

Jabil Inc. (JBL)

\$32.36 (As of 06/03/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Jabil's top line is expected to benefit from contract wins in healthcare, automotive, cloud and 5G. Moreover, improving end-market diversification is noteworthy as this boosts investors' confidence in the company's ability to increase earnings and revenues. The company's efforts to optimize manufacturing footprint are expected to drive profits. However, supply-chain constraints are expected to hurt Jabil's operations resulting in lower top-line growth. Moreover, soft demand due to the coronavirus-led economic crisis is expected to dent top-line growth. Moreover, Jabil operates in a highly competitive environment, facing rivalry from both domestic and international electronic manufacturing services and design providers. Shares of Jabil have underperformed the industry on a year-to-date basis.

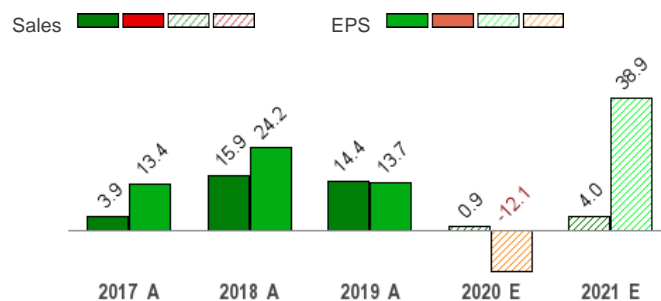
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.20 - \$17.63
20 Day Average Volume (sh)	1,148,617
Market Cap	\$4.9 B
YTD Price Change	-21.7%
Beta	1.26
Dividend / Div Yld	\$0.32 / 1.0%
Industry	Electronics - Manufacturing Services
Zacks Industry Rank	Bottom 17% (209 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-16.7%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	-15.6%
Expected Report Date	06/16/2020
Earnings ESP	-15.9%
P/E TTM	10.8
P/E F1	12.4
PEG F1	1.0
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,946 E	6,309 E	6,319 E	6,754 E	26,534 E
2020	7,506 A	6,125 A	5,695 E	6,185 E	25,510 E
2019	6,506 A	6,067 A	6,136 A	6,573 A	25,282 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.00 E	\$0.81 E	\$0.80 E	\$1.01 E	\$3.64 E
2020	\$1.05 A	\$0.50 A	\$0.36 E	\$0.79 E	\$2.62 E
2019	\$0.90 A	\$0.64 A	\$0.57 A	\$0.88 A	\$2.98 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

Headquartered in St. Petersburg, FL, Jabil, Inc., is one of the largest global suppliers of electronic manufacturing services (EMS). The company offers electronics design, production, product management and after-market services to customers catering to aerospace, automotive, computing, consumer, defense, industrial, instrumentation, medical, networking, peripherals, storage and telecommunications industries.

Jabil reported revenues of \$25.28 billion in fiscal 2019.

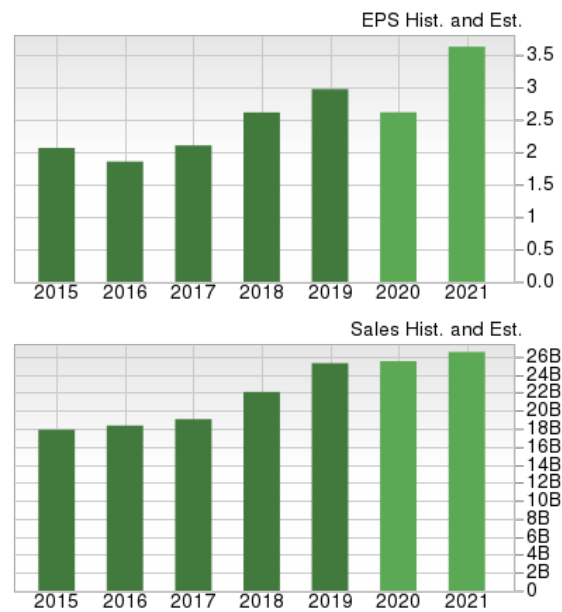
Beginning fiscal 2015, Jabil has two reporting segments: Electronics Manufacturing Services (EMS) segment and Diversified Manufacturing Services (DMS). The EMS segment includes enterprise and infrastructure, high velocity, and industrial energy businesses whereas the DMS segment will include Jabil's Nypro and Green Point brands.

