Jack Henry & Associates (JKHY)

Updated May 10th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$183	**5 Year CAGR Estimate:**	-4.4%	**Market Cap:**	$14.0B
Fair Value Price:	$86	**5 Year Growth Estimate:**	9.5%	**Ex-Dividend Date:**	05/22/20
% Fair Value:	213%	**5 Year Valuation Multiple Estimate:**	-14.1%	**Dividend Payment Date:**	06/07/20
Dividend Yield:	0.9%	**5 Year Price Target**	$135	**Years Of Dividend Growth:**	30
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	7.5%

Overview & Current Events

Jack Henry & Associates is a business software & services company that is headquartered in Missouri. It was founded in 1976. 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 third quarter earnings results on May 4. The company generated revenues of $429 million during the quarter, which was 13% more than the revenues that Jack Henry & Associates generated during the previous year's quarter. This was slightly more than what the analyst community had expected. The company was able to grow the revenues for its services and support and processing business units, with growth being higher in the services and support segment, which grew by 15% year-over-year. Jack Henry & Associates' operating income grew by 20% year-over-year, which represents an acceleration versus the operating income growth rate from the previous quarter, thanks to some margin increases. Earnings growth was stronger than revenue growth, due to a below-average increase in the company's operating expenses during the quarter.

Jack Henry & Associates reported earnings-per-share of $0.96 for the quarter, which was easily ahead of the analyst consensus, beating estimates by $0.16. Net earnings grew by 25% year-over-year, while earnings-per-share grew at the same pace, as there was no meaningful change in Jack Henry's share count over the last twelve months.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.38	$1.59	$1.78	$2.04	$2.36	$2.59	$3.12	$3.14	$3.65	$3.52	***$3.90***	***$6.14***
DPS	$0.36	$0.40	$0.44	$0.56	$0.84	$0.94	$1.06	$1.18	$1.36	$1.54	***$1.72***	***$2.65***
Shares[1]	85	86	86	85	83	81	79	77	77	76	***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. Between 2013 and 2018, 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 almost every year over the last decade, even during the financial crisis. Unfortunately, 2019 was a year where Jack Henry & Associates could not continue its growth track record, as profits declined slightly.

In the past, 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 portion of fixed costs, revenue increases allowed for margin expansion during most years. During fiscal 2019 Jack Henry & Associates did not manage to grow its operating margin further, as product mix changes were a headwind for margins. In the future the company should continue to benefit from operating leverage once again, which is why we believe that profits will grow faster than revenues. Growth rates in the industry will likely decline somewhat due to a much higher base compared to ten years ago, but Jack Henry & Associates should nevertheless be able to record solid earnings growth for many years.

[1] In Millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.0	18.1	18.0	20.1	23.3	24.1	24.8	29.1	43.8	37.1	***46.9***	***22.0***
Avg. Yld.	1.5%	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.3%	0.9%	1.2%	***0.9%***	***2.0%***

Jack Henry & Associates is a high-quality growth company. Shares had been trading at a relatively inexpensive valuation about ten years ago, but the stock has become more expensive in recent years. The valuation hit a peak during fiscal 2018 and got slightly less expensive in 2019. Shares are trading at an even higher valuation now, though. This will result in a steep headwind to the company's total returns over the coming years, we believe.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	26.1%	25.2%	24.7%	27.5%	35.6%	36.3%	34.0%	37.6%	37.3%	43.8%	***44.1%***	***43.1%***

