

Jabil Inc. (JBL)

\$39.12 (As of 02/13/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

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. Notably, shares have outperformed the industry on a year-to-date basis. Management provided an optimistic guidance for the second quarter of fiscal 2020. Jabil expects higher health care and packaging revenues driven by better-than-expected volumes associated with strategic health care collaboration. Notably, shares have outperformed the industry in a year's time. However, weakness in mobility business and sluggish spending on semiconductor capital equipment business are expected to hurt the top line at least in the near term.

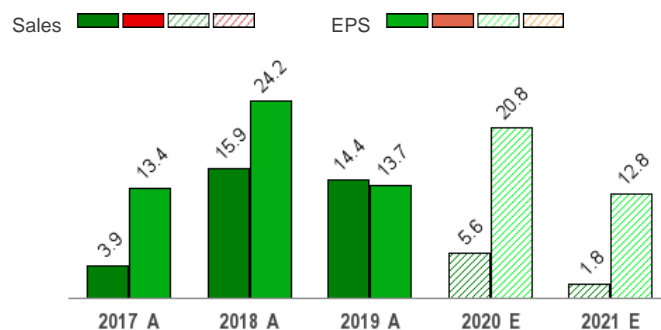
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.20 - \$24.50
20 Day Average Volume (sh)	1,242,144
Market Cap	\$5.9 B
YTD Price Change	-5.4%
Beta	0.99
Dividend / Div Yld	\$0.32 / 0.8%
Industry	Electronics - Manufacturing Services
Zacks Industry Rank	Top 2% (5 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.7%
Last Sales Surprise	7.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/12/2020
Earnings ESP	0.0%
P/E TTM	12.5
P/E F1	10.9
PEG F1	0.9
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,198 E	6,370 E	6,451 E	6,845 E	27,180 E
2020	7,506 A	6,342 E	6,266 E	6,584 E	26,698 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	\$1.19 E	\$0.88 E	\$0.85 E	\$1.03 E	\$4.06 E
2020	\$1.05 A	\$0.71 E	\$0.80 E	\$1.04 E	\$3.60 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 02/13/2020. The reports text is as of 02/14/2020.

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.

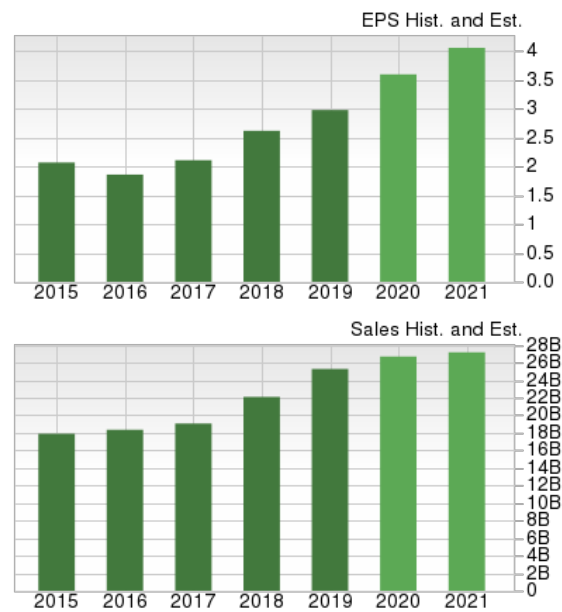
Beginning fiscal 2015, Jabil has two reporting segments: Electronics Manufacturing Services (EMS) segment and Diversified Manufacturing Services (DMS). The EMS segment includes enterprise and infrastructure, high velocity, and industrial energy businesses whereas the DMS segment will include Jabil's 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 shareholder returns as well as growth opportunities. As of Aug 31, 2019, cash and cash equivalents were \$1.16 billion. In fiscal 2019, Jabil returned almost \$400 million through buybacks and dividends. Moreover, its board of directors authorized a share repurchase program of up to \$600 million as part of a two-year capital allocation framework.

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

Reasons To Sell:

- ▼ Jabil is suffering from mobility weakness and sluggish semiconductor capital equipment business. These are expected to hurt top-line growth at least in the near term.
- ▼ 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 Q1 Earnings Beat Estimates, Revenues Up Y/Y

Jabil reported first-quarter fiscal 2020 earnings of \$1.05 per share, which beat the Zacks Consensus Estimate by 11.7% and increased 16.7% year over year.

The earnings figure surpassed management's guided range of 88 cents to \$1.04 per share on a non-GAAP basis.

Revenues increased 15.4% year over year to \$7.5 billion, which surpassed management's guided range of \$6.65-\$7.35 billion. The figure also beat the Zacks Consensus Estimate by 7.9%.

