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PRESENTATION

Operator

Good afternoon. My name is Tim, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Jabil Third Quarter Earnings Conference Call. (Operator Instructions)

Thank you. Ms. Beth Walters, Senior Vice President of Investor Relations and Communications, you may begin your conference.

Beth A. Walters - *Jabil Inc. - SVP of Communications & IR*

Thank you. Welcome to our Third Quarter of Fiscal Year 2018 Earnings Call. Joining me today are CEO, Mark Mondello; and Chief Financial Officer, Forbes Alexander. This call is being recorded and will be posted for audio playback on the Jabil website, jabil.com, in the Investors section. Our third quarter press release, slides and corresponding webcast links are also available on our website. In these materials, you will find the financial information that we will cover during this conference call. We ask that you follow the presentation with the slides on the website, beginning with Slide 2, our forward-looking statement.

During this conference call, we will be making forward-looking statements, including those regarding the anticipated outlook for our business, our currently expected fourth quarter of fiscal 2018 net revenue and earnings results, the financial performance for the company and our long-term outlook for the company. These statements are based on current expectations, forecasts and assumptions and risks involving -- 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 Annual Report on Form 10-K for the fiscal year ended August 31, 2017; on subsequent reports on Form 10-Q and Form 8-K; and our other security 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.

Today's call will begin with Mark and his comments on the quarter and our outlook for the business during the remainder of fiscal 2018. Forbes will follow with details on our third fiscal quarter results and guidance for our fourth quarter of 2018. Following our prepared remarks, we will open it up to questions from call attendees.

I'll turn the call now over to Mark.

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

Thanks, Beth. Good afternoon. As always, I appreciate everyone taking time to join our call today.

I'll begin by saying thanks to our team here at Jabil. Thanks for your personal commitment to our customers and to our shareholders. And thanks for making safety your top priority.

Before I begin with my prepared remarks today, I'd like to share a few thoughts about Forbes. As you know, Forbes recently announced his retirement, and he'll be transitioning his CFO chair to Mike Dastoor. So with the proverbial mixed emotions, I put pen to paper, starting with what an honor it's been to work with Forbes for 20-plus years. Fighting the good fight every day, it's stressful, it's fun, and at times, just plain crazy. Forbes and I laugh about how working at Jabil is done so in dog years, as our business has an intensity about it that's never ending. So by my calculation, Forbes' career here at Jabil is actually closer to 150 years in duration. Now that's worth acknowledgment and celebration. Forbes, you've truly made Jabil better for everyone; for our customers, for our employees and for our shareholders. You're leaving behind one hell of a legacy.

As I wrote down my thoughts, it occurred to me that it just wouldn't be complete without a sentimental touch to Scotland. So as the famous Scotsman and creator of Peter Pan, J.M. Barrie, once said, and I quote, "Those who bring sunshine to the lives of others cannot keep it from themselves." Forbes, you and your wonderful bride, Lorna, deserve a life full of sunshine. Thank you, my friend. Thanks for all you've done over such a storied career. You'll be missed, man, but you'll never be forgotten.

With that, I'll now get on to my prepared remarks.

,Starting with our third quarter results. Our team delivered $150 million in core operating income on revenues of $5.4 billion, resulting in core earnings per share of $0.46, a considerable increase year-on-year. These results represent a diversified stream of earnings, a level of diversification that's sustainable as we head into fiscal year '19.

During the quarter, we had 2 distinct challenges. First were unanticipated factory costs caused by broad-based material and component constraints. And second were lingering cost overruns within our packaging business. These 2 issues combined, one macro and one more micro in nature, cost us $12 million to $13 million during the quarter. The good news is both challenges are temporary, and both will dissipate. Overall, I'm pleased with the quarter. And as customary, Forbes will provide more detail around our results and speak to our forward guidance during his prepared remarks.

I'll now address current business activities within our DMS segment. Our DMS team earned $29 million during the quarter on $2.2 billion in revenue, demonstrating strong performance; performance characterized by growth, new program awards and investments, not necessarily in that order, as our third quarter is typically one of the deep investments inside our Green Point business, and this year is no different. To expand on that point, we generally provide little or no income during our third quarter within our DMS segment. However, this year, we posted solid profits that were earned from a wide range of product families across half a dozen or so end markets. Moreover, our Green Point business now requires more intricate assembly and sophisticated automation, in addition to our precision mechanics expertise. Good news for sure, as it suggests further product diversification and plays directly into Jabil's strengths.

