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PRESENTATION

Operator

Greetings, and welcome to the Jabil Second Quarter 2020 Financial Results Conference Call and Webcast. (Operator Instructions)

As a reminder, this conference is being recorded. It's now my pleasure to introduce your host, Adam Berry, vice President Investor Relations for Jabil.

Please go ahead, sir.

Adam Berry *- Jabil Inc. - VP of IR*

Good morning, and welcome to Jabil's Second Quarter of Fiscal 2020 Earnings Call. Joining me on today's call are 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 discussion and view the slides, you will need to be logged into our webcast on jabil.com. At the end of today's call, both the presentation and a replay of the call will be available on Jabil's Investor Relations website. During today's call, we may be using forward-looking statements, including, among other things, those regarding the outlook for our business. 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 in our forward-looking statements and in our annual report on Form 10-K for the fiscal year ended August 31, 2019, 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.

Now before we begin, I'd like to take a few minutes to discuss the agenda and objective for today's call. As a reminder, on February 25, 2020, we announced that the COVID-19 outbreak would negatively impact our second quarter results relative to the guidance that we had provided on December 17, 2019. And as forewarned, our second quarter results were, in fact, below our initial range of expectations, driven by approximately $53 million in direct costs associated with labor, supplies and supply chain inefficiencies, all caused by the disruptive impact of COVID-19. As customary, Mike will walk through our second quarter results, while also detailing the intra-quarter sequence of events that resulted in a material deceleration in earnings towards the end of the quarter. Although demand remains strong, and our manufacturing capacity continues to improve each day, the overall impact of COVID-19 on our business is still yet to be determined. Consequently, we're going to deviate from our standard quarterly call format in 2 distinct ways. First, we're currently not in a position to provide third quarter or fiscal '20 guidance or outlooks for each of our end markets in fiscal '20 as usual. Second, following Mike's prepared comments, we will move directly into Q&A in an effort to efficiently address your questions. We do, however, expect to resume to our normal cadence of call in the future.

As Mark expressed in our press release on February 25, our first priority throughout this global pandemic has been the safety of our people. It simply makes sense to take care of our people, and we believe it's in the best interest of shareholders too. I can speak on behalf of everyone in this room when I thank all of those who jumped into action with a typical Jabil energy. The team's swift response and hard work allowed us to be in a position to report our second quarter results today.

With that, I'll now hand the call over to Mike.

Michael Dastoor - *Jabil Inc. - CFO*

Thanks, Adam. Good morning, everyone. Thank you for joining us today. As Adam stated, our Q2 results were negatively impacted by the COVID-19 outbreak. Before I cover our Q2 results, I'd like to take a moment to walk you through the dynamics that unfolded during the quarter. We began Q2 with a stronger-than-anticipated start to the fiscal quarter. As we moved into February, demand held, but our ability to meet demand was greatly diminished as virus containment efforts ramped in China. During the quarter, we incurred approximately $53 million in direct costs associated with the COVID-19 outbreak. I'd now like to provide you with the makeup of these costs. First, we incurred additional labor costs in Q2. During February, we strategically made the decision to compensate our employees who are restricted and quarantined. These factors contributed to higher labor costs than we expected going into the quarter. Second, our factory utilization in China was negatively impacted in February due to travel disruptions and restrictions. To add further context to the higher labor costs and lower utilization, February began with the Chinese New Year holiday being extended by 10 to 14 days depending on location. Most of our larger sites in China began to come back online later than anticipated. And by February 14, we were only operating at 45% to 50% capacity. We exited the quarter at approximately 80% utilization in China.

Third, during the quarter, we also incurred lost lost revenue associated with both upstream and downstream supply chain disruptions, which impacted our worldwide footprint. And finally, in an effort to keep our employee base safe and healthy, we incurred unanticipated costs to procure necessary supplies to keep our people safe, items, such as face masks, hand sanitizers, thermometers and personal protection equipment.

I would like to highlight that February was an anomaly. Under normal circumstances, if demand diminished, our variable costs would have been materially lower as we would have adjusted our costs to the demand environment.

Turning now to our Q2 financial results. Net revenue for the second quarter was $6.1 billion. GAAP operating income was $91 million, and our GAAP diluted loss per share was $0.02. Core operating income during the quarter was $159 million. Net interest expense during the quarter was $52 million. Our core tax rate for the quarter was 26.6%, in line with expectations. Core diluted earnings per share were $0.50. It's worth noting that the additional costs associated with the outbreak negatively impacted our diluted earnings per share by approximately $0.25.