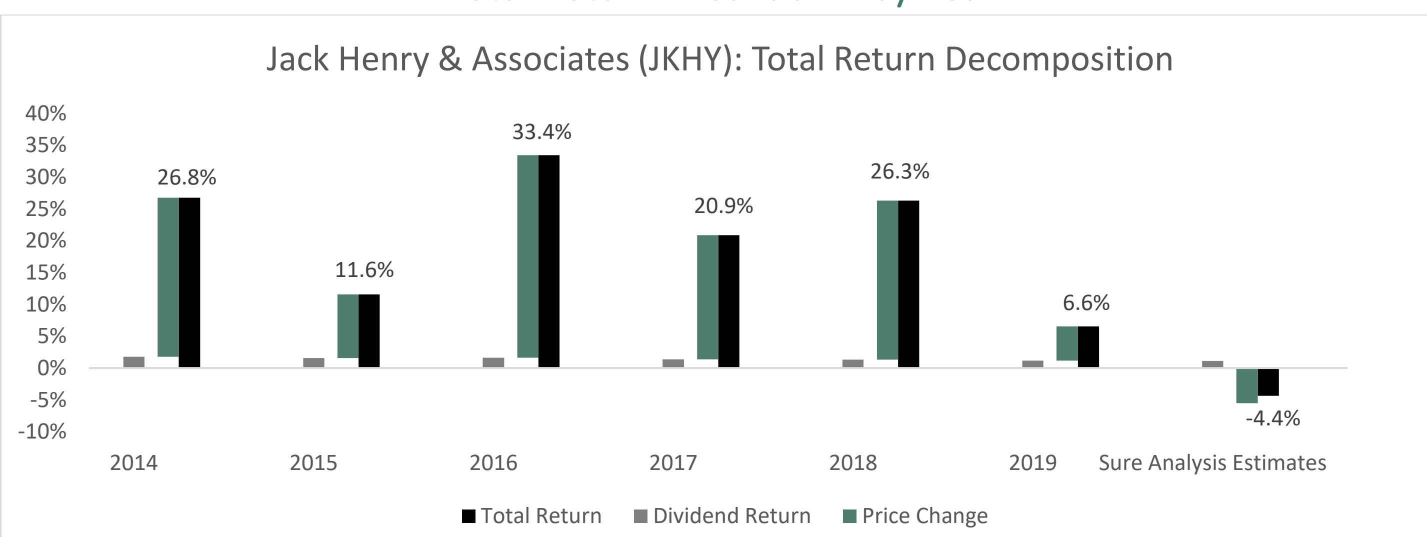
Jack Henry & Associates has raised its dividend at a very compelling pace over the last decade, which was partially possible due to an increase in the company's dividend payout ratio, and partially due to its strong earnings growth. Jack Henry & Associates pays out roughly 40% of its net profits, which is why the dividend looks relatively safe. It is likely that Jack Henry & Associates would be able to raise its dividend during a recession or economic downturn as well, as this is what 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 competitive pressures are not a major problem.

Final Thoughts & Recommendation

Jack Henry & Associates is a high-quality business that generated attractive earnings and dividend growth in the past, which went hand in hand with strong total returns for shareholders. The company's growth outlook over the coming years is robust as well, due to strong industry tailwinds. The company should weather the coronavirus crisis very well, but due to an excessively high valuation we still rate the stock a sell 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	837	967	1018	1108	1173	1256	1355	1388	1471	1553
Gross Profit	345	399	419	461	494	536	581	582	618	630
Gross Margin	41.3%	41.3%	41.2%	41.7%	42.1%	42.7%	42.9%	42.0%	42.0%	40.6%
SG&A Exp.	112	120	126	147	139	153	158	159	172	186
D&A Exp.	72	91	95	100	108	119	130	140	152	161
Operating Profit	182	216	232	251	288	311	342	338	356	347
Operating Margin	21.8%	22.4%	22.8%	22.6%	24.6%	24.8%	25.3%	24.4%	24.2%	22.4%
Net Profit	118	137	152	168	187	211	249	230	365	272
Net Margin	14.1%	14.2%	14.9%	15.1%	15.9%	16.8%	18.4%	16.5%	24.8%	17.5%
Free Cash Flow	139	181	185	211	230	228	202	209	262	260
Income Tax	63	70	75	77	101	105	112	111	-9	75

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1561	1506	1619	1672	1681	1837	1816	1909	2033	2185
Cash & Equivalents	126	63	157	128	70	148	70	115	31	94
Accounts Receivable	208	208	218	231	224	245	254	277	297	310
Goodwill & Int. Ass.	856	834	822	822	875	898	915	927	1092	1118
Total Liabilities	810	626	636	657	713	845	819	877	710	756
Accounts Payable	14	13	16	12	11	10	15	7	30	10
Long-Term Debt	379	151	131	14	4	51	0	50	0	0
Shareholder's Equity	750	880	983	1016	967	992	996	1032	1323	1429
D/E Ratio	0.50	0.17	0.13	0.01	0.00	0.05	0.00	0.05	0.00	0.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	9.0%	9.0%	9.7%	10.2%	11.1%	12.0%	13.6%	12.3%	18.5%	12.9%
Return on Equity	17.1%	16.9%	16.3%	16.8%	18.8%	21.6%	25.0%	22.6%	31.0%	19.8%
ROIC	13.0%	12.7%	14.2%	15.6%	18.7%	21.0%	24.4%	22.1%	30.4%	19.8%
Shares Out.	85	86	86	85	83	81	79	77	77	77
Revenue/Share	9.80	11.15	11.66	12.79	13.74	15.39	16.99	17.74	18.96	20.07
FCF/Share	1.62	2.09	2.11	2.44	2.69	2.80	2.53	2.67	3.38	3.37

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