update to our fiscal '22 financial plan, where you'll see the continued earnings power of the company. We've increased core earnings per share to \$6.55 for the year, up \$0.20 from our September outlook. We've also increased revenue to \$31.8 billion, up from our initial guide of \$31.5 billion. In addition, we're committed to delivering free cash flow in excess of \$700 million, while maintaining a core margin of 4.5% for the year as we navigate this challenging environment. In concert with these strong numbers, please note that our path forward is well understood throughout the company, and what needs to be done remains crystal clear.

Quite simply, what we're doing is working, a positive testament on how our team is managing the business.

Moving on from the financials, I'd like to talk about purpose. At Jabil, purpose serves as our guidepost. When we think about purpose, we think about our behaviors, behaviors such as keeping our people safe, servant leadership, DE&I, protecting the environment and giving back to the many communities where we live. Please note that these behaviors, as displayed by our team, are exceptional.

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In closing, our improvement is steady, and our strategy is consistent. And as a team, we value our role as a responsible and reliable partner to those we serve. All in all, I feel good about where we've been, but I feel even better about where we're going. In simple terms, at Jabil, we build stuff, and we do so really, really well. We also solve problems over and over again. That's why we welcome the challenges put forth by our customers.

To our entire Jabil team, thank you for making Jabil, Jabil. I want each of you to always be your true self without fear or anxiety as you care for one another. To everyone on the call today, I wish you a safe and peaceful holiday.

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

Adam Berry - Jabil Inc. - VP of IR

Thanks, Mark. Before we begin our Q&A session, I'd like to remind everyone on our call that we cannot address customer- or product-specific questions. Otherwise, we're now ready for your Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) One moment please while we pull for your questions. Our first questions come from the line of Ruplu Bhattacharya with Bank of America.

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

You talked about component shortages. Is there a way for us to -- for you to quantify for us what was the revenue impact in the November quarter from component shortages? And what have you factored in for the February quarter? And how you see these component shortages lasting into 2022?

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

Thanks for the question. Jeez, I don't know that we really look at it that way. How I would answer it maybe would be maybe getting away from Q1, and I'm not doing that for any reason other than I kind of think about the year a bit deeper. I'd say that -- We've taken the year now from \$31.5 billion to \$31.8 billion. I think that's up from like \$29.3 billion last year. And I think we've done a really good job spending a lot of time with our commercial folks, our operations folks and our supply chain procurement folks. So I believe that we've handicapped supply chain properly to deliver the \$31.8 billion.

I guess, in an unconstrained environment, I don't know, maybe the \$31.8 billion would be somewhere 32-something in terms of top line. But again, I think we spend more time really kind of looking at our factories, looking at the pipeline of materials and then a lot of communication and connectivity between our supply chain procurement folks, our operations folks and our commercial folks. So I think maybe the main takeaway is, is assuming supply chain continues to be kind of bumpy and a bit unpredictable for the next couple of quarters, we believe we've handicapped that properly to deliver the year or, said differently, the \$31.8 billion.

In terms of when we see things getting better, I like the question because it allows me to give a shout out to our supply chain procurement team for what they did in 4Q of last year and Q1 of this year in delivering the numbers. We overshot revenue by about \$300 million for the quarter, and a lot of that had to do with the whole team, but just tremendous work from the supply chain procurement group. I think that we'll continue to be in this environment in one way, shape or form, probably through the spring into early summer. But I think we start seeing things getting better 6 to 9 months from now.

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

Okay. Thanks for the details on that, Mark. That's helpful. Mike, I wanted to ask you on free cash flow. It looks like inventory was up 6% sequentially after 2 quarters of -- I think it was double-digit growth. And that's understandable given the component environment. But can you help us -- you've maintained the \$700 million-plus guide for the full year. Can you help us think about the pace of free cash flow over the next 2-3 quarters? How should we think about which quarters are stronger, which quarters are weaker?

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

Ruplu, I'd sort of move in the same direction as in previous years and previous quarters, in past years. The trend will be pretty similar, the seasonality attached to our free cash flow. So that doesn't change much through these times. We do expect the supply chain constraints to open up a little bit. And in Q4, I think the cash flow will be a lot higher. So I think overall, similar trends to last year with a slightly stronger performance in Q4 is the best way to model that Ruplu.

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

Okay. And maybe for my last question, Mike, if I can just ask you, how should we think about your capital allocation priorities? Specifically, if you can talk about how you're thinking about buybacks versus maybe M&A. And also the tax rate was a little bit lower this quarter than expected. How should we think about that for the full year?