In first-quarter fiscal 2020, the company adopted a new lease accounting standard, ASU 2016-02.

Quarter Ending **11/2019**

Report Date	Dec 17, 2019
Sales Surprise	7.88%
EPS Surprise	11.70%
Quarterly EPS	1.05
Annual EPS (TTM)	3.14

Quarter Details

Electronics Manufacturing Services (EMS) revenues accounted for 59% of total revenues and increased 26% year over year to \$4.43 billion, driven by strength in cloud, industrial, energy and automotive end markets, offset by slower 5G rollouts. Newly formed geocentric cloud services business also added to revenue growth in the reported quarter.

Diversified Manufacturing Services (DMS) revenues accounted for 41% of total revenues and improved 3% year over year to \$3.07 billion. The year-over-year growth was driven by robust performance in diversified businesses including healthcare and edge devices.

Gross margin, on a GAAP basis, contracted 60 basis points (bps) year over year to 7.4%.

Core EBITDA margin contracted 50 bps on a year-over-year basis to 6.2%.

Operating expenses on a GAAP basis expanded 70 bps on a year-over-year basis to 5.3%. While selling, general and administrative (SG&A) expenses expanded 10 bps to 4.4%, research & development (R&D) expenses as a percentage of revenues were flat at 0.1%.

Improved inventory levels during the quarter were offset by higher days of sales outstandings at the end of the quarter, driven mainly by the timing of sales.

Non-GAAP core operating margin contracted 20 bps on a year-over-year basis to 3.7%.

EMS core margin was 2.4%, primarily due to the soft capital equipment space and costs associated with the ramping up of new business awards.

DMS core margin was 5.6%, driven by improved business mix supported by Jabil's diversification efforts.

Jabil's core tax rate for first-quarter fiscal 2020 was 27%, in line with expectations.

Balance Sheet & Cash Flow

As of Nov 30, cash and cash equivalents were \$719.8 million compared with \$1.16 billion at the end of the previous quarter.

The company exited the quarter with total debt-to-core EBITDA of approximately 1.5 times.

In the quarter, cash flow from operations was \$21 million.

In first-quarter fiscal 2020, Jabil repurchased approximately 2.6 million shares for \$96 million as part of a two-year \$600 million authorization announced in Sep 2019.

Guidance

For second-quarter fiscal 2020, Jabil expects total revenues between \$6 billion and \$6.7 billion.

DMS revenues are forecast to be \$2.35 billion, up roughly 4% year over year. EMS revenues are forecast to be \$4 billion, up nearly 5% year over year.

Core non-GAAP operating income is estimated to be \$155-\$255 million, with core operating margin of 2.6-3.8%. The company's core earnings are expected between 62 cents and 82 cents per share on a non-GAAP basis.

For fiscal 2020, revenues are expected to be around \$26.7 billion. Core operating income is expected to be around \$980 million, with core operating margin of 3.7%.

For DMS segment, revenues are expected to be \$10.2 billion with expected core margin of 4.1% for fiscal 2020. Jabil expects higher health care and packaging revenues driven by better-than-expected volumes associated with strategic health care collaboration.

Further, EMS segment revenues are expected to be \$16.5 billion with expected core margin of 3.5% for fiscal 2020. Proliferation of autonomous driving & electric vehicles, rollout of 5G infrastructure and strong growth in cloud and industrial and energy are expected to drive segment revenues.

The company's core earnings are expected to be \$3.6 per share on a non-GAAP basis.

Adjusted free cash flow is expected to be more than \$500 million.

Recent News

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.

On Jan 03, Jabil announced that its board of directors approved a quarterly dividend of 8 cents per share to be paid out to shareholders on Mar 4, 2020.

On Oct 17, 2019 Jabil announced that its board of directors approved quarterly dividend of 8 cents per share to be paid out to shareholders on Dec 2, 2019.

Per a Silicon Valley Business Journal report on Oct 11, 2019 Jabil is planning to temporarily close Bay Area facilities for the holiday season to accommodate seasonal softening demand.

On Oct 3, 2019 Jabil announced that Jabil Packaging Solution will collaborate with Ellen MacArthur Foundation's initiative, which is aimed at reducing plastic waste and pollution.

Valuation

Jabil shares are up 45.8% in the past six-month period and 38.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 30.5% and 25.9% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 19.4% and 29.5%, respectively.

The S&P 500 index is up 19.1% in the past six-month period and 20.8% in the past year.