Along this theme, I announced during our March call that we had secured 2 significant program wins, both wins with new customers. These relationships are on track and should become material as we move to the second half of fiscal '19.

I'll wrap up our DMS segment with an update on health care and packaging businesses. The teams continue to capture share, allowing us to reaffirm our annual growth rate of 20% to 25% fiscal year '16 through fiscal year '19, which we've referenced for the past 18 months or so. Across the health

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care space, we're seeing more and more companies in the areas of diagnostics, med device, pharma and drug delivery select partners like Jabil to serve as their primary hardware provider. We're helping them incorporate better solutions through the use of combined technologies. This enables health care providers to become more productive, more cost-effective, and ultimately, more impactful to the patients.

As for our packaging business, the outlook for fiscal '19 is positive. We believe that demand for our services will remain firm, and in fact, increase as Jabil's one-stop solution set, made up of molding, embedded electronics, final product assembly and material sciences, is a real differentiator in the packaging markets space.

Next, I'll spend a few minutes on our EMS segment. Our EMS team continues to deliver sound results as they push forward with their progressive transformation. The team delivered approximately $122 million during the quarter on roughly $3.2 billion in revenue. As detailed on our last call, we're seeing meaningful expansion with both existing and new customers in areas such as automotive, connected home, wireless infrastructure, semi-cap equipment, cloud and energy, the result being EMS revenues at $12-plus billion for fiscal year '18, representing 10% growth year-over-year. Most interesting to me is the fact that half of this growth comes by way of new customer engagements. We expect the momentum to continue into fiscal year '19.

It's evident that our EMS business has become well-diversified. The team is deliberate and intentional on their pursuit of select industries and select customers, a successful model and roadmap on how we intend to run this business for the next 2 to 3 years.

I'll conclude today's remarks by offering a few thoughts as I think about the company as a whole. Our forward guidance suggests another strong quarter and sets the foundation for Jabil to deliver core earnings of $2.60 a share for fiscal '18, growth of nearly 25% year-on-year and perfect alignment with our commitment.

As we've highlighted, opportunities have been plentiful throughout the year and across the enterprise. This has allowed us to make mid- to long-term investments across our portfolio. A key subset of our current investment thesis is share buybacks. To date, we've returned approximately $860 million to shareholders, pursuant to the 2-year capital return framework we announced back in June of 2016. As we enter the final stretch of fiscal year '18, we'll complete the 2-year framework, bringing our capital return to shareholders to $1 billion, as we committed to you previously. Accordingly, given the confidence we have today and the value we see in our business, we've elected to extend the capital return framework from 2 years to 3. As such, we've authorized an additional $350 million in share buybacks to occur during fiscal year '19.

In closing, I'd like you to know that we're planning another Analyst Day, where we'll provide a comprehensive deep-dive into the makeup and the construct of our business. We'll do so via webcast on Tuesday, September 25, a few days after our year-end's earnings call. And during this session, you can expect to hear about operating margins, cash flows and capital expenditures. Furthermore, you'll hear how we intend to deliver the $3 per share in core earnings in fiscal year '19 and the range of revenues required to deliver these earnings.

In the meantime, we have plenty of work ahead as our DMS segment is preparing for multiple program ramps, while our EMS segment is digesting the healthy revenue growth we've experienced this year. At Jabil, we embrace constant change and welcome the incredible challenges put forth by our customers.

Thank you, and I'll now turn the call over to Forbes.

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Thank you, Mark. Good afternoon, everyone. I'd ask you to turn to Slide 3, where I'll review our third quarter fiscal 2018 results.

Net revenue for the third quarter was $5.4 billion, growth close to $1 billion or 21% on a year-over-year basis. GAAP operating income was $113 million, with GAAP net income of $43 million. GAAP net diluted earnings per share were $0.25 for the quarter.

Core operating income was $150 million, an increase of 32% on a year-over-year basis and represented 2.8% of revenue. Core diluted earnings per share were $0.46.

Turning now to Slide 4 and our third quarter segment discussion. Revenue for our Diversified Manufacturing Services segment was $2.3 billion, an increase of 36% on a year-over-year basis, reflecting our continued diversification efforts with growth in health care, consumer goods and mobility businesses. This represented 42% of total company revenue. Operating income for the quarter was 1.3%.

