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PRESENTATION

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Thanks, everyone, for coming to our conference today. My name is Ruplu Bhattacharya, and I cover electronics manufacturing services companies here at Bank of America, and I'm with the IT hardware team. So we're very fortunate today to have Jabil here, and representing Jabil, we have Courtney Ryan, who is EVP of Corporate Development. Courtney has been with the company for over 24 years, and he's held many different hats. He's led their Nypro medical division. He's worked in Europe. So who better to talk about the company and give you an overview of the company than he himself. So Courtney, thanks for coming here. And maybe for those who don't know Jabil, can you just please give an overview of which end markets, what do you do and your reporting segments?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, we're a manufacturing services provider. We used to say we're an electronics manufacturing service provider, but we're finding over the last 10 years that electronics is still very important but certainly doesn't describe the breadth of what we do. We think about our business in 2 major segments. One, we call our legacy traditional EMS business, the Electronic Manufacturing Services business, and this is probably the business that most people would identify Jabil with enterprise-type customers, for example, the markets we support in our EMS business or the enterprise markets, capital equipment, our automotive business, our industrial business, et cetera. And then our second segment is called DMS or Diversified Manufacturing Services. And this is where we domicile our approach to the mobility markets via our Green Point business; health care, which you mentioned earlier, via our Nypro business; and packaging, which is via our Jabil packaging services business. So those are the markets we support on the DMS side of our business.

QUESTIONS AND ANSWERS

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

That's a quick and good overview. One thing you mentioned, Courtney, was that over the years, it seems that Jabil is moving away from electronics manufacturing, and especially when we look at your DMS division, we're seeing things like plastics and metals. So why is that mix shift happening? And maybe you can talk about like what's driving that?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Ruplu, I'd say that this is really about responding to where the market is going. We're certainly not running away from anything by any stretch of the imagination, we've got a great legacy electronics-based business. But we're in the business to solve customer problems or help customers solve their problems, and they're becoming more than just electronics hardware problems. They're becoming much broader than that. So over the years, again, this has been a 10- to 15-year journey, we've either developed internally or we've acquired capabilities in plastics, as you've talked about, very sophisticated precision, high-volume plastics in metals, in optics, in acoustics and in various software and services surrounding some of our core electronics business. And we're doing that for one reason, it's that customers want solutions, not products.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Yes, that makes sense. Before we get into the individual segments, just another general question. Are OEM still outsourcing? And what are some of the considerations that go into an OEM's decision to either outsource versus make product themselves? And why do they look at Jabil as a partner?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, so OEMs are still outsourcing. There are still different end markets or different maturations in so far as outsourcing. But I would say that in my experience, there's 2 drivers. One is kind of the classic driver, Ruplu, that's how do I convert a fixed cost to a variable cost? The economic benefit and returns on capital over time are far superior in that model, especially if there are choppy volumes along the way. And so that's -- and that's always been a driver behind it. I think the second driver when I think about that is going forward, customers are increasingly looking to their supply partners as innovators. They want them to be experts in the markets in which they play. In some cases, the technology and expertise exist more in supply chain than it does with an OEM. And so we see a number of customers looking to accelerate their shift to outsourcing to get access to that expertise, whether it be innovation, whether it be sophisticated supply chain management, whether it be some sort of unique optical technology or whatever the case may be, it's access to technology.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Yes, and I guess one thing you mentioned is you manufacture for so many different OEMs, in so many different end markets, you're probably able to bring expertise in different -- from different end markets to bear into the customers' particular problems. You have an engineering services business. I mean, can you talk a little bit about that? And I mean, how does that business work?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, our engineering services business is part of our EMS segment. And the markets we support in engineering services are automotive, industrial, print and retail and the connected home. So those are kind of the end markets that we support. And virtually, all of the engagements we have there are led via applications engineering. Okay, go back to what -- why do we exist here? We exist here to help customers solve problems. So customers come to us with increasingly frequently, let me restate this, customers come to us saying, "Look, I've got a problem I need to solve. How can you help me solve it," rather than "I've got a product I want you to build, how can you build it?" Okay, and so how do you solve problems? You take an applications engineering approach that requires pretty deep understanding of the end market, of the hardware and software architecture, of end user preferences and tastes and dynamics. And over the years, I think we've steadily built those -- that bench and that depth of expertise in each of our main customer-facing markets.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Got it. So maybe let's transition to the DMS segment because I know that a lot of investors are focused on that segment. Maybe can you just articulate, mobility and smartphones are a big part of the business. So a couple of years ago, several years ago, you made the acquisition of Green Point. So what does that bring to the table? What are some of the things that you do for smartphones? What are your capabilities in that area?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Sure. So we acquired Green Point in 2007, so it's about 10 years old in Jabil terms. And it's grown 10x plus over that time period, okay, so tremendous growth. Green Point started as a plastics business, so when we acquired it in 2007, it was really all about sophisticated precision plastics. Over the years, we've developed -- it's a very innovative group, okay? And over the years, we've developed an expertise in metals, precision metals, we've developed expertise in optical technology, so optical modules. We've developed expertise in die cut and printed electronics, in acoustics, and all of these base technologies lend themselves pretty well to the mobile market. And again, we're talking -- you may be talking smartphones, you may be talking other mobile-related products, you may be talking future generations of products that aren't quite out there yet, whether it be AR/VR type things or whatever. These basic capabilities and technologies all lend themselves very well to that end market.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

