Jack Henry & Associates (JKHY)

Updated August 15th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$143	**5 Year CAGR Estimate:**	-0.2%	**Volatility Percentile:**	2.8%
Fair Value Price:	$80	**5 Year Growth Estimate:**	9.7%	**Momentum Percentile:**	83.7%
% Fair Value:	178%	**5 Year Valuation Multiple Estimate:**	-10.9%	**Valuation Percentile:**	1.1%
Dividend Yield:	1.0%	**5 Year Price Target**	$128	**Total Return Percentile:**	4.7%

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 cap of $11 billion. The company provides information technology services to the financial services industry, including to more than 1,300 banks as well as many other companies.

On August 15 Jack Henry & Associates announced its third quarter earnings results. During Q3 the company produced revenues of $385 million, 9% more than during the previous year's quarter. Jack Henry & Associates earned $0.93 per share during the quarter, an increase of 21% compared to Q3 of 2017.

Management's comments about the remainder of 2018 were positive during the Q3 earnings call. The CEO stated that the beginning of Q4 was highly successful, and that Jack Henry & Associates' new payment platform has generated tremendous interest among financial institutions.

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***	***$5.56***
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 during the next couple of years.

During 2018 Jack Henry & Associates has benefited from lower tax rates and will do so during the next two quarters as well. Jack Henry & Associates will generate strong earnings growth and record profits during the current fiscal year.

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 as well.

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	***40.9***	***23.0***
Avg. Yld.	1.1%	1.7%	1.5%	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.3%	***1.0%***	***1.6%***

Jack Henry & Associates is a high-quality company with a strong track record. It is not surprising that the company's valuation has never been low, as the market has always rewarded the company with a premium valuation.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Today, shares look extremely expensive, as the valuation has expanded significantly over the last couple of years. Valuation compression will most likely be a meaningful headwind over the coming five years.

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%***	***42.8%***
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%***

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 couple of years.

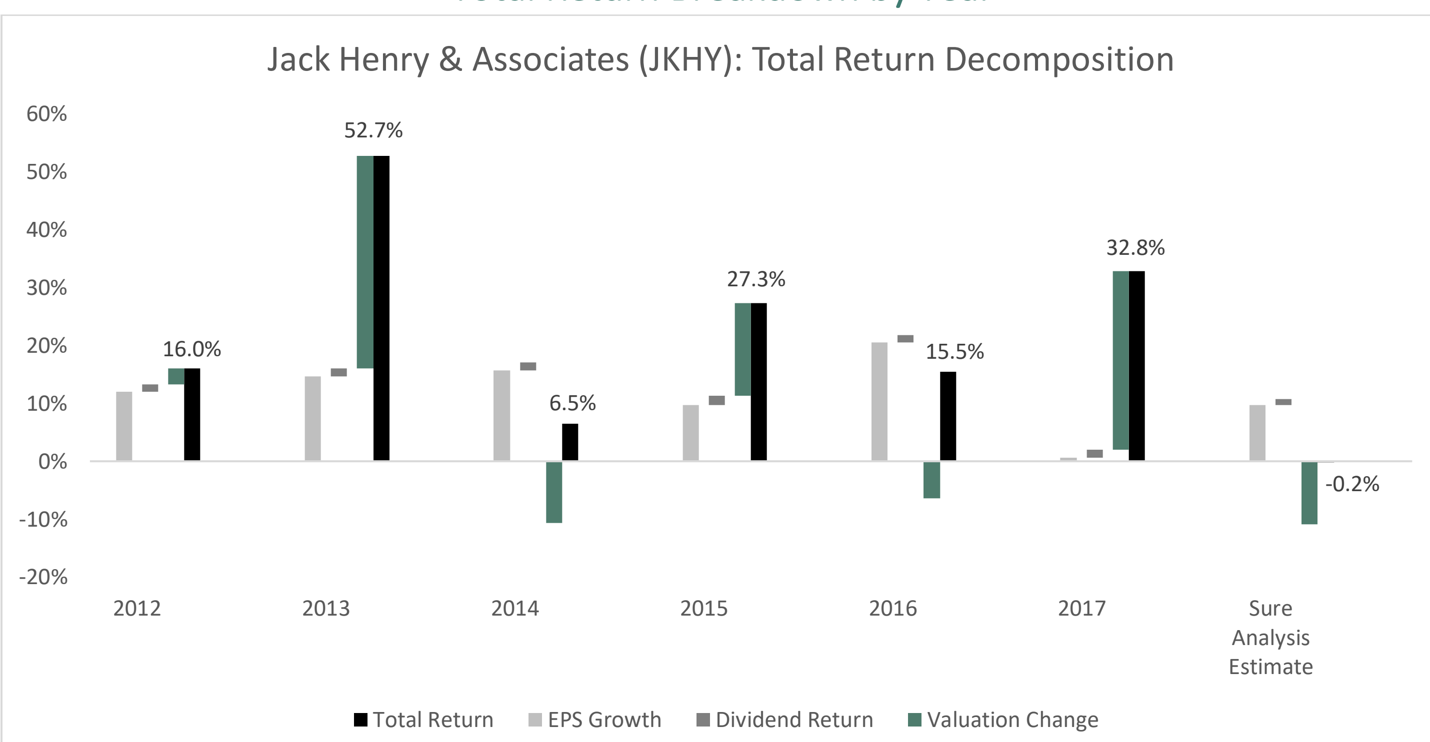
Jack Henry & Associates has a great balance sheet: The company's debt to assets ratio is roughly 50%, but that tells only half the story. Since the business does not require a lot of assets, overall assets are low, and therefore total debt is low as well. A big portion of the assets Jack Henry & Associates 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.

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 high-quality company with strong fundamentals and a very compelling track record. Its services will remain in demand and the company therefore should be able to produce attractive earnings and dividend growth over the next couple of years. Shares are very expensive right here, though, which will be a significant headwind for total returns. Due to the extreme overvaluation, shares earn a sell recommendation at current prices.

Total Return Breakdown by Year



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