Jack Henry & Associates (JKHY)

Updated April 18th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$123	**5 Year CAGR Estimate:**	3.0%	**Quality Percentile:**	N/A
Fair Value Price:	$81	**5 Year Growth Estimate:**	9.9%	**Momentum Percentile:**	N/A
% Fair Value:	153%	**5 Year Valuation Multiple Estimate:**	-8.1%	**Total Return Percentile:**	N/A
Dividend Yield:	1.2%	**5 Year Price Target**	$129	**Valuation Percentile:**	

Overview & Current Events

Jack Henry & Associates is a business software & services company that is headquartered in Missouri. Jack Henry & Associates was founded in 1976 and has a market capitalization of $10 billion. The company provides information technology services to the financial services industry. Its customers include more than 1,300 banks as well as many other companies.

In its most recent quarterly report Jack Henry & Associates announced that it earned $0.82 per share, a three percent increase over the prior year's quarter. Revenues were up by four percent year over year, which meant a new record for the company's quarterly revenues ($360 million).

In April 2018 Jack Henry & Associates has increased its dividend by 19% over the prior level, the new quarterly payout stands at $0.37, which translates into a 1.2% dividend yield.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.17	$1.22	$1.38	$1.59	$1.78	$2.04	$2.36	$2.59	$3.12	$3.14	***$3.50***	***$5.60***
DPS	$0.28	$0.32	$0.36	$0.40	$0.44	$0.56	$0.84	$0.94	$1.06	$1.18	***$1.48***	***$2.38***

Jack Henry & Associates has a great growth track record: Over the last decade its earnings per share grew by 11.6% annually, since 2013 EPS grew by 11.4% annually. Jack Henry & Associates' earnings per share grew every year over the last decade. The company was even able to increase its profitability during the financial crisis. Profit growth was driven by higher revenues as well as by growing margins, which is not a surprise as Jack Henry & Associates benefits from strong operating leverage. Due to relatively high fixed and low variable costs revenue increases allow for margin expansion, which, in turn, is a key driver for the company's profitability. Growth rates in the whole industry will likely decline somewhat going forward, as market growth rates will be lower going forward due to a much higher base (compared to ten years ago). Jack Henry & Associates should nevertheless be able to record solid earnings growth in the future.

The company's dividend was grown considerably over the last decade as well, partially thanks to payout ratio increases. Since the payout ratio is still low, and since profits will continue to rise, dividend payments will very likely continue to rise.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	21.5	15.3	17.0	18.1	18.0	20.1	23.3	24.1	24.8	29.1	***35.1***	***23.0***
Avg. Yld.	1.1%	1.7%	1.5%	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.3%	***1.2%***	***1.6%***

Jack Henry & Associates is a high quality company. Its valuation has never been especially low over the last decade, but over the last several years shares have really become expensive from a valuation perspective. Jack Henry is trading at a steep premium over the historic valuation, which will likely pressure total returns going forward. It is unlikely that shares will continue to trade at the current valuation, as the Fed's tightening will pressure equity valuations. Jack Henry & Associates with its high valuation is especially exposed for valuation declines.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	30.1%	28.5%	22.1%	26.5%	25.9%	27.5%	29.1%	29.3%	32.0%	32.1%	***33.0%***	***34.0%***
Debt/A	41.2%	40.1%	51.9%	41.7%	39.5%	39.4%	42.3%	46.2%	45.3%	46.1%	***48.0%***	***50.0%***
Int. Cov.	-	275	125	25	51	44	397	223	322	492	***-***	***-***
Payout	23.9%	26.2%	26.1%	25.2%	24.7%	27.5%	35.6%	36.3%	34.0%	37.6%	***42.3%***	***42.5%***
Std. Dev.	50.7%	30.0%	21.3%	30.9%	15.2%	14.5%	15.6%	16.5%	16.5%	11.8%	***14.0%***	***17.0%***

Jack Henry & Associates has a great balance sheet: The company's debt to assets ratio is roughly 50%, but that tells only half the story. Since the business does not require a lot of assets, overall assets are low, and therefore total debt is low as well. A big portion of the assets Jack Henry & Associates owns are cash and short term investments, which generate interest income. The company's net interest cost is hence very low, in some years there are no net interest costs at all. This is the reason for the extremely high interest coverage ratios we see in the above table.

Gross profits relative to the assets Jack Henry & Associates owns have been rising slightly, which is a positive as it shows that the company is getting better at utilizing its asset base profitably. The dividend payout ratio has been rising but is still not high at all, and shares have not been volatile at all over the last year.

Jack Henry & Associates has shown that it operates a recession-resistant business model. The company remarkably saw earnings-per-share grow every year through the Great Recession. Jack Henry & Associates services have high switching costs from the customers' perspective. This creates 'sticky' customers with high lifetime values.

Final Thoughts & Recommendation

Jack Henry & Associates is a quality company with a strong growth track record that has been increasing its dividend aggressively over the last couple of years. On the other hand the dividend yield investors get right now is quite low, and the valuation for Jack Henry's shares is quite high. The combination of these facts will limit Jack Henry & Associates' total returns going forward, despite the fact that the company should be able to deliver attractive earnings growth rates going forward.

Total Return Breakdown by Year