



ANALYST QUICK NOTES

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Jabil Circuit Inc. (NYSE: JBL: HOLD)

Target Price: NM

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Thesis

- JBL remains a HOLD, based on persistent execution failures.
- That said, we will be checking fiscal 2Q17 results (ended February '17) and fiscal 3Q17 guidance (ended May '17), which like 2Q is a seasonally soft quarter.
- JBL's solid 1Q17 sent a positive message about iPhone 7, and guidance for the post-holiday quarter suggested iPhone follow-through.
- Our concern about Jabil over-reaching and under-delivering keeps us on the sidelines.

Recent Stock Performance

- JBL up 12% YTD in 2017.
 - Up more than market (+5.7%).
 - In line with the peer group (+13%).
- JBL's solid 1Q gave the company momentum into 2017.
- That follows a lagging performance of up 2% in 2016, vs. 29% for peers.

Fiscal 2Q17 Outlook

- JBL to report fiscal 2Q17 results on 3/15/17 after close.
- Street: revenue of \$4.37 billion, EPS of \$0.46.
- Argus: revenue of \$4.34 billion, EPS of \$0.45.
 - Guidance: revenue of \$4.2-\$4.5 billion, non-GAAP EPS of \$0.35-\$0.57.
- Y/Y vs. 2Q16: at Argus estimates (approximately guidance midpoints), revenue would be down 1% year over year, and EPS would be down 21% from \$0.57 a year earlier.

iPhone 7 Cycle

- The start of the iPhone 7 cycle helped erase the memory of the end of the 6/6 Plus/6S cycle.
- In the final quarters, 6S/6S Plus fizzled as buyers waited for new phones.
- 4" iPhone SE is doing somewhat better than expected, but not enough to offset the weak finish for the 6 family.
- However, the iPhone 7 had a strong opening and looks like it will perform well across its one-year life.
- DMS (iPhone casings) revenue in 1Q17 was down 3% y/y but up 46% q/q.
 - Still out of whack: DMS operating income was down 28% y/y.

Positive Read-Through from Broadcom (AVGO)

- AVGO's 1Q17 revenue and EPS topped expectations, with positive commentary regarding "our North American smartphone customer."
- 2Q17 guidance was ahead of the pre-reporting consensus, including less severe than expected sequential decline in the wireless segment.
- Broadcom puts both RF filters and WiFi chips in iPhone 7.

JBL Fiscal 3Q17

- Guidance calls for a seasonally weak quarter.
- Street: 3Q17 forecast of \$4.40 billion revenue, \$0.29 in non-GAAP EPS.
- Argus: \$4.43 billion revenue, \$0.33 in non-GAAP EPS.
- Assuming 3Q17 guidance meets pre-reporting expectations, revenue would be up 2% y/y, but EPS up 75% from trough \$0.17 in 3Q16.
- Comparisons become easier beginning in fiscal 3Q17.

Conclusion

- JBL remains HOLD rated, but provides clues about iPhone 7 cycle.
 - Aided by the Samsung's woes and strong launches at second-tier U.S. carriers (T-Mobile, Sprint), the iPhone 7 cycle started stronger than expected.
 - Questions:
 - Can the iPhone 7 sustain momentum?
 - Will Jabil's other businesses remain strong?
 - We would look to get JBL back on our BUY list with a non-fundamental pullback to the \$22 area.
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