So Apple is a 24% customer for Jabil. Today, you're making the metal casing for the phones. One investor concern that we've heard about is the new phones that are coming out, we don't know exactly, but they're rumored to have glass casings on the front and the back. So the question is, investors -- some investors think that Jabil's revenues might be hit significantly just because you're not making glass casings today. So maybe just give us your thoughts on that. And why should we think that, that will not happen?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

So I'd asked investors to think about what I just said. We've got a broad range of underlying capabilities in our Green Point business. We're not just a casing supplier. We certainly have great metal casing capability, but we've also worked very hard over the last 2 or 3 years to apply our underlying capabilities to different parts of products, okay? So again, think about plastics, think about liquid silicon rubber, think about acoustics, think about optics. And so just to kind of back up, where we're proud of our metals and casing capability. But I'd ask investors to think about Jabil, or Green Point in particular, the Green Point portion of Jabil is more than just a casing supplier.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

And for Apple specifically, is it just that you're providing components for smartphones? Or do you build other products for them as well?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

We've -- again, we've actively look to diversify both within certain product lines with Apple and other customers and outside of those product lines into other products. So yes, we're -- we feel pretty good about the diversification efforts over the last couple of years.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Okay. And just to kind of wrap up on Green Point, how about the non-Apple portion of Green Point. I think that gets less attention from investors, but that's also a significant part of the business. So maybe just talk to us what kind of products are -- is in that part of the business, and what's the growth rate that you're seeing there?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, I think it's a good point. It does get largely overshadowed by our mobile handset business and our dominant customer. But our non-Apple business inside of Green Point would be the size of an independent division in a lot of companies, okay? I mean, it's pretty robust. And you think of products, consumer lifestyle type products, you think of optics, for example, and action cameras. We've seen a lot of growth there. You think of our defense and aerospace business, where we've seen a lot of growth. These are all part of our Green Point portfolio, and I would say that the non A, B, C, non-Apple portion of our business is growing quite well.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

I think one thing which we didn't talk about is can you just articulate the growth rates that investors should expect from the DMS and the EMS segments and the margin expectations?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, so the way we think about our long-term growth rates, guys, is in the DMS world, our collection of DMS businesses, we expect to grow revenue at circa 5%, 5% -- north of 5% through the next 2 to 3 years. In our EMS business, we expect those growth rates to be closer to 3-plus percent, okay? So relatively modest growth rates. From a margin point of view, our margin targets in DMS are 5% to 7%, and our margin targets in EMS business are 2% to 4%. We're operating towards the high end of that currently.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

And just to build on that, I mean, what is driving that sustained higher-than-usual EMS margins? We've seen like high 3% over the last several quarters. So is there a structural mix shift happening there? I mean, how should we think about margins going forward?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