Our Electronics Manufacturing Services segment revenue was $3.2 billion, an increase of 12% on a year-over-year basis, and reflected growth across automotive, connected home, capital equipment industrial, energy and wireless infrastructure customers and represented 58% of total company revenue. Operating income for the segment was 3.8%.

I'd now like to take a little moment to discuss our cash flows.

Cash flows from operations in the third fiscal quarter saw a usage of $103 million as a result of working capital expansion to support revenue growth above our previous estimates. Cash flows from operations for the full fiscal year are now estimated to be $800 million versus our previous expectations of $1 billion. This is the result of temporary working capital expansion to support revenue growth above previous expectations in a challenging components market. As I outlined in our October 2016 Analyst Day, we continue to expect cash flows from operations for the 3-year period, fiscal 2017 through fiscal 2019, to be $3.5 billion.

Net capital expenditures for the third fiscal quarter totaled $265 million. Capital expenditures for the fiscal year to date totaled $572 million, while the full fiscal year remains on track with our previous expectations of $700 million. Core return on invested capital for the third quarter was 13%. For the full fiscal year, core return on invested capital is estimated to be approximately 18%, a 200 basis point improvement on a year-over-year basis. Our total debt-to-EBITDA levels at the end of the fiscal quarter remained at approximately 2x, while cash balances were $677 million.

Turning now to our capital returns. In the third quarter, share repurchases totaled $91 million. Since the inception of our capital return framework, we have repurchased 28.6 million shares at an average price of $25.06, totaling $716 million. At the end of the quarter, $134 million remained outstanding in our current stock repurchase authorization, which we expect to be fully utilized during the fourth quarter. Upon completion of this authorization, we shall return approximately $1 billion in stock repurchases and dividends under our capital return framework. I'm pleased to note that our Board of Directors has authorized a further stock repurchase program of $350 million through fiscal 2019, continuing our commitment to shareholder returns.

Turning now to our fourth quarter of fiscal 2018 outlook, which you can see on Slide 5. The Diversified Manufacturing Services segment revenue is expected to be consistent on a year-over-year basis for $2.15 billion, while Electronics Manufacturing Services segment revenue is expected to increase approximately 13% on a year-over-year basis to $3.25 billion. We expect total company revenue in the fourth quarter to be in a range of $5.2 billion to $5.6 billion, or an increase of almost 8% at the midpoint of the range on a year-over-year basis.

GAAP operating income is estimated to be in the range of $144 million to $199 million. Capital earnings per share are estimated to be in the range of $0.38 to $0.65 per diluted share. Core operating income is estimated to be in the range of $175 million to $225 million, with a core operating margin in the range of 3.4% to 4%. Core earnings per share are estimated to be in the range of $0.56 to $0.80 per diluted share. The tax rate on core earnings in the fourth quarter is estimated to be 28%.

In closing, we're pleased with the progress we've made year-to-date. With the guidance for the fourth quarter, overall company revenues and core earnings per share for fiscal 2018 are expected to grow 14% and 23%, respectively over fiscal 2017. Diversified growth in revenues and earnings will provide a strong foundation to support our plan to deliver core earnings per share of $3 in fiscal 2019.

Before I hand the call back to Beth, I'd like to thank Beth, Mark and Mike and everyone for your support and trust over the last 14 years as CFO. It's been a humbling and wonderful experience. I've worked with many passionate and talented people within Jabil from all parts of the world, many of whom I'm proud to call friends.

The company is in good hands with Mike Dastoor moving into the CFO role. I've worked with Mike for some 18 years, and I know our transition will be seamless over the coming months. Thank you again, everyone. It's been an absolute privilege.

I'd now like to hand the call back to Beth.

Beth A. Walters - *Jabil Inc. - SVP of Communications & IR*

Thanks, Forbes. As we begin the question-and-answer 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 understanding and cooperation. Operator, we're ready to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ruplu Bhattacharya with Bank of America Merrill Lynch.

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

Forbes, we're going to miss you, and all the best for your retirement. Maybe my first question, Mark, your guidance for the EMS segment is $2.25 billion. That's significantly higher year-on-year from the fourth quarter of last year. So how should we think about -- if you can give us any guidance on the margins, operating margins, that you expect in EMS in the fourth quarter.