Now moving to our GAAP results. As expected, we incurred $30 million in restructuring and severance-related charges in Q2, predominantly associated with the 2020 restructuring plan we announced in September of last year. This plan continues to remain on track and as a reminder, is expected to result in an incremental cost savings benefit of $25 million, mainly in the second half of FY '20. Also during the quarter, we incurred a onetime noncash impairment charge of approximately $12 million in connection with the sale of an investment in the optical networking segment.

Now turning to our second quarter segment results. Revenue for our DMS segment was $2.3 billion. From an end-market perspective, we experienced good demand in the health care and mobility end markets. Revenue for our EMS segment was $3.8 billion. From an end-market perspective, we saw additional strength in the semi cap space, while demand in the balance of the business came in largely as expected.

Turning now to our cash flows and balance sheet. During Q2, our total days of inventory came in at 70 days, an increase of 13 days sequentially, driven mainly by idle capacity and supply chain constraints due to COVID-19. Higher inventory levels during the quarter were offset slightly by lower days of sales outstanding at the end of the quarter, driven mainly by lower February sales. Cash flows provided by operations were $63 million in Q2, and net capital expenditures totaled $205 million. We exited the quarter with a total debt to core EBITDA level of approximately 1.7x and cash balances of $697 million. Jabil has over $3 billion of global revolver credit facilities, and at the end of Q2, over 90% of these facilities were available. During Q2, we repurchased approximately 1.8 million shares for $72 million as part of our 2-year, $600 million authorization we announced in September. In closing, as always, Jabil's #1 priority is the health and well-being of our employees. We are also focused on providing the best possible service to our customers. We take our responsibility as a global corporate citizen very seriously. These values motivate our teams to take significant measures to prevent the spread of COVID-19 and minimize business disruption in this very challenging environment.

I'll now turn the call over to Adam.

Adam Berry - *Jabil Inc. - VP of IR*

Thanks, Mike. As we begin the Q&A session, I'd like to remind our call participants that per our customer agreements, we will not address any customer or product-specific questions. We appreciate your cooperation.

Operator, we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from Jim Suva from Citigroup.

Jim Suva - *Citigroup Inc, Research Division - Director*

If I heard correctly, you gave some utilization rates. And I believe -- did you say 80% was as you exited the quarter or as you stand now? And maybe you can update us on kind of where you stand now? Because it's been a couple of weeks since the quarter has ended, and then I'll probably have a follow-up.

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

Jim, maybe stepping back to -- if we go back to Chinese New Year, as people were coming back to our factories in China immediately after that with various quarantine protocols, our factories mid-February were running probably between 10% and 20%. As we indexed through mid-February, it moved to 40% to 50%. And I think Mike said in his prepared remarks as we exited the month, we were closer to 80%. As we sit here in mid-March, our China factories are actually near normal, and we have some pockets around the globe where factories are suboptimal. But I would say, from a utilization perspective, suboptimal by only 5% to 10%. Most of that is due to supply chain issues. In some odd way, as we sit today, I think China is the least of our concerns. But again, as we look forward in terms of overall global factory utilization, we're able to accommodate all of the demand that's in front of us as long as we can get parts.

Jim Suva - *Citigroup Inc, Research Division - Director*

Perfect. And then that would -- led exactly to my follow-up question was, is now the concern, kind of, focused on hey, it's great efforts that China is recovering is now the kind of the efforts keeping an eye on your other locations outside in case it spreads, and it sounds like you, kind of, alluded to, yes, but any thoughts on, I guess, that would be the next thing that you're watching and working on?

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

Yes, that's fair. If you think about what Mike said, we had this $50 million hit to core earnings in Q2 that was broken out by -- again, we had onetime quarantine infrastructure costs, idle labor, incremental labor costs, largely around China. The factory inefficiencies in China for -- just kind of big picture, factory inefficiencies in China were largely due to labor shortages. That's mostly behind us now. Factory inefficiencies globally, not so much labor shortages, but supply chain constraints and again, we've got some pockets of inefficiencies, but largely, our footprint is up and running. So what else is really interesting in this, Jim, is in relatively short order, our team garnered significant experience in dealing with COVID-19 at the very front end of this pandemic because of our presence in China. And in terms of our actions and approach, we've shared our experiences openly with customers and competitors. And our playbook is ready and actionable if things get notably worse in North America and Europe.