That's a great question. There are some pretty profound changes happening in that business. Number one, and this isn't a profound change, but number one, I'd call attention to the -- just the leadership of that particular team is maniacally focused on cost management, okay? So maniacally focused and does a really good job at executing from a cost efficiency standpoint. That's one piece of it. I think a second piece of it is in that business, we're seeing a structural change in the underlying business. It's a shift from what we call EMS 1.0, which is the EMS business that people have been most familiar with over the last 10, 15 years, where customers come to you and ask to build products, et cetera, et cetera, to what we call EMS 2.0, which is where customers come to us with concepts and ask us to help them commercialize those concepts. Subtle differences but very, very important. So in that second scenario, that EMS 2.0, we end up participating in more value-add per revenue dollar shipped, okay? So there's a profound change in the mix of business underway. I think the way investors should think about it is our EMS 1.0 business today -- or let me say this differently, our EMS 2.0 business today represents kind of 15%, 20% of our overall EMS revenue mix. That's growing at greater than that 3%. But we're also seeing that EMS 1.0 attenuate over time at a modest decline. The net of which is that 3% growth rate that we expect. So some business mix shifts underway, and we're trying to stay up in front of that, and I think we're doing a pretty good job.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Okay, we'll delve deeper into EMS in a minute. I just want to finish up on the DMS segment. So 2 other businesses we haven't talked about so far is Nypro, which is the medical business, and packaging. So maybe first on Nypro, can you just talk about what does Jabil build in that segment? And why -- what differentiates Jabil from other EMS companies who are in the medical space?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, I'll start by saying where we sit today and given our underlying capabilities in health care, we think the market TAM is around $100 billion, okay. And that's an extraordinarily high number that -- so we've got a long way to go to bump up against that. The other thing I'd say is that at a high level -- from a high-level market point of view, there are some interesting dynamics going on in health care. Again, I think these are pretty well chronicled around the world, but I'd point out kind of a microcosm here in the U.S., where because of changes in the way reimbursement happens and because of the way the market's set up, where people receiving health care services are not the people paying for the health care services, there are some interesting dynamics whereby demand for health care services is going up and supply of health care services is actually going down. Very bizarre situation. But that provides some opportunity for us, and it provides opportunity for the players who can help caregivers become more productive. So productivity is how you solve that problem. And via our Nypro acquisition 3.5 years ago, almost 4 years ago now, I guess, I think we've got a really unique blend of capabilities. Where do we play in health care? We play in diagnostics. We play in capital equipment, kind of hardware, medical hardware. We play in pharmaceutical delivery systems, and we play in wearables, health care-driven wearables. Those are sort of the 4 domains that we participate in. There are very few companies out there, I can count them on less than one hand, that can support customers in all those markets. And in particular, health customers create solutions that integrate digital electronics into medical devices in a way that helps caregivers increase their productivity, okay? So that's what's driving the growth, frankly.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

And so how should we think about growth in that business over the next couple of years?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

We think that it's part of our DMS business, of course, if you think about health care overall, the growth rates are sort of GDP plus. We think we can grow north of that. So we certainly think we can grow in the north of the DMS 5% target. And I think we've telegraphed recently that we expect our earnings growth over the next couple of years to be in that 20% range, just via the continued leverage that we get.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Right. And then maybe let's talk about the packaging business. So why is packaging a big -- a good business for Jabil to be in?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Boy, it's a -- so we entered the packaging business through the Nypro acquisition, okay? So in 2013, when we bought Nypro, there were 3 pieces, I won't go into the detail, but 2 of those pieces were health care and packaging. We were most attracted to the health care business because it gave us something we needed capability-wise. As we got more familiar with this packaging business, when we think about packaging, guys, we're not talking about corrugated boxing and things like that. We're talking about think of CPG customers, like Procter & Gamble, like Unilever, think of food and beverage customers like Nestle, like Keurig, et cetera, we're designing and making packaging solutions for CPG-type customers like the ones I mentioned. So we became familiar with this, and what we realized is that this is largely a fragmented market. Lot of small and midsized players in it -- lots of small and midsized players, a few large ones but lots of small and midsized players. And some of the capabilities that we've got from -- we developed over the years as Jabil are really, really applicable and allow us to differentiate ourselves. What are those? The ability to manage a very sophisticated multi geo supply chain. Very few people in the packaging industry can do that. We do that in our sleep. The ability to help customers innovate their packaging solutions in a way that's more environmentally friendly, in a way that's more user-friendly. We can do that. And finally, the ability to integrate, again, digitization into packaging solutions. If we can use our expertise in electronics and the digital supply chain, to help customers and OEMs that we support make their products better, faster, cheaper or more intelligent, that's the way to differentiate themselves, and we're seeing significant customer interest in that.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

So how should we think about growth in that business, in the packaging business?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