The stock is currently trading at 10.27X forward 12-month earnings, which compares to 13.2X for the Zacks sub-industry, 23.2X for the Zacks sector and 19.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.7X and as low as 8.04X, with a 5-year median of 12.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 10.76X 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	10.27	13.2	23.2	19.37
	5-Year High	16.7	17.35	23.2	19.37
	5-Year Low	8.04	8.44	16.87	15.18
	5-Year Median	12.04	12.46	19.32	17.47
P/S F12M	Current	0.22	0.23	3.79	3.57
	5-Year High	0.3	0.32	3.79	3.57
	5-Year Low	0.14	0.16	2.3	2.54
	5-Year Median	0.22	0.24	3.02	3
P/B TTM	Current	3.23	2.13	5.75	4.35
	5-Year High	3.59	2.39	5.76	4.42
	5-Year Low	1.29	1.33	3.13	2.85
	5-Year Median	2.09	1.84	4.24	3.62

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Top 2% (5 out of 255)



Top Peers

Celestica, Inc. (CLS)	Outperform
SYNNEX Corporation (SNX)	Outperform
TTM Technologies, Inc. (TTMI)	Outperform
Arrow Electronics, Inc. (ARW)	Neutral
Flex Ltd. (FLEX)	Neutral
Plexus Corp. (PLXS)	Neutral
Synopsys, Inc. (SNPS)	Neutral
Avnet, Inc. (AVT)	Underperform

Industry Comparison Industry: Electronics - Manufacturing Services				Industry Peers		
	JBL Neutral	X Industry	S&P 500	CLS Outperform	FLEX Neutral	PLXS Neutral
VGM Score	C	-	-	C	D	A
Market Cap	5.95 B	2.20 B	24.56 B	1.05 B	6.87 B	2.20 B
# of Analysts	4	2	13	2	4	2
Dividend Yield	0.82%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	B	-	-	B	C	A
Cash/Price	0.12	0.20	0.04	0.45	0.27	0.11
EV/EBITDA	5.44	5.44	14.00	4.01	7.37	11.55
PEG Ratio	0.90	0.87	2.10	NA	0.69	NA
Price/Book (P/B)	3.23	1.32	3.31	0.78	2.37	2.42
Price/Cash Flow (P/CF)	5.65	6.47	13.68	5.10	8.29	13.84
P/E (F1)	10.83	10.95	19.23	11.02	10.70	18.70
Price/Sales (P/S)	0.23	0.28	2.69	0.18	0.28	0.68
Earnings Yield	9.20%	9.17%	5.20%	9.14%	9.31%	5.34%
Debt/Equity	1.33	0.25	0.71	0.42	1.12	0.25
Cash Flow (\$/share)	6.92	4.84	6.92	1.61	1.65	5.42
Growth Score	D	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	8.37%	7.27%	10.85%	0.84%	-36.17%	7.99%
Proj. EPS Growth (F1/F0)	20.81%	11.54%	7.17%	37.96%	11.84%	17.06%
Curr. Cash Flow Growth	-8.27%	0.58%	8.56%	10.05%	-12.76%	0.58%
Hist. Cash Flow Growth (3-5 yrs)	12.51%	3.24%	8.36%	-1.22%	-2.66%	3.24%
Current Ratio	0.97	1.79	1.23	1.76	1.24	1.79
Debt/Capital	57.02%	20.10%	42.91%	29.45%	52.78%	20.10%
Net Margin	0.78%	1.19%	11.81%	1.19%	-0.10%	3.61%
Return on Equity	10.91%	10.91%	16.86%	7.36%	-0.86%	12.26%
Sales/Assets	2.00	1.63	0.54	1.63	1.77	1.60
Proj. Sales Growth (F1/F0)	5.60%	0.00%	3.85%	-10.32%	-5.94%	6.42%
Momentum Score	B	-	-	B	F	C
Daily Price Chg	-2.08%	-0.70%	0.00%	-1.91%	-0.51%	-0.64%
1 Week Price Chg	-0.36%	-2.58%	2.47%	-8.63%	0.46%	-0.65%
4 Week Price Chg	-9.28%	-8.60%	0.56%	-8.06%	1.72%	-5.55%
12 Week Price Chg	0.93%	-0.41%	6.96%	8.03%	16.48%	-2.30%
52 Week Price Chg	37.79%	16.13%	16.68%	-6.60%	33.33%	29.72%
20 Day Average Volume	1,242,144	394,924	2,020,569	796,088	5,032,189	201,353
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	1.74%	-0.05%	3.47%	-10.00%	-1.83%
(F1) EPS Est 12 week change	-9.86%	0.82%	-0.17%	3.47%	-10.00%	-1.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	6.67%	-2.04%	-11.00%

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	B
Growth Score	D
Momentum Score	B
VGM Score	C

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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