Jack Henry & Associates (JKHY)

Updated November 17th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$139	**5 Year CAGR Estimate:**	2.7%	**Volatility Percentile:**	12.1%
Fair Value Price:	$92	**5 Year Growth Estimate:**	9.7%	**Momentum Percentile:**	84.9%
% Fair Value:	151%	**5 Year Valuation Multiple Estimate:**	-8.1%	**Growth Percentile:**	88.3%
Dividend Yield:	1.1%	**5 Year Price Target**	$145	**Valuation Percentile:**	4.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	12.8%

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 $10.7 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.

Jack Henry & Associates reported its first quarter (fiscal 2019) earnings results on November 6. The company recorded revenues of 393 million, which represents an increase of 8.7% compared to the prior year's quarter. Adjusted revenues grew by a slightly faster pace of 10% year over year. Jack Henry & Associates was able to generate earnings-per-share of $1.08 during the quarter, an increase of 25.5% compared to the prior year's quarter. The company set new quarterly records for revenues, operating earnings, and earnings-per-share. Thanks to signing twelve new core customers during the quarter, Jack Henry & Associates' revenue growth outlook remains attractive.

The company acquired BOLTS Technology during October for an undisclosed sum. Jack Henry & Associates also moved from the S&P MidCap 400 index into the S&P 500 index during November.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.22	$1.38	$1.59	$1.78	$2.04	$2.36	$2.59	$3.12	$3.14	$3.65	***$4.15***	***$6.59***
DPS	$0.32	$0.36	$0.40	$0.44	$0.56	$0.84	$0.94	$1.06	$1.18	$1.48	***$1.72***	***$2.70***
Shares	84	85	86	86	85	83	81	79	77	77	***76***	***73***

Jack Henry & Associates has a great growth track record. Over the last decade its earnings-per-share grew by 12.9% annually. Since 2013, earnings-per-share grew by 12.3% annually, so earnings growth has slowed down only marginally over the last couple of years. 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, unlike most other companies.

Profit growth has been 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, 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. Jack Henry & Associates benefits from tax law changes and will generate strong earnings growth during the remainder of the current calendar 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 at a meaningful pace, dividend payments will very likely continue to rise as well.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.3	17.0	18.1	18.0	20.1	23.3	24.1	24.8	29.1	43.8	***33.5***	***22.0***
Avg. Yld.	1.7%	1.5%	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.3%	0.9%	***1.1%***	***2.0%***

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Jack Henry & Associates is a high-quality growth company. Surprisingly, shares had been trading at a relatively low valuation about ten years ago, but the stock has become more expensive in recent years. The valuation peaked during fiscal 2018. Share price declines have made Jack Henry & Associates' shares less expensive in recent months, but they still trade well above our fair value estimate today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	28.5%	22.1%	26.5%	25.9%	27.5%	29.1%	29.3%	32.0%	32.1%	32.7%	***33.0%***	***35.0%***
Debt/A	40.1%	51.9%	41.7%	39.5%	39.4%	42.3%	46.2%	45.3%	46.1%	38.2%	***40.0%***	***40.0%***
Int. Cov.	275	125	25	51	44	397	223	322	492	291	***280***	***250***
Payout	26.2%	26.1%	25.2%	24.7%	27.5%	35.6%	36.3%	34.0%	37.6%	40.5%	***41.4%***	***41.0%***
Std. Dev.	30.0%	21.3%	30.9%	15.2%	14.5%	15.6%	16.5%	16.5%	11.8%	13.8%	***15.0%***	***15.0%***