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

Yes. So the -- year-on-year, it's 10-plus percent growth. And again, I just think it's a bit of a signal on our approach, and what we're doing in that market space seems to be working. And the other thing we'll take is there's a little bit of wind in our sails with the overall economy. So we're pleased with the forward-looking guide. In terms of margins, I think if you think back to 4Q of '17, we posted margin somewhere in the neighborhood of like 4.7%, 4.8%, and I had mentioned at the time that there was some one-offs there and that natural margins for 4Q of '17 were around 4.5%. I think the fourth quarter this year will be at or about the 4.5%. So for modeling purposes, I might model that at 4.5%, 4.6%, and put the balance of the income with DMS.

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

Okay, that's helpful. And then on the DMS side, the revenues were higher than what you had expected. Did the health care and packaging surprise you in terms of its strength?

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

So yes, I think maybe I could address that in 2 parts. One is revenue overshot our midpoint by about $500 million. So I think our midpoint for the quarter, if I go back to our March call, was about $4.9 billion, and we did about $5.4 billion. The majority of that was in DMS, and it was really kind of across the company where we saw the additional revenue. When we were thinking about providing the guide back in March, we were concerned about the materials market, which has been very, very tied to the electronics component market. And just getting material in general has been difficult. So we hedged our revenue a little bit. Plus we had a lot of new program ramps, so we hedged those as well and maybe we hedged them a little bit too much again. So the delta from our results to our midpoint guide of $500 million again was really across the board. We saw it in health care. We saw it in mobility, we saw it in -- across EMS, and we saw it through kind of the edge products within DMS as well. So the good news is the diversification play and the diversification story we have been talking about for the last 3 years seems to be playing out. I'd like to address -- Ruplu, I'll address one other issue maybe to avoid another question on the topic. The question is, geez, we saw a $500 million upside in unanticipated revenue, and we only exceeded earnings by $0.01. I think it's worth noting again, and I mentioned it in my prepared remarks. So we had some additional costs in the factories based on the fact that it was quite difficult getting material and components this quarter. And then we also -- I mentioned back in our March call that we had some cost overruns in packaging, and we had that lingering on into 3Q. And we think that'll occur a bit more in the fourth quarter, but we think we've got that embedded in our guidance. I'm extremely bullish on health care, and I'm also bullish on packaging. So I think the components market and the material market, although more of a macro issue, will start to subside as we get into calendar '19, so maybe early to mid calendar '19. And then in terms of our execution and the issues on the packaging side, I think they'll subside as we move into fiscal year '19.

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

Okay, Mark. Maybe last one just for Forbes. I think the tax rate came in a little bit lower than what we had expected. How should we think about that going into fiscal '19? Any guidance that you can give now?

Forbes I. J. Alexander - *Jabil Inc. - CFO*

For '19, it's a little bit early. A lot's dependent on the sources of income, if you will, with our operations in Asia. But as we sit today, for modeling purposes, I think this year, we'll end up about 28%, 29%. I think it's reasonable to hold it at those levels. And Mike and the team will update you in September with an exact number. But for now, that is the placeholder.

Operator

Your next question comes from the line of Matt Sheerin with Stifel.

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

I want to also say congratulations to Forbes. Just a question regarding your commentary on the supply chain constraints, which weighed on margins last quarter. The first question is, isn't that something that you can pass along to your customers when costs go up? And second, what have you done to alleviate that problem so that we don't see that repeat? Because it looks like the supply environment continues to remain tight.

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

Matt, so I'm not so sure we've got a magic wand on how to make the issue go away. It's a pretty profound issue, and again, it's more macro base. I can tell you that companies like us in flex with our scale sit in the cat bird seat in terms of working strategically and hand-in-hand with the supply base. So I feel really well positioned that in terms of being able to get materials, resins, electronic components, passives and et cetera that Jabil's kind of front and center. And again, I feel good about our ability to do that. In terms of when it's going to clear, I made mention, I think it starts to dissipate probably early to mid-fiscal year '19.

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

Okay. And just looking at your 2019 target of $3 in EPS. And I know you talked about giving us more detailed guidance at your Analyst Day. But that incremental buyback program that you have, is that something that would play into that $3 number? In other words, do you need to do the buyback to hit that $3 number?