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

Sure, Ruplu. So we have -- on buybacks, we have \$1 billion authorization. I think we still have about -- I think it's about \$830 million of that authorization left. We'll continue to be well balanced in our capital allocation. I personally feel the stock is still highly undervalued. So buyback will be an integral part of our capital allocation framework.

M&A, as we've done in the past, Ruplu, we've done tuck-in M&A capability-driven M&As. And I think in September, we highlighted a little bit of a capital allocation framework there as well. At this stage, no changes to that M&A tuck-ins will continue as we progress through the year.

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

And on the tax rate, any guidance for the full year?

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

Tax? So for Q2, I think we've said 24% in that range, Ruplu. The reason it was good is purely because of the mix issue income coming through in different jurisdictions were in 30 countries. So there's a lot of moving parts. But in that 24% range should be a good guide for now.

Operator

Our next questions come from the line of Jim Suva with Citigroup.

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

Question for Mark. When all of this hit with COVID and before that, even trade wars, we're talking 2, 3, 4 years ago, there was discussions about your customers may be changing the sourcing of where they're going to actually have you do the work for it and not be as concentrated to mitigate risk. Just curious as we roll it forward now several years, has a lot of that materialized? Are they still in discussions? Is it off the table? Or has it already come to pass? Or some of it has and some of it's still being talked about? I'm just kind of curious about how that all ended up. Because we've been in a world of trade wars, uncertainties, COVID and supply constraints now for a couple of years. I'm just kind of wondering what the materiality of actions from your customers.

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

Yes. Thanks, Jim. I'm trying to figure out time frame. Let's keep with the 3 to 4 years you talked about. I'd say that -- I'd say for the last, I don't know, dozen years, we have a bunch of tools that have kind of migrated from manual tools to more digital tools to more data analytics as the companies matured and advanced forward. But tools nonetheless, where we've always gone from kind of manual spreadsheets to the new digital tools in terms of optimizing supply chains for customers.

Kind of the thesis to your question, though, around trade wars and tariffs and geopolitical issues and risk in COVID, [this] and other issues, I would say that in the last 24 to 30 months, there has been a heightened sensitivity in terms of working with customers on a proactive basis to be sure that their overall supply chain manufacturing solutions are optimized, derisked as well as supported with backup plans.

So as an example, one of the things we talk about a lot is, I think there's a huge advantage of building stuff when you have scale and then you have diversification, either top line or factories around the world. Today, we're sitting in a really good place because a lot of our customers put a lot of trust in Jabil, and we do the vast majority of their work. And even though they are of inside of Jabil, we can provide fabulous redundancy plans if things go a bit sideways.

So I'd say, Jim, some of the things that you alluded to have been very real catalyst to maybe increase the priority in terms of supply chain and where we build stuff. And then the other neat thing about our tools today is with the advancement of the data analytics and how we're positioned in the supply chain, both front end and back end, we also spent a significant amount of time with customers today mapping their entire supply chain. So from the most basic precious metals through components, consideration of design, where the product is going to be manufactured and then how it's going to be distributed. So I'd say, all in all, today, it's perpetual. I don't think it's ever done. But I think to your point, we've done an awful lot of work, and there's been a lot of prime catalysts for that type of work to be done. And I think overall, we do a pretty good job in that area for our customers.

Operator

Our next questions come from the line of Mark Delaney with Goldman Sachs.

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

I have two. Maybe starting on margins, if I could. I was hoping you could comment a little bit on how you're thinking about the sustainability of margins. Obviously, you guided fiscal '22, but over the longer term. And on the one hand, the company has been having to deal with supply chain costs, COVID and some of those challenges. Although also been getting questions from investors about whether or not factory utilization is perhaps unusually high when we think about how strong global demand for goods has been in and some of the government stimulus programs that have been in place. And so any thoughts you can share on the puts and takes and sustainability of margins over the longer term, please?

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

Thanks, Mark. I think that let me start with factory utilization. I think factory utilization in 4Q and Q1 was mixed and choppy. We had -- and the biggest issue there is, again, the supply chain dynamics. So I wouldn't conclude that any portion or a material portion of our results was due to hyper factory utilization. In fact, I think it was maybe a little bit of the opposite. So let's just call that maybe a very slight net negative through Q1, and yet the results, I think, were very, very good.