Jim Suva - *Citigroup Inc, Research Division - Director*

And I concur that the actions you're taking to care for your people are first and foremost, most important.

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

Yes, thanks, Jim.

Operator

Our next question is coming from Adam Tindle from Raymond James.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. Mark, it sounds like, obviously, the supply and capacity side is incrementally better. So I just wanted to touch on demand. I think in the February release, you had mentioned that there was no change in product orders so I just was hoping for an update on that, with the heart of the question being investor fear would be how to mitigate potential negative leverage, given you've done a good job getting utilization back up. But if we have order cuts coming, how do you think about that for potential deleverage?

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

Yes. Thanks, Adam. If I might take the liberty, let me expand my answer and talk about, kind of, both sides of the equation, if I could, Adam. One is on the cost side. So again, Mike and during my response to Jim talked about, kind of, what made up the $50 million. The $50 million in February was not for a full month. So if I were to, kind of, extrapolate the $50 million for February on a monthly run rate if that continues to be about $60 million, $65 million against our core line per month. With all the work our team has done on the cost side, Adam, again, we see China getting better, and we think business interruption costs in China, they have declined and will remain a much lesser extent, relative to what we experienced in February. As we see North America and Europe, we think the potential for North America and Europe is to get a bit worse. You see kind of all the social dislocation taking place and whatnot. So what we've done on the cost side is it's a really foggy, kind of, opaque landscape, if you will, but, kind of, on a weighted average, blended average basis. For the month of March, we're planning on about $10 million to $20 million of business disruption and interruption costs across our footprint. And for April, we think it'll be much the same. Coming back to your specific question, if I think about demand in and of itself, this gets more difficult. But what I can tell you in terms of how we're budgeting and talking about the business internally in terms of costs and actions, we've haircut demand for March. We're going to haircut demand further for April. And then beyond April, it's really dependent on the -- what I would say is the control and containment of the virus and then also the fear is directly related to the virus. So as everyone has seen this week, the macro backdrop, the landscape are changing day by day, and then the associated actions are compounding hourly. So that's, kind of, what's inside our head on how we're thinking about the business for the next 60 to 90 days.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And just to clarify, was that $50 million or so of virus-related expenses excluded in the $0.50 of non-GAAP EPS?

Michael Dastoor - *Jabil Inc. - CFO*

No, it's included in the $0.50, Adam. If we hadn't included it, our EPS would have been $0.75.

Adam Tyler Tindle - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Yes. It would have been a pretty nice quarter. Okay. And then just as a follow-up, Mike, can you maybe update us on cash flow given the new forecast? Do you have any feel around that? Do you think still $500-plus million for the year and also capital allocation, given, obviously, we're in a very new share price range? I think you previously were going to do $250 million of buybacks in fiscal '20 and $350 million in fiscal '21. Does it make sense to maybe change that weighting?

Michael Dastoor - *Jabil Inc. - CFO*

So I'll answer the second question first. We're continuing to monitor and be thoughtful about our capital allocation policy. While cash is extremely important, the share price is absurdly cheap right now. So we're trying to balance that, and we'll keep cash in mind, of course. For your first question, I think from a cash standpoint, we're pretty good. I think we had a great bank facility transaction in January. We -- I think we had a $500 million senior note, $3 billion of bank credit facilities, and we've converted a lot of our short-term debt into long-term debt. So the timing is very opportunistic. It was lucky as well that it happened well before the COVID-19 outbreak started. We feel really good about our cash flow. And free cash flow, is it going to be in the $500 million range? Right now, as it stands, yes, probably in the $400 million to $500 million range. It's all about demand, Adam. Right now, while we're not seeing huge cuts from our customers, that could change at any point in time. But this -- I think Mark talked about the social distancing. That will have an impact going forward. We just don't know the magnitude and extent of it at this time.

Operator

Next question today is coming from Paul Coster from JP Morgan.

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

It's Paul Chung on for Coster. So just a follow-up on customer demand and kind of the haircuts you're baking in? Are those more on kind of faster product cycle products? And are these, kind of, being pushed out maybe a couple of months out? Or if you could confirm if any of these products are being canceled?

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

It's too early to tell. I just think -- I think it's really prudent for us to kind of haircut the business a little bit, starting in March, April. So there's no -- there's not been an exact science to it. And even if we tried to take some type of fine scalpel and figure out what sectors, what business, it's impossible. So again, my commentary was really around -- we can say absolutely nothing or we can try to kind of bring in to the heads of the leadership team, and my commentary around demand is things are very murky. We are planning for demand to soften a bit. And again, we're running internal cost and actions accordingly.