I think about it same way I think about health care. I mean, again, we're telegraphing that business to be in the 5%-plus range growth-wise. The end markets grow at kind of GDP levels, and we think we can do better than that.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Even within packaging, there is this mix of rigid versus flexible. Can you maybe just talk about both of those end markets? And where do you plan? And is the other one attractive or not?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, so we play in the rigid space, and to be more specific, we play primarily in injection-molded rigid plastic packaging. There's certainly a big market in flexible packaging. If the question is, are we interested in that? I think the answer is absolutely, we're interested in figuring out how to help customers solve their problems. But I'd also point out that the underlying capability to participate in flexible packaging is quite a bit different than it is in the rigid packaging, okay? So different asset base, different pressure points and leverage points. And so I'd say that we have an interest, but I think we've got -- we participate in the rigid space, in a huge market that's highly fragmented, and we think we've got a lot of room to grow share in that market. And we'll look opportunistically down the way to add flexible capability, if we can. But it's certainly not a near-term -- we don't have to do it.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Okay, all right. So maybe let's move on to like the EMS business. So maybe just talk to us about the end markets there, and specifically, optical networking seems to be -- it's been on fire for the last couple of -- 1.5 year or so. So what are your thoughts on the optical market? And does that sustain? So maybe just give us an overview of what you do, and specifically on that segment.

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

We design and develop optical modules. We design and develop the hardware around those modules as well. We integrate those modules into other networking and telco-type products. We did an acquisition I want to say 18 months ago, 2 years ago of an optical networking company that provided us great capability that's applicable to a number of different customers today. Business is doing well and fits really nicely into that EMS 2.0 go-to-market strategy.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

And you also have a business called StackVelocity, so maybe just talk about what that is and how large it is and what's -- how is it growing.

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, again, that's also a part of the CMS 2.0 type approach, go-to-market approach. StackVelocity was built to support cloud providers. We're seeing -- again, it's certainly no secret that public and private clouds are increasingly -- are just that's where the growth is, okay? And customers there, whether they're communications companies like the Verizons and AT&Ts of the world or whether they're kind of the classic cloud providers like the Amazons and Googles of the world, they want solutions. Front and back solutions, I got a concept, I need you to solve the problem. StackVelocity was built to allow us to do that in a contained way. It's growing nicely. It's part of that EMS 2.0 service offering that we've got, which I mentioned is kind of that 15% to 20% of our business today and continuing to grow. So that's probably the way to think about it.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Okay. Maybe at this point, I'll ask if there are any questions from the audience? Up in the front?

Unidentified Analyst

I was just curious, could you kind of give us a brief rundown of the competitive landscape? How do you compare Jabil to the usual suspects, Sanmina, Flex, et cetera?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Sure. So I'll start with the mainstream, and then for anybody who didn't hear, the question is how does Jabil compare to the competitive landscape, and I'll start with the mainstream usual suspects. In the EMS world, I think we compare very favorably. We've got more depth. We've got great depth, okay? And we have the ability to scale large chunks of business very quickly, very large chunks of business very quickly, and we compete exceedingly well across that mainstream landscape. In other parts of our business, the competitive landscape is probably not one that investors are incredibly familiar with. I'd tell you that in health care, generally, we're not competing with the mainstream EMS folks. We do them in some of the business, but oftentimes, we're competing with companies like Vention, companies like Phillips-Medisize, companies that people might not be that familiar with. In packaging, we're competing with the Berrys of the world, and the Aptars of the world, and the TECHNOMARKs of the world. In our Green Point business, we're competing with the Catchers and the Foxconns of the world. It's -- I'd tell you that we bump up against flex often in a number of different markets. The other mainstream EMS competitors we see on a more limited basis in certain market verticals, okay?

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Any others? Okay. So -- sorry, go ahead?

Unidentified Analyst

Yes, earlier when the talk was about iPhone casings and also glass. So is -- does the Green Point business do glass as well?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

We participate in the glass supply chain, yes. I mean, we've done -- for years, we've done glass lamination type capabilities, we applied glass lamination to different coverglass type technologies, and that's part of the service offering that we have, yes.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

So maybe related to DMS. You've made a lot of investments over the last couple of years. So maybe talk to us about CapEx going over the next couple of years. How do you see that trending? And how do you see free cash flow? Because that's another important element for investors.