If I then move through maybe the back half. So now we've posted Q1. We've given you a fairly explicit numbers for Q2. If I think about the back half of the year, as I think about margins, I think the back half of fiscal '21 margins for the whole company were around 4%. If I think about the back half of '22, the overall margins for the company are going to be 30-40 basis points greater than that. And I think that's a good indication of the composition of the business mix today and where we're focused.

And one of the things that we did in the slide deck today and the prepared remarks between Adam, Mike and myself, is we're reinforcing the 4.5% for the year. By the way, when, again, a decent portion of the year is going to be fraught with the supply chain challenges. So that's up 30 basis points from last year, which last year was, I think, a pretty good year for us.

And I think where you're going is beyond this year, I don't want to get into too much speculation about where the business might be going in '23 and '24, although I made a comment some time -- I don't remember when, sometime in the last 12 months or something like that during the JPMorgan conference, the question came up. And we were going back and forth talking about kind of the midterm outlook for the company. And I suggested that we -- we're a company where we focus the vast, vast majority of our growth organically. We're not big on big M&A deals. And if that continues and we continue to be successful in the marketplace, I do think we're on a trajectory where margins can be above the 4.5%. I think maybe next step would be 4.6%, 4.7%. And our internal efforts are going to be around running the company at 5% on the op income line.

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

That's really helpful. I appreciate all the thoughts on that, Mark. My follow-up was about an award the company just received, the optical business unit. [So was] awarded some recognition for one of its sensors. I'm just hoping you could speak a little bit more on what that business unit is doing, I know it you are behind a lot of the different product areas. And perhaps where you're seeing the best growth on some of your optical and sensor technology.

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

Well, I think we've -- if I [choose] I go away back to -- I go all the way back to an acquisition we made that has been -- has proven quite good for us, both in knowledge in terms of R&D, which is active alignment on sensors as well as optics, and we think that's a really nice tool to have in our tool set because it cuts across so many different end markets. It's everything from consumer on kind of the consumer robotics side. It's in retail in terms of our robots in terms of the retail space, and it's certainly helping us in terms of autonomous driving and in the EV market. And then we're also using it in some areas of industrial.

So I think that when I think about -- I think in my prepared remarks, I talked about kind of how we weaved together kind of a library full of capabilities. The active alignment sensors and optic side is an important part of that. And again, we like it because it's not pigeonholed into 1 particular business or 1 particular sector. It cuts across probably 50% of our 8 sectors. So it's something that can be leveraged quite well.

Operator

Our next questions come from the line of Matt Sheerin with Stifel.

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

My first question, Mark, is just regarding your guidance for DMS in the quarter, up 4% year-over-year, yet you're guiding more than 10% for the fiscal year. Is that just a reflection of a pronounced seasonality in the Mobility business? Or do some of the supply chain constraints and expectations of that improving through the year also play into that?

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

Matt, can you help me a little bit? So the 4% being what, if I heard you correct. Are you talking about -- you're not talking about op margin. You're talking about growth?

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

That's right.

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

Are you talking about growth rate for -- on the Q2?

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

That's right.

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

Okay. When you started, I was getting a little bit confused on whether you were talking about...

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

No, I was talking about the growth -- about the year-over-year growth.

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

Yes, yes. I think that's based on 2 things. I think it's largely based on -- I think that there's a distortion in the comps year-on-year because last year, with various product road maps and whatnot in DMS, they were a little bit different. And so I think the year-on-year comps are a little bit distortive.

I would say, if I back up and open the aperture a little bit, where I really like the DMS construct. And aside from the Q2 year-on-year comp, we still think -- and I think it was shown this way on the bluegreen slide that our DMS business is still going to grow 10%, and that's at significant scale. So I appreciate the question because it is a one-off. I think every single quarter this year will be bumping up against double digits, except for Q2. And again, largely due to the fact that I think Q2 of '21 was a little bit of an odd comp.

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

Okay. That makes sense. And then I wanted to just ask about the Auto business. You're one of the few companies actually taking auto numbers up despite the ongoing supply constraints. And I know there's a lot of momentum in EV. So could you discuss Jabil's position there, your areas of expertise and how you may be differentiated from competitors?

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

Yes. Well, first off, I'd give all the credit to -- the real cool part about Jabil is at an enterprise level, what we do is, in terms of our path, is pretty simple - we build stuff. And we got the company broken up into 8 segments as you see every time we get on one of these calls or an Investor Day. And the strategies are bottoms up, which I think is different than a lot of companies. And I love the strategy that's been put in place with our automotive and transportation group. And it started a number of years ago, and they became hyper-focused on a belief in electric vehicles. And we're starting to see that moving forward.