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

Got you. And then on kind of new customer discussions, are you seeing more preference for America's production or Europe or with intentions of kind of avoiding potential areas more sensitive to tariffs? Are you seeing any trends there now more customers motivated to do so? And then how does that, kind of, impact your operating margins longer term?

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

We -- I think we talked either the December call or the September call, the first half of this year, we are experiencing, I don't know, $10 million to $15 million in terms of bringing up additional capacity in places like Vietnam, Penang and Mexico. That still holds. What I would tell you is those kind of costs are minimal and very finite in terms of how all this impacts our margins, in terms of moving business around. I don't think it has much of an impact long-term at all because of our global footprint. So whether customers want to be served in China, Southeast Asia, Mexico, North America being U.S. and then Europe, we're in really, really good position based on our footprint. I think today, our footprint is well optimized.

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

Great. And then my last question. So if you could just talk about the pricing environment. We know that Flex is kind of focusing more on the higher-margin business, kind of turning away some of the lower margin one. Is that kind of creating a floor on margins for new business? What would, kind of, be the alternative to Flex besides Jabil for like scale, volume? If you could talk about the dynamics there and how that, kind of, benefits you guys?

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

Yes, I don't know. If -- margin is good for the industry. So I think if Flex is doing their thing. And I heard some of their comments earlier this week. If they're focused on raising margins. I think overall, that's good for the industry.

Operator

Our next question is coming from Mark Delaney from Goldman Sachs.

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

The first question was on the component availability topic. I wasn't sure if you could provide any context relative to some of the past periods of supply chain disruptions, be it tariffs or floods or tsunami? And just what you're seeing today and some similarities with what you're seeing today versus some of those past examples? And on that topic, are there any particular end markets or component types that you're most concerned about?

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

Yes, Mark, I think it's across the board. What I will tell you is supply chain was quite normal, December, January, we started getting some fairly strong signals, especially around China and Asian suppliers that they were having a hard time with labor as people were coming back from Chinese New Year. We started hitting some real soft spots specific to supply chain late February. But what's been amazing to me is between our scale, our relationships and our overall actions and activities with the supply base in, call it, 2 weeks, our team has been deployed on the phones, and this could have been a very elongated, deep divot, if you will. We see it again, finite in terms of when it'll get completely back to normal, that's TBD. And again, the good news is China is getting back to normal pretty quick in terms of suppliers in Europe and North America, I think we still have to go through that cycle a bit. But as I said in the opening of Q&A, all of our global factories are running near what I'd characterize normal utilization, a few pockets being off 5% to 10%. But our supply chain team is doing a wonderful job.

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

I also wanted to follow-up on your comment about some of the haircutting of the forecast. Do you think you're getting double orders and so that's why you're haircutting or potential and demand weakness? And so you're more just trying to proactively think about potential demand destruction? So just trying to think through how you guys are managing that? And is there any sort of rough quantification about what percent you're haircutting these forecasts?

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

Yes. I'll stay away from percentages just because -- I don't even know that they make any sense. We're -- I think about the current conditions, Mark, I think about the virus, the associated fears, the actions and then maybe in terms of demand, I think about it maybe appropriately about the possible in actions] both by corporations and consumers, say, over the next 3, 4, 5, 6 months. We just don't know what that's going to be. So again, to take our demand signals, which today are holding reasonably well and just extrapolate that directly with no haircut, I just don't think that makes any sense.

And I'll go back to -- just this week alone, if you look at what's happened in the U.S. in terms of professional sports, concerts, group events and whatnot, some way, shape or form, that's going to have to have an impact on small business, et cetera. So again, I think it's the prudent thing to do. And let's just hope that this is finite, and I think it will be temporary. It's just a matter of the definition of finite and temporary, does this last 3 months or does it last 12 to 18 months. But what I do know is the team we have in place is probably the most experienced in the business. The team's resilient, proven. We've been through this before '07, '08. Those of us that have been around a long time, around here for the tech rec, and one thing our company knows how to do is manage variable costs and customer care in tough times.

Operator

Our next question is coming from [Steven Fox] from [Fox Advisors.]

Unidentified Analyst

Mark, I was wondering if you could share with us your travel policy going forward? And whether it could affect ramping new programs? And then secondly, could you talk about the precautions you're taking to prevent infection inside your plants on a global basis? And then I had a quick follow-up.