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

So you can't start talking about cash without talking about our capital return program. Investors would be reminded that we've committed to returning 40% of cash flow from operations to shareholders in the way of buybacks and dividends, and we're pacing nicely to that, okay? And I think one of the reasons that we can have confidence in our ability to do that certainly through next year is that we're coming off of a fairly significant CapEx cycle in our DMS business that you referenced. We've invested heavily in both brick-and-mortar new plants, new equipment to support our DMS growth. And we think we've got plenty of installed capacity right now to support the growth that we've got in our near-term horizon. And I think that all gives us confidence that we can support that 40% return target. It's not a target, it's what we're doing.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

So kind of related to this is we keep hearing about a push the bring back manufacturing into the U.S. I mean, from your standpoint, from your vantage point, does it make sense to think about phones being made in the U.S.? And if not phones, are there other things that can come back? And what's the likelihood of the supply chain adjusting to such a move?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

It's a popular topic, for obvious reasons. I think it's -- for certain product types, there could be some viability. That could be a viable model. If the question is do we see a mass migration of phone production back to the U.S.? I'd say, that's unlikely. That's me speaking. When you think about the scale required, again, the manufacturing sites, and I'm thinking just of our own, forget about the Foxconns of the world and some of the others that are bigger, if you think about the scale of the manufacturing sites, you're talking tens of thousands of people. You're not going to find that labor pool here. Certainly not at the same price points. And so I just -- I think from a feasibility standpoint, it's a long pot and unlikely to happen in the near term. That being said, as flexible automation becomes cheaper and more affordable and smarter, I think there are certain product types that could be moved onshore. My own personal opinion is that most products that are built in Asia today would stop in Mexico before they get here. But again, it depends by product type, and again, one of the things, Ruplu, that we offer as a service to our customers, we've got a very sophisticated supply chain modeling capability. We call it inControl. And we can very rapidly analyze customer supply chains at a very, very granular level and inform them of what the tipping points are, where different manufacturing strategies and solutions, reshoring, breaking up the supply chain in different pieces, in multiple stages, where that makes sense. What needs to change in the external environment to make that make sense for customers. And we offer that as a service to our existing customers. We also offer that as a service to folks who aren't our customers today. And as you can imagine, with all the campaign rhetoric and the political rhetoric and the geopolitical stuff going on in the world today, it's a pretty hot topic conversation with our customers.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

So you brought up a couple of points I want to touch on. So manufacturing in Asia, is it still profitable to make stuff in China? Or with labor rates going up, I mean, like do you see other regions that are more profitable maybe within Asia or maybe outside of Asia? And are you happy with your manufacturing footprint that you have? Do you see any mass changes that you're aiming?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

I don't see any mass changes. I think we're generally happy with our footprint. We are -- the question about manufacturing strategy and manufacturing footprint, in my opinion, is a function of time. Over the long haul, however long that is, I think you're manufacturing region for a region. But for that to happen, labor rates need to hit some level of equilibrium, and we're a long way away from that. So today, we feel happy that we can support customers almost wherever in the world they need to be, including here in the U.S., by the way, I think we've got 29 locations in the U.S. and 10,000-plus employees and a great range of capabilities. But also in Asia, in India, in South America, in Europe, East and West, in Russia. So I think we feel pretty good about our footprint today.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

And just on the footprint topic, I mean, how much whitespace do you need to keep? Because if you're targeting a new customer, they want to know that you have the manufacturing capacity. So at what point do you decide to build another plant? I mean, what goes into that decision? At what -- how much whitespace or how much capacity loading do you color it?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

We're constantly looking at utilization rates as you would in these types of businesses. We're constantly reconciling that to pipelines and forecasts, and we actually use our inControl supply chain modeling tools to help us model where in the world our next location needs to be? What's the optimal location given all the dynamics, in the external market. What goes into those decisions, again, it's a function of loading. It's a function of customer end markets, where the customers need to be, where the products going to need to go. We kind of crank all that into our internal modeling tools, and we figure out where we need to be. What utilization rate do we need to get to, to trigger that? It depends is the answer. I mean, it kind of depends. In some cases, we'll feel very comfortable running factories at 80%, 90% utilization on a steady state basis. In other cases, in businesses that are perhaps a little bit more volatile, you need to bring that number down a little bit. And I think that's a little bit of the art behind the science. That's why we have experts running these businesses in each end market domain that have a pretty good feel for that.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

