

## Jabil Inc. (JBL)

**\$21.66** (As of 03/16/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:C

Value: C

Growth: F

Momentum: A

## Summary

Jabil's second-quarter fiscal 2020 results were disappointing. Earnings declined on a year-over-year basis due to higher expenses-related business interruptions caused by COVID-19 (coronavirus) outbreak. Revenues increased slightly as both EMS and DMS segments grew on a year-over-year basis. However, Jabil withdrew its previously provided guidance for fiscal 2020 due to the uncertainty related to the coronavirus outbreak. Nevertheless, contract wins in healthcare, automotive, cloud and 5G are expected to boost the top line for fiscal 2020. Moreover, improving end-market diversification is noteworthy as this boost's investors' confidence in the company's ability to drive earnings and revenues. Strategic health care collaborations are key catalysts. Notably, shares have outperformed the industry in a year's time.

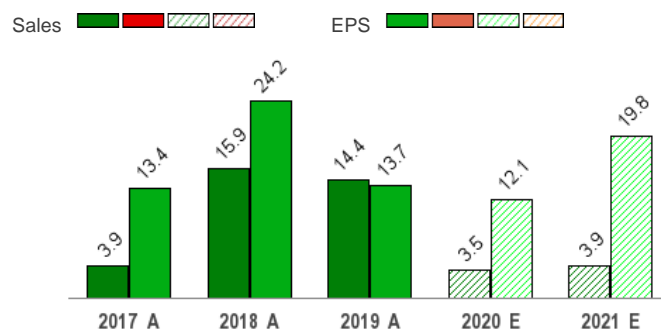
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$44.20 - \$20.33</b>
20 Day Average Volume (sh)	<b>1,896,095</b>
Market Cap	<b>\$3.3 B</b>
YTD Price Change	<b>-47.6%</b>
Beta	<b>1.11</b>
Dividend / Div Yld	<b>\$0.32 / 1.5%</b>
Industry	<b><a href="#">Electronics - Manufacturing Services</a></b>
Zacks Industry Rank	<b>Top 5% (12 out of 253)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-16.7%</b>
Last Sales Surprise	<b>-0.0%</b>
EPS F1 Est- 4 week change	<b>-14.1%</b>
Expected Report Date	<b>06/16/2020</b>
Earnings ESP	<b>-10.3%</b>

P/E TTM	<b>7.2</b>
P/E F1	<b>6.5</b>
PEG F1	<b>0.5</b>
P/S TTM	<b>0.1</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,311 E	6,439 E	6,444 E	6,838 E	27,189 E
2020	7,506 A	6,125 A	6,032 E	6,496 E	26,161 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	\$1.20 E	\$0.89 E	\$0.81 E	\$1.04 E	\$4.00 E
2020	\$1.05 A	\$0.50 A	\$0.66 E	\$1.06 E	\$3.34 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 03/16/2020. The reports text is as of 03/17/2020.

## 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.

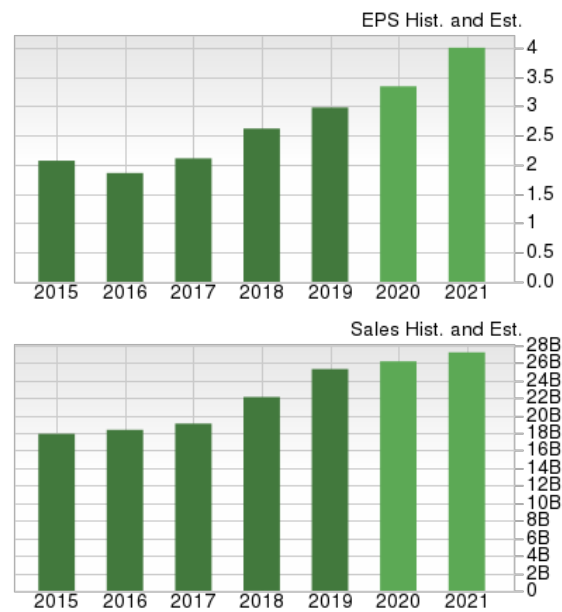
Beginning fiscal 2015, Jabil has two reporting segments: Electronics Manufacturing Services (EMS) segment and Diversified Manufacturing Services (DMS). The EMS segment includes enterprise and infrastructure, high velocity, and industrial energy businesses whereas the DMS segment will include Jabil's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



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## 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 Feb 29, 2020, cash and cash equivalents were \$696.7 million. 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.

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## Reasons To Sell:

- ▼ Jabil is suffering from mobility weakness and sluggish semiconductor capital equipment business. Moreover, the coronavirus outbreak is a major headwind. 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 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

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## 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.

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## Valuation

Jabil shares are down 30% in the past six-month period and 19.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 32.6% and 15.6% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are down 27.3% and 12.3%, respectively.

The S&P 500 index is down 20.3% in the past six-month period and 16.5% in the past year.