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

We've always -- although -- so Forbes is extremely cautious. He guards our cash flows and our balance sheet really, really well. And so we didn't want to come out with the additional buybacks for '19 until we're certain that cash flow supported it, which it looks like they will. We've always kind of modeled the $3 with about $300 million of buyback in '19. We announced $350 million, so not much difference. So yes, the $300 million or $350 million of buybacks are already anticipated in the $3 a share.

Operator

Your next question comes from the line of Sean Hannan with Needham & Company.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Another person here to pass on the congratulations to Forbes. It's been a real pleasure all these years. Question on the guidance as we've looked at the DMS views for next quarter. So it's interesting to look at that we're going to have kind of a flattish year-on-year scenario. Typically, we do have some growth. So trying to understand the various components, push and pull, that get us to that. Obviously, there have been some positive and negative leverage in there. So I just want to see if we can get a little bit more granularity on that.

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

Sure, Sean. So I feel great about our guide for DMS in 4Q. I look at last quarter or last year of the fourth quarter, and it was a pretty frothy outlook with super cycles and whatnot. So the fact that our guide this year is largely on top of results from our fourth quarter last year makes me feel really good. I think the composition is different, though, which makes me feel even better. Again, we've been -- we've been banging the drum for the last 3.5, 4 years on diversification. And I think our guide in the fourth quarter around DMS reflects that. So add to that, that for the last, whatever it is, 18 months, maybe a little longer, we've been talking about health care and packaging growing at a compounded rate of 20%, 25% from '16 to '19. I think that's also reflected in our DMS guide. So overall, we feel pretty good about the guide for the quarter and how we're closing out the year.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

So all in all, there can be an interpretation that we should think of this as a visual reflection of where this pivot is taking place, lesser reliance on where some of the prior high won Green Point revenue makeup had been, and a much more visible contribution coming into play, changing that makeup, driving more sustainable profitability moving forward through Nypro-related revenues and other activity.

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

Well, there was a lot there, but I think I kind of agree with that largely, yes.

Operator

Your next question comes from the line of Sherri Scribner with Deutsche Bank.

Sherri Ann Scribner - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

I was hoping you could maybe make some comments on your further outlook for revenue growth. I know in the past, you've talked about sort of mid- to low single-digit growth in EMS, but you guys clearly outperformed that this year. And then when you think about the DMS segment, the sort of flat guide for 4Q, is that -- should we think much lower growth in DMS as we move into fiscal '19?

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

Sherri, so we haven't really talked much about revenue for '19. I can imagine DMS and EMS continuing to grow at whatever the numbers are, call it, 20% and 10%. Again, we're doing something right, so we'll take the growth while it's here. Again, this has been a really nice year for us. I think as you think about the $3 a share, and we'll get into much more detail on this September 25, but I think growth rates will normalize a little bit. And in terms of revenue for '19, I would pencil in something, $22.5 billion to $23 billion. And again, give us another, whatever the math is, 80, 90 days, and we'll take you a bit deeper on all of that. One of the things that we're looking forward to for the Analyst Day, which is nearly 2 years to the date, is to really give you a good breakdown and construct of how we're going to drive the $3 a share, which will include subset to revenue and how all that breaks down.

Sherri Ann Scribner - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Okay, great. And then, Forbes, also congratulations to you on your retirement. I've enjoyed working with you. But I wanted to ask about CapEx. I think you've guided -- I think your guide was $700 million, and we've been a bit above those rates. So how should we think about CapEx this year? And I assume you'll update us for fiscal '19 at the Analyst Day.

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Thanks, Sherri. CapEx this year, we started the beginning of the year at $700 million. We should be hitting that number. I think we're, what, $570 million roughly as we've exited this quarter. So it should be on track around the $700 million number for the year.

Operator

Your next question comes from the line of Steve Milunovich with UBS.

Steven Mark Milunovich - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

You've expanded a lot of capacity in Green Point the last few years. Can you give us a sense of where your plant utilization is? How much further there is to go there? And if it has positive potential impact on margins?