I think that even with component constraints through the back half of '21 and certainly through a portion of '22, when I -- when we meet with that group, we handicap it. We've got the supply chain dynamics going on. We're still looking at an automotive and transportation growth rate year-on-year north of 40%. And I think that has to do with our solution set. I think that has to do with some very deep relationships we've built in the EV space. And I think we're continuing to add to that and continuing to diversify that business. But all in all, as we sit today, our automotive business, if you go back to, let's say, fiscal '18, '19, it was about \$1.5 billion business. And we think going forward, that will be a \$3.5 billion, \$4 billion business for us. And again, I think it's a reflection of the service offerings largely in the EV space.

Operator

Our next questions come from the line of Steven Fox with Fox Advisors.

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

Two questions from me; first of all, I am just curious like with new variants of COVID, how you budget that into different factory attendance utilization going forward. It looks like maybe you could have more people with COVID hopefully with less serious symptoms, but they'd still be out of work for a little while. And then secondly, Mark, the Healthcare business is turning into this boring, but very nice growth business. I'm just curious where you think you are on the margin trajectory, whether there's further margin upside? And anything you would highlight in the quarter.

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

Yes. First off, we hope to see you down here in Tampa. I think your team is playing in the outback ball. So let us know if you're going to pop down.

In terms of your question, the COVID situation, our team has done a first-rate job. We -- as we were going through the back half of '21, we had cases largely driven on the Delta variant all over the world. And we were able to serve our customers, do so really, really well, not without some pain points. But again, I don't like to -- I don't want to start with our financial results. I want to start with the fact that we did a great job serving customers. And an outcome for that was through at all, fiscal '21, and for that sake, fiscal '20, I think we navigated everything quite well, especially considering our geographic reach and the scale of the company.

As we sit today more with Omicron, I -- let's keep our fingers crossed that maybe it appears to be a bit more contagious, maybe not as severe, time will tell, but we continue to do a really, really nice job in terms of managing that as well. As we think about some of the disruptions we had in Southeast Asia, disruptions are still there, but not to the magnitude that we've seen in the past. So fingers crossed.

As we think about China, Mexico, U.S. and Eastern Europe, as we sit today, disruptions on a relative basis. So let's just say, for the last 18 months of hard COVID, we see some periodic issues. But disruptions, I think, today are less than they've been in the last 14, 18 months. We continue to promote vaccinations around the world. We continue to promote booster shots. We continue to try to provide those on site. We set the status meeting last week where, as we get to the end of this calendar year, 70%-75% of our employees will be vaccinated. So I think that's helpful. I think we drive a lot of awareness. And then we also have very disciplined protocols inside of our factories' mess or otherwise. I think all that is helping. And again, let's keep good thoughts about this next derivation of the virus. And hopefully, as we get into calendar 2022, it will be manageable like it has been in the last couple of years.

In terms of our Healthcare business, I would -- I don't know that I'd call it boring. I think I'd take that term as a positive, where I take boring as consistent and reliable. And boy, if that's the context to which you offer that, it -- I think it's spot on. Here's a business where, in fiscal '19, we thought we would do about \$3 billion in the health care space. We overshot that by \$100 million, \$200 million. And in '20 and '21, we grew past \$4 billion. And our Healthcare and Packaging business, as we reflected today, at the beginning of the year, we thought we would do about \$5 billion and those numbers are holding. And by the way, that's with the handicap on the supply chain dynamics.

And what the team is doing there has gone so far beyond base electronics. When you think about all the things we're doing in the pharma space, when you think about what we're doing in terms of precision machining and then also next-evolution 3D printing in terms of orthopedics, it's really, really fascinating to me. So it's an area of our business that gets a lot of attention, both internally and externally, and it's very, very material to the next couple of years for the company.

Operator

Our next questions come from the line of Shannon Cross with Cross Research.

Shannon Siemsen Cross - Cross Research LLC - Co-Founder, Principal & Analyst

Two for me as well. I guess the first is, in conversations with several companies we cover, the managements are talking about looking to longer-term contracts with the supply chain sort of changing the discussions they're having to lock in business on a longer-term basis. So I'm curious if you've heard that. I know some of this is component-based, but I think it also just goes to broader supply chain challenges. And I don't know if you can talk about it, but I'm curious, what percent of revenue is sort of locked in for a given quarter at the start of the quarter? Or maybe when we think about guidance for the full year, what percent of the year is locked in on the first day of the fiscal year?