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

Sure. Those are great questions. I -- our call today is a bit unique, as Adam said, in terms of structure, form and content, and I'd love to talk about the business, but I think in times like this, in many ways, saying less is saying more.

Especially, I don't believe in saying a lot of stuff when we just don't have good clarity. But one is -- your question is a really good lead in. I always talk on our calls about thanking our people. And our #1 priority, and Adam and Mike both hit this, is the safety, health and well-being of our folks. And a special thanks to everybody on our team. We had -- -- even though we clipped $50 million out of our core results, I got to acknowledge -- we had near-perfect execution this past quarter and that was split between taking just incredible care of our people, great care of our customers, all while reacting with -- I don't know, how we'd say it, speed and purpose to these disruptions, is amazing. And if I think about certain line items, when we talk about speed and purpose, one is, out of no where, when folks were coming back from Chinese New Year, our team in China set up quarantine centers and quarantine space that was really, really first rate. We immediately streamlined testing and protocols, partnering with local hospitals. We went through it, what I would characterize as, extreme sanitization and disinfection in our Asian sites, and we're now doing that in our U.S. and European sites. Our HR team, combined with our business partners and our technical folks have set up a comprehensive education and awareness for all of our employees. Our travel restrictions have been, I think, a very fine balance between keeping our people safe and conducting business in a very, very thoughtful way. We've had policies put in place in terms of reducing visits to our factories. And then again, what I would characterize as Jabil ingenuity, we've been producing our own surgical masks for our folks in Asia and throughout the world, if needed. And in an earlier Q&A question, Steve, I made the mention, I think that really positions us well if things don't get worse in North America and Europe, that's a fantastic outcome. If things do get worse in North America and Europe, we've already written the playbook. And again, it's ready to go. And I'll say it again, in some odd way, as we sit here today, China is the least of our concerns. So that's kind of what we've been up to.

Unidentified Analyst

That's really helpful. And then just as a quick follow-up. Mike, you mentioned the credit line that's available have you tapped it in the current quarter? And could you just sort of talk about your plans to and whether there'd be any restrictions on accessing that cash if you needed to?

Michael Dastoor - *Jabil Inc. - CFO*

So we're not aware of any restrictions. We tap in tap out as required. Obviously, we move funds around internationally, globally. We're in 30 countries. So we do move funds around pretty efficiently. So no issues there at all, Steve.

Operator

Our next question is coming from Ruplu Bhattacharya from Bank of America.

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

As valuations have come in, can you give us your thoughts on maybe growth inorganically? Your thoughts on M&A? And what are some of the things you look for in targets?

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

Ruplu, I think we start with -- we're always in the market shopping. That's headed up by our strategic team led by Courtney. So we're -- we've got our toes in the water constantly looking at M&A. Our strong, strong preferences is small -- smaller deals that help us in terms of capability and align with our strategy. We felt for the last 18 months that price tags on almost everything we looked at were ridiculous. And therefore, we've paired back some of our M&A activity. I would never want prices to come down based on something like COVID-19 because of the impact it has on individuals and families and whatnot, and it really does look like it's a pandemic. But if -- I think COVID-19 aside, I think what's happened the last couple of weeks, it just felt to us like the market was overbought to begin with independent of the virus. So if we can see prices get back to normal, I think our activity in the M&A world will pick up. I -- we're not out shopping for a big $1 billion deals, but there is some things we'd like to do in terms of increasing capabilities. I will tell you that assuming we get to the other side of this virus, stuff still needs to get built. I mentioned earlier, our factory optimization is exceptional. Let's remember that all our factories are wrapped in a wonderful IT network that's very unique. And then when I think about both organic and M&A, Ruplu, secular trends in markets like 5G, health care, advanced handsets, electric transport, disruption in retail, machine learning, 3D additive, bla, bla bla. Although demand might be softer a bit of time, those secular trends haven't changed. I think they remain intact, and that will be really good for us.

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

Okay. And Mark that makes sense. Maybe on the cost side, can you remind us what are some of the costs that are under your control? And how should we think about SG&A as a percent of sales going forward as you try and control some of these costs? And I guess related to that, you've talked about rationalizing your mobility footprint. Can you just update us on the status of that?