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

Steve, it's Mark. We really haven't expended much capacity at all in the last couple of years. I think we talked a lot about fiscal '13, '14 and maybe part of '15, where we got out ahead of ourselves with expansion in Mainland China. And we made great investments there. We just -- we were a bit premature by probably 18 months or so. One of the things we said back then was -- is we were probably a little bit early. But don't judge us, and let us see if we can leverage the assets and the capacity the next coming years in terms of cash flows, and largely, that's exactly what we've done. So pretty pleased with capacity, capacity utilization and then kind of an ROIC or an ROA on those assets the last number of years.

Steven Mark Milunovich - *UBS Investment Bank, Research Division - MD and IT Hardware and EMS Analyst*

Okay. It seems like yesterday to me, but on the EMS operating margin, I think you said that you thought you could sustain around 4%. Is that kind of the level we should be thinking about on an annualized basis?

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

I don't know. I mean, I think the team's just doing a great job. And again, I bring you back to -- we've taken those margins from 2%, 2.2%, to bumping up against 4%. I think for modeling purposes, on an annual basis, modeling our EMS margins around 3.8 seems reasonable if we can stretch it to 4. And by the way, our internal goal is certainly to get our EMS margins to 4, but maybe clip that by 20 basis points. But nonetheless, boy, I feel good about how that business is operating and the outlook for that business for fiscal '19.

Operator

Your next question comes from the line of Jim Suva with Citi.

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

Forbes, your level of integrity and stewardship and details has been so appreciated over the decade I've known you, so thank you so much and you'll be missed. My question is you upsided on revenues. So you're able to get all the components. But the margin, as you mentioned, didn't come in. So you're able to get it, whether you just had to pay up to get the product, or it's hard to see why you wouldn't pass that through to the customer if it's apparent DRAM prices, copper, steel, all those prices have gone up. Why not have the cost plus model be your protector?

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

Jim, so -- by the way, thanks for the kind words for Forbes. I couldn't agree more. In terms of the component market, we weren't really able to get all the components. And again, I think the revenue's a reflection, again, I just keep banging the drum on. In our world, in our business, the more diversified we are, the better. And the upside in revenue, one could look at it from the outside and go, wow, we were able to collect all the components you need. And the reality is we're really well positioned to collect components and manage the supply chain. We got great partners. But we largely didn't get all the material we needed. A, that drove up transformation costs in our factory, which I addressed in my prepared remarks. But we're able to go down in different tangents in terms of getting our product a different -- getting our customers a different mix of products. So again, I think it's a wonderful illustration of the diversification of the business overall. In terms of -- I think this is the second question, around do we just pass that cost on to our customer. And the answer is we've got all kinds of different agreements with customers. Jabil, over the years, typically doesn't take absolute inventory liability. But we're not so agreed just where we just throw our hands up and pass that cost down to the customer. Our customers expect us to work the issue side-by-side with them. And in most every case, we end up sorting through an equitable rationale solution on the economics. So again, I tried to allude to this in my prepared remarks and maybe one of the earlier questions, but in the $400 million, $500 million of additional revenue that we had, we actually made pretty good margin on that. But again, it was eaten up by some inefficiencies in the factories as well as some of the lingering issues with packaging, which will resolve themselves in relatively short order.

Operator

Your next question comes from the line of Steven Fox with Cross Research.

Steven Bryant Fox - *Cross Research LLC - MD*

First, Forbes, I was wondering, especially, first of all, congratulations. But since you're walking out the door in record earnings, I was wondering if I could beat you up on cash flows one last time.

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Why not?

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

Come on, Steve. Steve, give him a break. Come on.

Steven Bryant Fox - *Cross Research LLC - MD*

So your cash flows are coming in a little lighter this year, which is not too much of a surprise, given what's going on in the environment. But you seem to be confident that they bounce back pretty strongly next year, even though we're in an inflationary environment. So I was curious if there's anything internally going on to improve working capital, or how you sort of see that bounce back working. And then I had a follow-up.

Forbes I. J. Alexander - *Jabil Inc. - CFO*

Yes, sure. You're right. We're a little bit light, as you say, with growth. Beginning of the year, I think we expected our EMS growth maybe 3%, 4%. We're coming in double-digit at 10, and that's driving a lot of that expansion in working capital. Beyond that -- so expansion in dollars, which you're going to get with revenue growth. Beyond that, this tight components market has really created a mismatch, if you will, of raw material right in our factories, which goes to Mark's point about the inefficiencies in the plants. So as we move through '19, we expect -- and I can't give you a specific date, but we do expect the materials market to correct somewhat. And with that, we should start to see the cash flows, all those inefficiencies dissipate, if you will. So think of that around maybe, I don't know, a couple of hundred million bucks, something of that type of nature, which we should see come into fiscal '19. And as I said in my prepared remarks, we still feel pretty comfortable that over this 3-year fiscal period, '17 through '19, we can deliver on our commitment of $3.5 billion. So truly, by that market correction, we're always striving to be more efficient in terms of working capital. This is a working capital business. So I think we're in good shape, and we should be able to hit those targets.