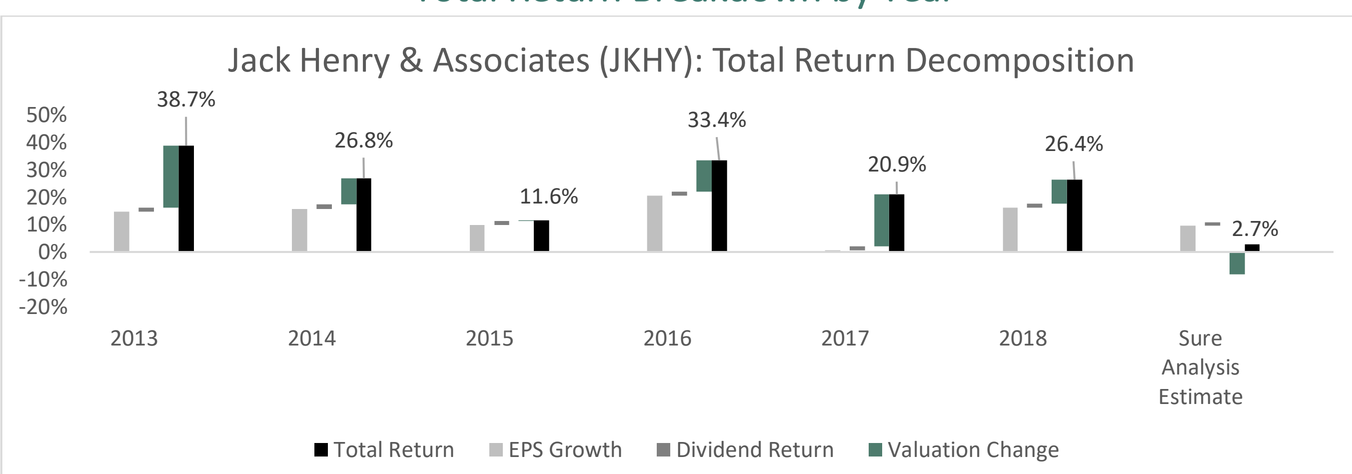
Gross profits relative to the assets Jack Henry & Associates owns have been rising slightly, which is a positive as it shows that the company is getting better at utilizing its asset base in a profitable way. The dividend payout ratio has been rising but is still relatively low. Jack Henry & Associates' 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 40%, 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 thus very low. In some years there were 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, which creates 'sticky' customers with high lifetime values.

Final Thoughts & Recommendation

Jack Henry & Associates is a high quality business: The company has generated strong earnings growth rates in the past, its quality metrics look strong, the balance sheet is very clean, and the business model is resilient versus recessions. Unfortunately Jack Henry & Associates' shares are valued at a quite high valuation, which will be a major headwind for the company's total returns. Because of this, Jack Henry earns a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	746	837	967	1018	1108	1173	1256	1355	1431	1537
Gross Profit	299	345	399	419	461	494	536	581	612	663
Gross Margin	40.2%	41.3%	41.3%	41.2%	41.7%	42.1%	42.7%	42.9%	42.8%	43.1%
SG&A Exp.	99	112	120	126	147	139	153	158	163	182
D&A Exp.	64	72	91	95	100	108	119	130	140	152
Operating Profit	158	182	216	232	251	288	311	342	364	390
Operating Margin	21.2%	21.8%	22.4%	22.8%	22.6%	24.6%	24.8%	25.3%	25.5%	25.4%
Net Profit	103	118	137	152	168	187	211	249	246	377
Net Margin	13.8%	14.1%	14.2%	14.9%	15.1%	15.9%	16.8%	18.4%	17.2%	24.5%
Free Cash Flow	150	139	181	185	211	230	228	202	209	262
Income Tax	54	63	70	75	77	101	105	112	121	14

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1051	1561	1506	1619	1672	1681	1837	1816	1909	2050
Cash & Equivalents	118	126	63	157	128	70	148	70	115	31
Accounts Receivable	193	208	208	218	231	224	245	254	277	292
Inventories										
Goodwill & Int. Ass.	435	856	834	822	822	875	898	915	927	1092
Total Liabilities	424	810	626	636	657	713	845	819	877	783
Accounts Payable	8	14	13	16	12	11	10	15	7	35
Long-Term Debt	63	379	151	131	14	4	51	0	50	0
Shareholder’s Equity	627	750	880	983	1016	967	992	996	1032	1267
D/E Ratio	0.10	0.50	0.17	0.13	0.01	0.00	0.05	0.00	0.05	0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	10.0%	9.0%	9.0%	9.7%	10.2%	11.1%	12.0%	13.6%	13.2%	19.0%
Return on Equity	16.8%	17.1%	16.9%	16.3%	16.8%	18.8%	21.6%	25.0%	24.2%	32.8%
ROIC	15.1%	13.0%	12.7%	14.2%	15.6%	18.7%	21.0%	24.4%	23.7%	32.1%
Shares Out.	84	85	86	86	85	83	81	79	77	77
Revenue/Share	8.79	9.80	11.15	11.66	12.79	13.74	15.39	16.99	18.29	19.81
FCF/Share	1.77	1.62	2.09	2.11	2.44	2.69	2.80	2.53	2.67	3.38

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.