The EMS segment (61% of fiscal 2019 revenues) is focused on leveraging IT, supply chain design and engineering, technologies largely centered on core electronics, sharing of large scale manufacturing infrastructure and serving a broad range of end markets. EMS segment is typically a low margin but high-volume business that manufactures products at a quicker cycle time and in larger quantities. The EMS segment includes customers primarily in the automotive, computing, digital home, energy, industrial, networking, printing, storage and telecommunications industries.

The DMS segment (39% of fiscal 2019 revenues) is focused on providing engineering solutions, heavy participation in consumer markets, access to higher growth markets and a focus on material sciences and technologies. The DMS segment is a high-margin business and includes customers primarily from the consumer lifestyles, health care, mobility and packaging industries.

The company's largest customers included Apple, Cisco, Hewlett-Packard Company, Keysight Technologies, LM Ericsson, NetApp, Nokia Networks, SolarEdge Technologies, Valeo S.A. and Zebra Technologies.

The company faces significant competition from the likes of Benchmark Electronics, Celestica, Flex, Hon-Hai Precision Industry, Plexus and Sanmina.



Reasons To Buy:

- ▲ Jabil's focus on end-market and product diversification is a key catalyst. The company's target that "no product or product family should be greater than 5% operating income or cash flows in any fiscal year" is commendable. This initiative should position the company well on the growth trajectory. The diversification will increase reliability of the company's earnings and revenues, thereby driving returns for investors in the long haul.
- ▲ Jabil's top-line growth is expected to benefit from strength in healthcare, cloud, retail and industrial. The company is expected to gain from rapid adoption of 5G wireless and cloud computing in the long haul.
- ▲ The Johnson & Johnson deal is a major growth driver for Jabil. During the second quarter, Jabil transitioned the first two sites from Johnson & Johnson Medical Devices Companies (JJMDC). The company is on track to complete the third-phase in the current quarter. For fiscal 2020, revenues associated with the J&J collaboration are expected between \$800 million and \$1 billion.
- ▲ Jabil has ample liquidity to pursue further growth opportunities. As of Feb 29, 2020, cash and cash equivalents were \$696.7 million. The company also converted a lot of short-term debt into long-term debt, which further strengthened its near-term liquidity. Further, times interest earned were 2.7X as of Mar 31, 2020, in-line with the industry.

Diversifying business, and expanding opportunities in the healthcare, cloud, 5G, retail and industrial businesses are important growth drivers.

Reasons To Sell:

- ▼ Jabil's 2020 results are expected to reflect the coronavirus impact. Apart from supply-chain constraints that resulted in lack of components, the company's variable cost is expected to remain elevated due to business-interruption costs in China and other parts of the world. Jabil spent \$53 million on direct costs in February due to disruptions related to the coronavirus. The company expects to spend \$10-\$20 million on business disruption and interruption costs each for the months of March and April.
- ▼ Moreover, Jabil is exposed to significant customer-concentration risk, with its top five customers accounting for a significant portion of revenues. Given the competitive nature of the industry, the uncertainty in demand from or loss of any of its key customers will severely impact the company's results.
- ▼ Slower industry growth means competition from peers has become more intense. Therefore, in order to grow, companies in the EMS business must compete with each other for market share, resulting in a more competitive environment. As a result, margins are low throughout the industry. Jabil operates in a highly competitive environment, facing competition from both domestic and international electronic manufacturing services and design providers. Moreover, commoditization and consolidation add to the risks.
- ▼ As a part of its growth strategy, Jabil has made numerous acquisitions and is likely to continue doing the same in the future. Integration risks are a constant concern for Jabil as the competitive nature of the market necessitates acquisitions to maintain growth.

