# Jack Henry & Associates (JKHY)

*Updated February 14th, 2019 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $134 | **5 Year CAGR Estimate:** | 3.5% | **Volatility Percentile:** | 20.2% |
| **Fair Value Price:** | $91 | **5 Year Growth Estimate:** | 9.7% | **Momentum Percentile:** | 71.6% |
| **% Fair Value:** | 147% | **5 Year Valuation Multiple Estimate:** | -7.4% | **Growth Percentile:** | 90.4% |
| **Dividend Yield:** | 1.2% | **5 Year Price Target** | $145 | **Valuation Percentile:** | 6.2% |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **Total Return Percentile:** | 13.6% |

## 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 trades with a market cap of $10.3 billion. The company provides information technology services to the financial services industry, including to more than 1,300 banks as well as other companies.

Jack Henry & Associates reported its fiscal second quarter earnings results on February 5. The company generated revenues of $386 million during the second quarter, which was 8.1% more than the revenues that Jack Henry & Associates has generated during the previous year's quarter. Jack Henry & Associates beat the analyst consensus for its top line number easily.

The company grew its operating income by 12% year over year, which came on top of double digit operating income growth during the previous quarter. Jack Henry & Associates reported GAAP earnings-per-share of $0.88, which was slightly ahead of the analyst consensus. GAAP earnings-per-share declined substantially from the prior year's quarter, but that was based on one-time gains during the second quarter of fiscal 2018 that were related to changes in US tax legalization. The company generated cash flows of $192 million during the first six months of the current fiscal year, which was 8.5% more than the cash flows that Jack Henry & Associates has generated during the comparable period of the prior year.

Jack Henry & Associates increased its quarterly dividend by 8.1%, to $0.40 per share, in February.

## 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 | $1.36 | ***$1.54*** | ***$2.70*** |
| **Shares** | 84 | 85 | 86 | 86 | 85 | 83 | 81 | 79 | 77 | 77 | ***76*** | ***73*** |

Jack Henry & Associates has a great earnings-per-share 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, which shows that the compelling earnings growth rate during the last decade was not the result of the recovery from the last financial crisis. 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 rising 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 several years.

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.

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## 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 | ***32.3*** | ***22.0*** |
| **Avg. Yld.** | 1.7% | 1.5% | 1.4% | 1.4% | 1.4% | 1.5% | 1.5% | 1.4% | 1.3% | 0.9% | ***1.2%*** | ***1.9%*** |

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. This will result in a steep headwind to the company's total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 26.2% | 26.1% | 25.2% | 24.7% | 27.5% | 35.6% | 36.3% | 34.0% | 37.6% | 37.3% | ***37.1%*** | ***41.0%*** |

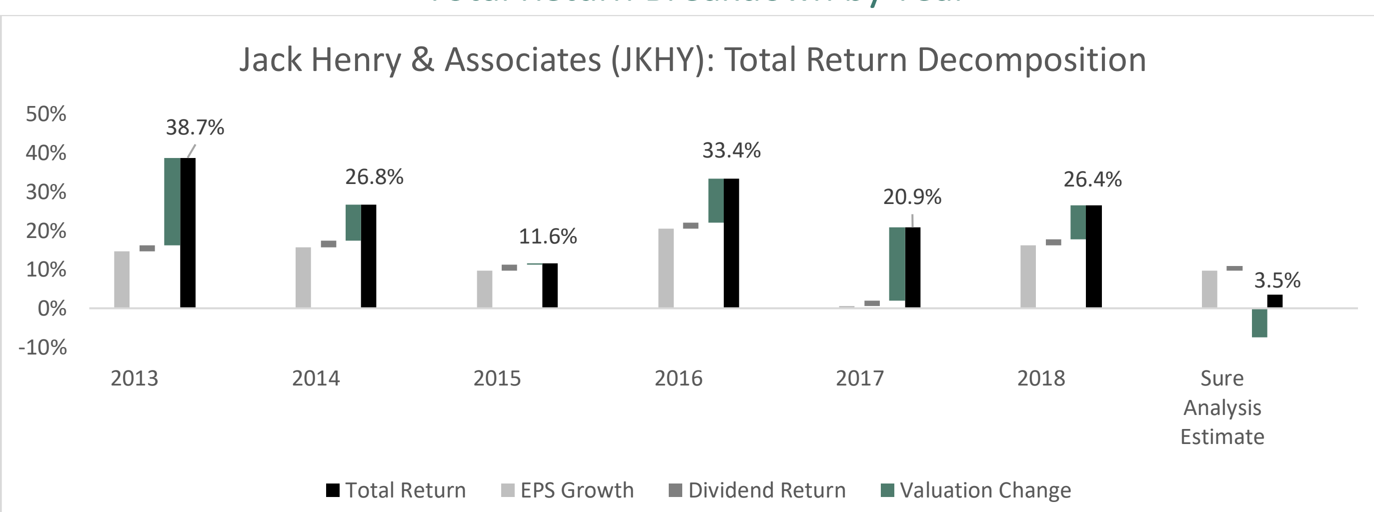
Jack Henry & Associates has raised its dividend at a strong pace over the last decade, which was partially possible due to an increase in the company's dividend payout ratio. Jack Henry & Associates still pays out less than 40% of its net profits, though, which is why the dividend does not look questionable at all. It is likely that Jack Henry & Associates would be able to raise its dividend during a recession or economic downturn as well, just as the company did during the last financial crisis.

Jack Henry & Associates has shown that it operates a recession-resistant business model. The company was able to generate earnings-per-share growth during 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. The positive growth outlook for the whole industry is why the company does not have to worry too much about competition.

## Final Thoughts & Recommendation

Jack Henry & Associates is a high-quality business that generated attractive earnings and dividend growth in the past and that has a solid growth outlook. Unfortunately, shares trade at a quite high valuation right now, which is why Jack Henry & Associates earns a sell recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year

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*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.*

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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.*