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

Thanks, Shannon. I would say on the speculation or rumors or fact that you're hearing in terms of people locking in allocation both component and then maybe capacity for Jabil, I -- we sit kind of in the middle of all of that. And as I mentioned on one of the prior questions, I think a lot of our customers do a really nice job. They do things independent. We do things independent for them, and we bring our thoughts together. And then we have a lot of relationships where we work all of this collaboratively. And by the way, that's becoming more and more because of our tools.

And I would say that what this most recent supply chain disruption has driven is, there is a significant amount of activity going on today, where we're already modeling what-if scenarios and demand planning, which would result in allocation for late calendar 2022 and into the first half of 2023. So I think that -- I think people are trying to get out in front of it. Again, we're doing a lot of what-if scenarios. And I think people are trying to do a better job with forward-looking communication in terms of [guard banding] their overall demand and their needs maybe 18 to 24 months out, where maybe previously for some companies, it might have been more like 6 to 9 months out. And again, I think some of the data analytic tools are helping with that.

In terms of what percentage of our revenue is booked or secured going into a quarter, I would say, I don't know, 98% of our revenue going into a quarter. So as we're sitting here today -- so here, we sit on November, whatever today is 16th into our 2Q, and let's just say 95%-98% of the revenue is booked, it's just a matter of execution. And that's not always so simple, but I think we do that pretty well. So I think a very high percentage as we have calls giving guide for the quarters.

I think where some of the distortion comes in relative to Jabil is I think we tend -- I think we've proven that we tend to be a bit conservative sometimes in the top line guide where we try to handicap a little bit of everything, and we've kind of gotten into this mode where revenue comes in a little bit than we expected sometimes. And again, we're trying to get better at that. But in this environment, with things being so dynamic, I think we try to be sure we handicap it properly.

And then Shannon, in terms of the year, I would also say that maybe a critique of myself and Mike is, the last couple of years, it feels like maybe we've been hypersensitive to handicap in the year. Because last year, from what we said at the beginning of the year, we ended up driving a bit higher revenue. I think the same was in '20. I would -- if I had to guess today because of the supply chain challenges, we probably won't have revenue run away from us. I think we feel good about the \$31.8 billion. And if some of the supply chain issues clear up faster, I think the \$31.8 billion turns into \$32 billion or maybe a little bit more. So all in all, with what we do, how we do it, I think we're typically in pretty good shape for a quarter, and I think we do a pretty good job for the year on the top line.

Shannon Siemsen Cross - *Cross Research LLC - Co-Founder, Principal & Analyst*

Great. That was really helpful. I'm wondering, from a bigger picture standpoint, from a long-term planning, I guess, are there areas, once we get past -- if we get past whatever we're going through in supply chain and COVID, where you're looking at big CapEx projects or new segments on technology? I'm just -- I'm wondering sort of how you think about the next several years? Or are you just extremely focused as everybody is right now on kind of getting through this period of time? So I don't know, maybe how you're doing long-term planning in the days of COVID right now?

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

Yes. I'd start with -- the supply chain issues are going to -- we're going to get to the other side of the supply chain issues. It's a matter of when, but that's 100% for sure. Because there's going to be a normalization between demand and supply, that's going to get remedied, 100% fact just a matter of when.

In terms of all the COVID thing, I don't know how that all ends. Maybe we end up fortunate where it ends up being flu-like and we just learned to live with it. So I don't want to speculate on that.

In terms of how we run the business, I think we run it in a couple of different dimensions. We're -- we try to be -- again, we lead with obsessing around solutions and services for our customers. And we believe that with the commitments we make to customers, those commitments are then rolled into a financial forecast, and then we handicap or haircut that a little bit with good management judgment. So if we continue to do what we say and deliver for customers, the financial results tend to be an output of that. And boy, we obsess about that on a weekly, daily, monthly basis.

In terms of maybe a little bit bigger picture on CapEx and whatnot, we're focused on -- there's an endless amount of things. When you think about how big the market is in terms of building stuff, the market is just substantial. And so there's more stuff out there than we can possibly do, which I think is a good thing. And so based on how the platform the company looks today and how well diversified we are today, and by the way, that wasn't the case 10 years ago, we're really being disciplined in terms of what we do, why we do it at starting with, do we add great value? And if we add good to great value, again, the financials are an outcome of that.