Jabil is negatively impacted by mobility weakness and sluggish spending in semiconductor capital equipment business.

Last Earnings Report

Jabil Q2 Earnings Miss, Coronavirus Dents Y/Y Growth

Jabil reported second-quarter fiscal 2020 earnings of 50 cents per share, which lagged the Zacks Consensus Estimate by 16.7% and decreased 21.9% year over year.

The earnings figure also lagged management's guided range of 62-82 cents per share on a non-GAAP basis.

Notably, Jabil spent nearly \$53 million related to business interruptions caused by COVID-19 (coronavirus) outbreak.

Revenues increased 1% year over year to \$6.13 billion that beat the Zacks Consensus Estimate by 0.02%. The figure also surpassed the guided range of \$6-\$6.7 billion.

Quarter Details

Electronics Manufacturing Services (EMS) revenues accounted for 63% of total revenues and increased 1% year over year to \$3.8 billion. Diversified Manufacturing Services (DMS) revenues accounted for 37% of total revenues and improved 1% year over year to \$2.3 billion.

Gross margin, on a GAAP basis, contracted 50 basis points (bps) year over year to 7%.

Core EBITDA margin contracted 60 bps on a year-over-year basis to 5.6%.

Operating expenses on a GAAP basis expanded 60 bps on a year-over-year basis to 5.5%. Both selling, general and administrative (SG&A) expenses and research & development (R&D) expenses as a percentage of revenues were unchanged on a year-over-year basis.

Jabil incurred \$30 million in restructuring and severance-related charges in the second-quarter, primarily related to the 2020 restructuring plan announced in September 2019.

Non-GAAP core operating margin contracted 50 bps on a year-over-year basis to 2.6%.

Balance Sheet & Cash Flow

As of Feb 29, 2020, cash and cash equivalents were \$696.7 million compared with \$719.8 million as of Nov 30, 2019.

Jabil has more than \$3 billion of global revolver credit facilities and at the end of the second-quarter, over 90% of these facilities were available. The company exited the quarter with total debt-to-core EBITDA of approximately 1.7 times.

In second-quarter fiscal 2020, Jabil repurchased approximately 1.8 million shares for \$72 million as part of a two-year \$600 million authorization announced in September 2019.

Quarter Ending **02/2020**

Report Date	Mar 13, 2020
Sales Surprise	-0.02%
EPS Surprise	-16.67%
Quarterly EPS	0.50
Annual EPS (TTM)	3.00

Recent News

On Apr 15, Jabil announced that its board of directors approved a quarterly dividend of 8 cents per share to be paid out to shareholders on Jun 3, 2020.

On Feb 3, Jabil announced the consolidation of its entire healthcare organization under Jabil Healthcare that combines Nypro with its Orthopedics, Spine, Trauma and associated medical instruments operations.

Valuation

Jabil shares are down 21.7% in the year-to-date period but up 24.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 20.9%, while the same in the Zacks Computer & Technology sector are up 6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 16.2% and 25.5%, respectively.

The S&P 500 Index is down 4.4% in the year-to-date period but up 9.1% in the past year.

The stock is currently trading at 9.54X forward 12-month earnings, which compares to 13.32X for the Zacks sub-industry, 24.7X for the Zacks sector and 22.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.7X and as low as 6.95X, with a 5-year median of 11.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$34 price target reflects 10.02X forward 12-month earnings.