Steven Bryant Fox - *Cross Research LLC - MD*

Great. And then Mark, I'm just curious, as you think about the 20% to 25% growth you're getting out of like packaging and health care, how does the sort of breakdown of that business change from like last year to this year to the following year? Is there anything you could highlight in terms of applications or certain markets that's driving the growth differently as we think about it year to year?

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

Specifically to health care and packaging?

Steven Bryant Fox - *Cross Research LLC - MD*

Yes. Because you've got 20%, 25% growth, but I'm wondering if there's any differences in what the drivers are between like this year and next year.

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

No. I think they're consistent. It's just the fact that we're kind of playing deeper in both markets. So I would say both markets are distinctly different, but where they're common is their disruption in both markets. I think that -- and I said a little bit of it, Steve, on my prepared remarks, that if I could take packaging first. Our team does a wonderful job with material science molding, and you add that to our ability to do final assembly, embedded electronics. So for a lot of the consumer product brands having kind of one-stop shopping to come to us and help them holistically with kind of where technology is going, if you think about apps around packaging, you think apps around product, you think about apps around retail, it's a pretty good solution set that we have to offer. In terms of health care, there's just general disruption going around to the health care space, and that's leaning right into the sweet spot for us as well. So right now, I don't think the 20%, 25% continues into perpetuity but, boy, the momentum is quite good. If I could just index off of that comment for a minute, Steve, on the cash flows. As Forbes was answering your question, one thought popped into my head. So the overall cash flows for the business, if you look at the EBITDA of the business, it's really strong. The cash flow from ops, we're bringing that down a bit just because we're making a fundamentally smart decision to go grab this growth while it's there, because we think this growth, for the next 3, 4, 5 years, sets a really good foundation for us. So again, simple working capital expansions absorbing the cash. But here's something pretty cool. The team has been very disciplined on the fixed asset side. Our CapEx number hasn't moved at all. And we think we'll probably end this fiscal year with a return on invested capital somewhere in the 17%, 18% range. And we think that if we can continue our disciplines, we think the ROIC next year will be in that range, if not higher.

Operator

Your next question comes from the line of Paul Coster with JPMorgan.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

So you've got 2 projects in your programs in startup. You're in a position to share with us what impact that has on margins. Are they a margin drag?

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

Are they a margin drag? Not really, maybe. And what I mean by that is with the scale of the company is today, Paul, are they a margin drag? I would say that they're an absorber of OpEx at the moment. So I guess to that extent, yes. Is it material? Not so much. But we think that on the 2 new program wins I alluded to, that the inflection point where that kind of goes through, from OpEx absorption, to plateau, to generating income will be around midpoint of fiscal year '19.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

If you don't mind, I'm going to go down the supply chain rabbit hole again. And just it sounds like some -- Forbes answered that this is something that's not under your control. It's the industry that will resolve the issue. That spans many components and materials, I would imagine. I'm just wondering what it is you see that makes you comfortable that by mid-fiscal year '19, the problem will have dissipated.

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

Well, I don't know that the problem will dissipate completely by mid-calendar '19. We think that we'll start to see pockets of it that will soften and get to a more normalized base. Most of that information comes from, A, if you think about Jabil, we support 300-plus of the coolest, greatest brands on the planet. And we get to see what they're all doing and work with them on their product roadmaps. And so it gives us a pretty good bird's eye view of the next 12, 18 months. Number two is we've got -- we just got great relationships with the suppliers and the distributors. So our material supply chain folks are out in the marketplace every day. So we get a pretty good read on that. And again, we don't have any type of crystal ball, but our data would suggest that things will start getting better in about a year's time frame, maybe a little less.

Operator

Your next question comes from the line of Chaim Siegel with Elazar Advisors.