And then within -- in your manufacturing space, do OEMs, and maybe the large OEMs, do they invest in any equipment, like are they -- do they take ownership of any of the equipment that you're using so that it's a little safer for you if the product doesn't sell? So is there any coinvestment by OEMs that happen?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, sure. I'd say, Ruplu, the general rule there, and this has been the case for a long time in our industry, and I think it's probably the case for competitors as well, the general rule there is that customers will finance and/or underwrite custom equipment. So equipment that's not fungible, can't be deployed elsewhere, that has a very unique purpose, it's not uncommon for customers to finance that kind of equipment. In some cases, they consign it. In other cases, they just -- they pay us for -- they pay the supplier for it. But that's the rule set, anything that's unique, generally a customer will underwrite; standard equipment that we can redeploy and use in a fairly fungible way is something that we would invest in.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

So how fungible is the equipment? Like if you're using a CNC machine for one customer, can you just reposition that for another customer? If one product -- one end market isn't working, can you just redeploy equipment? I mean, how feasible, how realistic is that?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, you got to get down in the weeds to answer that question. It's not as easy as saying that a CNC machine over here can be applied over here. We're talking 3, 4 axis, 5 axis, 6 axis. Are we talking orthopedics, or are we talking handset casings? So it's a deeper conversation than that. But I'd tell you that most of our -- generally, I would look at CNC machines -- in a very general sense, I would look at those as pretty fungible equipment that can be used in other markets.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Maybe I'll pause to see if there are any other questions from the audience. Back there.

Unidentified Analyst

Just talk about where do you think 3D printing is at now. And is it multi (inaudible) kind of thing? Or is it -- is there usually (inaudible) What needs to happen in the technology in order to just ignore and replace it with brand new parts?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

So the 3D printing question is a great one, and it's something that we are incredibly excited about. We have a piece of our organization that is commercializing new 3D printing technology. We'd like to believe that someday, and again, I mentioned the term in region, for region earlier, we'd like to believe that someday, manufacturing on-demand can be pervasive. I think we're a long way from that today. So to answer the question directly, how are we using it today in our operations, I'd point to 2 or 3 different areas. We use 3D printing fairly extensively into -- on an increasingly frequent basis in our own internal tooling. So think of things like pallets, think of jigs, think of fixtures, that kind of thing. It's great for that because we can do it in house. We don't need to go out of house. It's rapid. It's quick. We can make modifications on the fly. That's one area that we use it. We use it in our Nypro and packaging tooling operations. So again, think of laser centering of metals, complex tooling that allows us to create cooling channels in geographies that regular CNC machining won't allow us to do. That's a second area. Third is one that you mentioned in the prototyping world. So certainly in the rapid prototyping world, we're using 3D printing extensively to put prototype products in customer hands that we can play with and then kind of take the next step with. The area that I think is a little bit more nascent today, the fourth area, a little bit more nascent today, is the commercialization of mainstream volume 3D printing. And again, that's a function of -- it's mostly a function of cost and base materials. So as the base materials become -- the range of materials that we can use as base materials in 3D printing becomes more broader -- becomes broader, and the cost points continue to come down, and they're falling rapidly. We've done analysis on kind when we could see mainstream products move from how they're manufactured today, whether they be injection molded or cut out of still to more of a 3D printing type environment. It's hard for me to give you specifics on that because it's still very nascent, okay, and I think the application of 3D printing is absolutely accelerating. I think we're a little bit -- there's still some distance between us and mainstream manufacturing.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

I think we're almost out of time so maybe I'll ask you the last question here. We hear about component shortages and component cost going up. What are you seeing in that? And are you able to transfer those cost increases to the OEMs? So maybe just talk about how your contracts are written, to allow for any prices, pricing up or down?

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Yes, so that's kind of 2 pieces, component shortages is one and then the pricing element, the second. We -- through our supply chain tools and our analytics, we keep a very, very close eye on component supply, component capacity, factory utilization and our supply chain and whatnot. And I think we have a pretty good feel, predictive feel, for when markets are getting tight and when they're not. And we take the appropriate actions to secure the allocations that we need. And so I'd tell you that at the moment, it's not that there aren't shortages in the market, there are always shortages in the market. But at the moment, we don't see anything overly profound that we're worried about in our business. On the pricing side of things, I'd say that as a general rule, we are not taking a significant amount of pricing risk with materials. That's generally a passthrough type item. So prices go up, always difficult conversations, but generally, we can get recovery for that kind of thing with customers, okay?

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

All right. So we're out of time. So Courtney, thanks so much. This is very informative. Thanks for coming and really appreciate it.

Courtney J. Ryan - *Jabil Circuit, Inc. - Chief of Staff and EVP of Corporate Development*

Thank you.

Ruplu Bhattacharya - *BofA Merrill Lynch, Research Division - VP*

Thank you.