The table below shows summary valuation data for JBL

Valuation Multiples - JBL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.54	13.32	24.7	22.3
	5-Year High	16.7	17.35	24.7	22.3
	5-Year Low	6.95	8.44	16.72	15.23
	5-Year Median	11.79	12.19	19.26	17.49
P/S F12M	Current	0.19	0.15	3.75	3.47
	5-Year High	0.3	0.32	3.75	3.47
	5-Year Low	0.11	0.15	2.32	2.53
	5-Year Median	0.22	0.23	3.11	3.02
P/B TTM	Current	2.8	1.87	5.44	4.21
	5-Year High	3.59	2.45	5.44	4.56
	5-Year Low	1.29	1.12	3.16	2.83
	5-Year Median	2.13	1.84	4.32	3.66

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arrow Electronics, Inc. (ARW)	Neutral	3
Flex Ltd. (FLEX)	Neutral	5
Plexus Corp. (PLXS)	Neutral	3
Synopsys, Inc. (SNPS)	Neutral	2
SYNNEX Corporation (SNX)	Neutral	1
TTM Technologies, Inc. (TTMI)	Neutral	3
Avnet, Inc. (AVT)	Underperform	5
Sanmina Corporation (SANM)	Underperform	5

Industry Comparison Industry: Electronics - Manufacturing Services				Industry Peers		
	JBL	X Industry	S&P 500	CLS	PLXS	SANM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	2	3	5
VGM Score	A	-	-	A	B	A
Market Cap	4.88 B	1.84 B	22.50 B	917.55 M	1.95 B	1.84 B
# of Analysts	4	2.5	14	2	3	1
Dividend Yield	0.99%	0.00%	1.88%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.15	0.53	0.06	0.54	0.12	0.61
EV/EBITDA	4.66	4.66	12.98	3.52	10.20	2.70
PEG Ratio	1.05	1.03	3.05	0.86	NA	1.18
Price/Book (P/B)	2.77	1.14	3.11	0.69	2.20	1.14
Price/Cash Flow (P/CF)	4.67	5.57	12.18	4.43	12.32	5.57
P/E (F1)	12.56	13.26	22.19	11.56	20.25	14.18
Price/Sales (P/S)	0.19	0.25	2.40	0.16	0.60	0.25
Earnings Yield	8.10%	7.57%	4.31%	8.72%	4.94%	7.05%
Debt/Equity	1.36	0.30	0.76	0.42	0.25	0.21
Cash Flow (\$/share)	6.92	4.84	7.01	1.61	5.42	4.84
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	0.68%	0.68%	10.87%	-6.59%	8.52%	6.25%
Proj. EPS Growth (F1/F0)	-12.00%	-23.32%	-10.74%	13.89%	-3.79%	-44.12%
Curr. Cash Flow Growth	-8.27%	0.58%	5.48%	10.05%	0.58%	18.13%
Hist. Cash Flow Growth (3-5 yrs)	12.51%	3.24%	8.55%	-1.22%	3.24%	5.47%
Current Ratio	0.95	1.76	1.29	1.76	1.77	1.58
Debt/Capital	57.69%	23.19%	44.75%	29.35%	20.20%	17.29%
Net Margin	0.51%	0.62%	10.59%	-0.40%	3.27%	1.44%
Return on Equity	9.34%	9.34%	16.29%	2.31%	11.45%	10.40%
Sales/Assets	1.98	1.62	0.55	1.62	1.57	1.82
Proj. Sales Growth (F1/F0)	0.90%	0.00%	-2.65%	-12.49%	2.61%	0.00%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	3.09%	3.07%	2.42%	3.04%	1.91%	-0.48%
1 Week Price Chg	2.78%	2.33%	4.60%	7.45%	1.53%	1.88%
4 Week Price Chg	23.51%	19.46%	13.40%	26.96%	10.85%	0.67%
12 Week Price Chg	18.49%	15.65%	12.78%	40.24%	10.14%	12.81%
52 Week Price Chg	24.75%	19.53%	0.89%	14.31%	31.45%	-3.51%
20 Day Average Volume	1,148,617	322,125	2,528,787	473,417	161,769	401,160
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-15.56%	0.00%	-0.14%	19.35%	0.00%	0.00%
(F1) EPS Est 12 week change	-43.64%	-34.57%	-16.00%	-25.50%	-17.09%	-44.56%
(Q1) EPS Est Mthly Chg	-17.33%	-3.33%	-0.02%	-6.67%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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