Chaim Siegel - *Elazar Advisors, LLC, Research Division - Analyst*

Ford, good luck on your next step in life. Just a quick question on sequential growth. The guide for August, I think it implies slower than your normal seasonality. But looking at the momentum in your different businesses, I would assume that you'd at least have normal seasonality. So I'm just wondering what's that, or if it's just a little conservatism.

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

I think that if you look at it on the surface and you look at seasonality, and you look at sequential Q3, Q4 of '17, so Q3 of '17 to Q4 of '17; and on the surface, you look at Q3 of '18 to Q4 of '18, it appears like it's a bit softer. The reality of it is we had a really strong Q3 of '18. So I'd look at it more maybe on a year-on-year basis. I think, sequentially, it's a little distorted because we had such a strong Q3 this year on the top line. So again, I can understand the kind of illustration where it looks sequentially like things are a little softer. And in reality, I think the guide's quite strong, A, based on the business; and B, if you look at it year-on-year Q4 of '17 to Q4 of '18.

Chaim Siegel - *Elazar Advisors, LLC, Research Division - Analyst*

Yes, I agree. It's very -- it's a strong guide. One thing I noticed is that the 2-year trend, so if you take this year plus last year, it's only been accelerating, which speaks to your momentum comments. So it looks a little conservative, but we'll give you that.

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

Well, I'm not sure if it is, but if it is, we'll take that as well.

Operator

Your next question comes from the line of Amit Daryanani with RBC Capital Markets.

Jyhhaw Liu - *RBC Capital Markets, LLC, Research Division - Senior Associate*

This is Irvin Liu dialing in for Amit. Mark, you mentioned that half of your growth in EMS was driven by new customer engagements. Were there any changes to either your sales strategy or capabilities that enabled this acceleration in new customer platform wins?

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

Yes. So if you look -- just to kind of qualify what you said, right? At the beginning, last year in EMS, we did about $11 billion. We thought that we'd grow at 3% or 4%. So call it $400 million, $500 million is what we had planned for in September, October. And the reality of it is EMS is going to add about $1 billion. So the deltas from what we had planned is, call it, just round numbers, $500 million. I think it's due to, A, there's some wind in our sails a bit because the economy is okay. But the other part of it is it is our approach. I think our sector strategy, I think the fact that our leaders in EMS have went out starting 3, 4 years ago, and really hired what we kind of referred to as kind of deep domain experts in each of the different sectors. So we have that business broken up into very manageable chunks. The $12 billion in EMS today is broken up in probably a dozen different business units, all of pretty sufficient scale. And then we're bringing kind of independent solutions in terms of aggregating various technologies to each of those end market segments. And so far, it seems to be working quite well. So that's kind of what we're up to.

Jyhhaw Liu - *RBC Capital Markets, LLC, Research Division - Senior Associate*

Got it. And along the same industry tailwind on tangent, can you share with us your thoughts on the sustainability of the positive momentum of the broader technology industry?

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

I don't know. I mean, I'm not sure I'm rated to really do that. I think that we're -- again, we get around. We talk to everybody. We spend a lot of time with our customers. We spend a lot of time with private equity guys. We spend a lot of time with the banks. And it's hard to argue that, again, there's a little bit of wind at our sails. I don't think the economy overall is just frothy as some think, and I'm not so sure that the economy is linked directly to the frothiness of the stock market. But when you're in this business a long, long time, it feels better operating today than when we got the stiff winds blowing in our face, and we've been through those cycles many times as well. So we'll take it while we have it. And here's the good news about a company like Jabil, is when we get a little wind at our back, it's really good, we enjoy it, and we work really hard and capture the growth. The flip side to that is I wouldn't want to work anywhere else when the winds are blowing in our face because one thing we know how to do with a low-margin business is we know how to execute, we know how to watch the penny. So again, we'll take the good times while we have it, but we're also very conservative and don't want to get too happy with the current situation. But all in all, I'm really pleased with the outlook for '18, and we've got a pretty strong outlook for '19.

Operator

This concludes our question-and-answer session for today. I'll now turn the call back over to Ms. Beth Walters.

Beth A. Walters - *Jabil Inc. - SVP of Communications & IR*

Great. Thank you very much. Thank you to everyone for joining us today. We will look forward to meeting and talking to you further to answer any follow-on questions you have about the quarter, about our guidance or about the company. Thank you.