And then from that, we also -- the next derivative of that is we do have an obligation, both to ourselves internally as well as shareholders in terms of margin construct as well as cash flow generation. So those are the filters that we use. In terms of do we spend a lot of time thinking 3 to 4 years out? We do. But I think we start with the fact that with how we're positioned today, what we do for customers, all the customers that are out there and again, and generally, just how big the market is in terms of things that need to be built, we don't obsess around the size of the market. We -- I think that's going to be there. It's really about the makeup of the company, the margin structure, hopefully, the advancement of margins. And then we're going to be in really good shape if we continue to generate strong cash flows because those cash flows continue to reduce our net debt position and give us an awful lot of optionality in terms of capital allocation over the next 3 to 4 years.

Operator

Our next questions come from the line of Paul Chung with JPMorgan.

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

Great quarter. Looks like a recording in revenue and operating profit despite a challenging environment. So a great job there. So just a follow-up on customer preferences on facilities location. So what occurs when a customer decides to move, align from China or some other location in Asia or even move to North America? If you can talk about kind of the incremental cost of that move? And how that gets allocated? Do you kind of pass on most of that cost to the customer? Is this kind of a margin cash-neutral move for the company? And are those discussions kind of accelerating? Or a lot of customers are kind of in wait-and-see mode?

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

Thanks for the question, Paul. I think I'd start with, there's nobody better in the world -- and I don't make bold statements like this off. There's nobody better in terms of giving optionality to customers in terms of what geography the product gets built. And I say that largely because if we're not the largest, we're one of the largest manufacturing services company in the world today with a broad-based footprint. And the art around your question is really around the hard assets, our global footprint, the broad-based nature of that footprint and then the fact that we wrap really sophisticated IT systems around that footprint in a very, very consistent way, which also is very unique, especially when combined with our ability and our scale. So -- and it's an ongoing iterative process.

So we talked earlier in Q&A around the fact that there's been catalysts over the last couple of years going back to when Trump was in the office in the U.S. and the geopolitical issues and the macro issues and the supply chain issues. So there's been some -- it's always been in our business. I think it's been maybe more prevalent the last 24 months, 36 months, something like that. But how it gets done is, is we're continually rerunning and rerunning and rerunning the data analytics for customers working side-by-side with them on an absolute scale in a perfect world. As we look at their product road maps and their overall endpoint consumptions, here's what an optimal supply chain looks like, and there tends to be a lot of variables that are all different for each product that go into those models. And then we end up having very practical conversations with the customers.

In terms of who bears the cost on that, it depends. If assets are fungible, reusable a lot of times, that we'll bear the cost in that. If assets tend to be unique, difficult to move, have to be recreated, redundancies needed, things like that, we end up having appropriate commercial discussions with our customers. But again, if one were to take a proxy or a wide range conversation with our customers in terms of this part of our business, I think it's something we do really, really well. I think it's very good value. And it also -- overall, when companies do get concerned around backup plans or redundancy plans, knowing that this is an area that we do especially well, I think, gives a lot of our customers good comfort.

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

And then last question. Can you kind of provide an update on the pricing environment? You mentioned very strong demand ahead of supply. So are you kind of raising prices in certain areas? And then how is the competitive pricing environment kind of evolving, particularly with new customers? Are you seeing any acceleration of new customers as they want to kind of outsource the complexities of supply chain, logistics, et cetera?

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

I'd start first with, I think, during our Investor Day in September, I made a comment -- I think I made the comment. Our organic pipeline today is substantial. So in answering your question in terms of are we adding new customers? We're always adding new customers. Again, I think that's a reflection of -- I think that's the reflection of the size of the market.

But I think, again, if our pipeline is, call it, \$5 billion-\$6 billion, \$7 billion organically, we plan to try to confirm and book a decent portion of that for the next -- for FY '23, '24.

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In terms of are we raising prices? I don't know that I'd look at it that way. The way I look at it is I think our margin expansion is not coming from anything to do with raising prices. It has to do with the total holistic makeup of the company. What we are doing is, is we're not in a high-margin business, as all of you know. And we can't bear the cost when the macro inflationary transitory, permanent, whatever it may be. When hard costs start to move against us, I think we do a very good job of sharing in that with our customers. And so I look at it more on -- based on the data, based on the macro, based on the facts, we do a good job of sharing on increasing costs. I don't look at it so much as us being out there raising prices.

Operator

Thank you. There are no further questions at this time. With that, we do thank you and appreciate your participation. This does conclude today's teleconference. You may disconnect your lines at this time. Enjoy the rest of your day.

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