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

Okay. That was a little bit -- let me just think my way through that. So let me start with your SG&A question. I think 100% of the time when most -- all companies, but I'll speak specifically for us. When you go through a decade of tremendous growth, I think you tend to get a little bit fluffy in terms of cost and overhead. On a relative basis, we still run this company at around 4% SG&A, which is, I think, fabulous. I'd like to see that come down a little bit. So we are always watching costs. When you have a catalyst like this, I think it has us sharpen our pencil. The nice thing is, is well before COVID-19 occurred. Mike and I talked about, I think it was on the September call about some restructuring for this year that was kind of to continue to shape and optimize our factory network. So in some odd way, we're out in front of that already. We'll use this opportunity to take a look at Opex, infrastructure costs a little bit further in terms of headcount. But I feel good about how we're positioned, and I certainly feel really, really good about our company's ability to react and act in a very, kind of, agile, swift way.

So overall, I feel good about how we sit today.

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

Okay. And then maybe just on the mobility rationalization of your footprint, is that more or less done? And any areas of CapEx spend this year and next year that you want to highlight?

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

I don't really want to get into CapEx at the moment, we're evaluating that, and Mike addressed some of that in his prepared remarks. In terms of -- instead of mobility footprint, I think the way I would address your question, if I still may, is Mike laid out a pretty good detail on the September call about the restructuring that we have in place that's going to plan. In fact, we're a bit ahead of plan, and we'll continue to see that through.

Operator

Our next question today is coming from Shannon Cross from Cross Research.

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

Can you talk a bit about the strength you saw in the beginning of the quarter? I realized a lot has changed since then, but I'm curious about your cloud business. And if you saw some of the continuity of strength from first quarter come through in second? And then I have a follow-up.

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

Yes. Thanks, Shannon. I think as you know, the crazy thing is December and January, I think we put this in the press release. I don't remember, I know Mike just alluded to it. We got off to a really nice start. And the interesting part of that is, it was really kind of across the board. So our cloud business is operating slightly above plan, our -- the mobility side of our business, the demand is quite strong. And when I say demand is quite strong. I would take the liberty to characterize that as Jabil's demand. And I think there's 2 components of that. I think overall in demand is holding pretty well in that market. But the amazing work our team has done in that area, we continue to pick up some market share, which is also driving our demand. And then when I look at our EMS side of the business, the strength to the start of the quarter was kind of peanut buttered across 6 or 8 different sectors.

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

Great. And then Mike, I had a question. Your, I think, 1.7x leverage, just curious, I guess, a little bit back to the acquisition, but then any thoughts of maybe levering up a little bit, given where the stock price is at? I know you guys tend to be pretty conservative. But I'm curious if the recent dislocation provides somewhat of an opportunity?

Michael Dastoor - *Jabil Inc. - CFO*

Yes, we'll continue to monitor and be thoughtful of that capital allocation policy that I talked about earlier, we do have an allocation methodology laid out, and we will stick to that. And as opportunities come up, we'll definitely go in and have a look.

Operator

Our next question is coming from Matt Sheerin from Stifel.

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

Yes, a question regarding your commentary about the inventory and working capital. It sounds like that's fairly under control in terms of the component issues that you've been seeing. But should we expect inventory levels to remain fairly high here relative to the progress you saw in recent quarters just because you and your customers may tend to be more conservative and want to keep some inventory on hand?

Michael Dastoor - *Jabil Inc. - CFO*

Yes. I think as the COVID-19 spreads in other parts of the world and supply chain constraints continue, we will see a little bit of a spike in inventory. February was a bit of a perfect storm as well. We were running at 30%, 40% capacity, that is highly unlikely in the rest of the world at this stage. Now that could change. So there will be a little bit of a spike, but not as much as February.

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

Okay. And in terms of impact on your free cash flow? And I know you've had some pretty -- fairly robust free cash flow targets for the year. I guess, along with the rest of your guidance, that's sort of off the table at this point?

Michael Dastoor - *Jabil Inc. - CFO*

I wouldn't say it's off the table. We're still targeting that number. Remember, when demands falls and revenue goes down, our working capital from a dollar standpoint actually improves. So there's nice little EMS paradox that goes on with our type of business, which gives a little bit of a natural protection.

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

Okay, great. And then as you look -- and Mark, you talked about relative strength on the mobility front and everybody has been looking forward to the next-generation cycles and product cycles later this year, any change in terms of things you're doing with customers in terms of pilot programs and R&D and that sort of thing as you prepare for the end of the year?

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

No, I'd say that's business as usual.

Operator

Thank you. We reached end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

Adam Berry - *Jabil Inc. - VP of IR*

Thank you for joining us. This now concludes our call.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.