The stock is currently trading at 5.85X forward 12-month earnings, which compares to 8.83X for the Zacks sub-industry, 18.45X for the Zacks sector and 15.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.7X and as low as 5.85X, with a 5-year median of 12.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$23 price target reflects 6.22X 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	5.85	8.83	18.45	15.72
	5-Year High	16.7	17.35	22.01	19.34
	5-Year Low	5.85	8.44	16.85	15.18
	5-Year Median	12.04	12.3	19.3	17.42
P/S F12M	Current	0.12	0.22	3.06	2.9
	5-Year High	0.3	0.32	3.58	3.43
	5-Year Low	0.12	0.16	2.3	2.54
	5-Year Median	0.22	0.24	3.06	3
P/B TTM	Current	1.78	1.45	4.45	3.64
	5-Year High	3.59	2.45	5.53	4.55
	5-Year Low	1.29	1.33	3.13	2.85
	5-Year Median	2.1	1.85	4.27	3.63

As of 03/16/2020

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## Industry Analysis Zacks Industry Rank: Top 5% (12 out of 253)



## Top Peers

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

Industry Comparison Industry: Electronics - Manufacturing Services				Industry Peers		
	JBL Neutral	X Industry	S&P 500	CLS Outperform	FLEX Underperform	PLXS Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>D</b>	<b>B</b>
Market Cap	3.29 B	1.32 B	16.36 B	484.15 M	3.31 B	1.44 B
# of Analysts	4	2	13	2	4	3
Dividend Yield	1.48%	0.00%	2.63%	0.00%	0.00%	0.00%
<b>Value Score</b>	<b>C</b>	-	-	<b>B</b>	<b>D</b>	<b>B</b>
Cash/Price	0.19	0.29	0.06	0.86	0.44	0.16
EV/EBITDA	3.56	3.56	10.54	2.00	4.21	7.39
PEG Ratio	0.54	0.52	1.46	NA	0.40	NA
Price/Book (P/B)	1.79	0.79	2.26	0.36	1.14	1.58
Price/Cash Flow (P/CF)	3.13	3.88	8.80	2.34	3.98	9.03
P/E (F1)	6.44	6.22	13.18	5.06	5.30	12.72
Price/Sales (P/S)	0.13	0.17	1.78	0.08	0.13	0.44
Earnings Yield	15.42%	16.11%	7.56%	19.89%	18.90%	7.86%
Debt/Equity	1.33	0.25	0.70	0.42	1.12	0.25
Cash Flow (\$/share)	6.92	4.84	7.01	1.61	1.65	5.42
<b>Growth Score</b>	<b>F</b>	-	-	<b>D</b>	<b>D</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	0.68%	0.84%	10.85%	0.84%	-36.17%	7.99%
Proj. EPS Growth (F1/F0)	12.16%	7.12%	5.72%	37.96%	8.55%	12.24%
Curr. Cash Flow Growth	-8.27%	0.58%	6.15%	10.05%	-12.76%	0.58%
Hist. Cash Flow Growth (3-5 yrs)	12.51%	3.24%	8.55%	-1.22%	-2.66%	3.24%
Current Ratio	0.97	1.79	1.24	1.76	1.24	1.79
Debt/Capital	57.02%	20.10%	42.57%	29.45%	52.78%	20.10%
Net Margin	0.51%	1.19%	11.64%	1.19%	-0.10%	3.61%
Return on Equity	9.20%	9.20%	16.74%	7.36%	-0.86%	12.26%
Sales/Assets	1.97	1.63	0.54	1.63	1.77	1.60
Proj. Sales Growth (F1/F0)	3.47%	0.00%	3.50%	-10.32%	-6.84%	4.84%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Daily Price Chg	-12.77%	-10.28%	-12.67%	-13.13%	-19.51%	-9.03%
1 Week Price Chg	-23.32%	-18.54%	-11.01%	-32.61%	-23.76%	-17.39%
4 Week Price Chg	-43.36%	-35.69%	-32.63%	-53.17%	-51.69%	-33.18%
12 Week Price Chg	-47.93%	-42.13%	-30.17%	-54.41%	-48.55%	-36.83%
52 Week Price Chg	-19.45%	-19.73%	-23.26%	-56.96%	-36.50%	-20.00%
20 Day Average Volume	1,896,095	425,133	3,457,426	534,897	5,614,351	183,370
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-5.17%	0.00%
(F1) EPS Est 4 week change	-14.06%	-2.05%	-0.48%	0.00%	-12.70%	-4.11%
(F1) EPS Est 12 week change	-11.90%	-1.20%	-0.93%	3.47%	-21.43%	-5.87%
(Q1) EPS Est Mthly Chg	-31.50%	0.00%	-0.60%	0.00%	-18.75%	-8.63%

## 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	C
Growth Score	F
Momentum Score	A
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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