Jack Henry & Associates (JKHY)

Updated November 24th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$159	**5 Year CAGR Estimate:**	0.1%	**Market Cap:**	$12.1B
Fair Value Price:	$95	**5 Year Growth Estimate:**	9.5%	**Ex-Dividend Date:**	12/01/20
% Fair Value:	168%	**5 Year Valuation Multiple Estimate:**	-9.9%	**Dividend Payment Date:**	12/22/20
Dividend Yield:	1.1%	**5 Year Price Target**	$149	**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 first quarter earnings results on November 5. The company generated revenues of $450 million during the quarter, which was 3% more than the revenues that Jack Henry & Associates generated during the previous year's quarter. Revenues were up 5% on an adjusted basis. 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. Jack Henry & Associates' operating income declined by 1% year-over-year, although this includes some one-time accounting items. Adjusted for those, Jack Henry's operating income was up 7% year over year.

Jack Henry & Associates reported earnings-per-share of $1.19 for the first quarter, which was easily ahead of the analyst consensus, beating estimates by $0.14. Net earnings-per-share grew by 3% year-over-year, which was a better result compared to the last couple of quarters. Jack Henry's management announced new guidance ranges for fiscal 2021, which were better than the previously announced guidance estimates. The company now forecasts revenues in a range of $1.76 billion to $1.77 billion, which equates to revenue growth of ~6%, while earnings-per-share are forecasted to come in at ~$3.78, which would be a weaker results compared to the most recent fiscal year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.59	$1.78	$2.04	$2.36	$2.59	$3.12	$3.14	$3.65	$3.52	$3.86	***$3.78***	***$5.95***
DPS	$0.40	$0.44	$0.56	$0.84	$0.94	$1.06	$1.18	$1.36	$1.54	$1.72	***$1.72***	***$2.65***
Shares[1]	86	86	85	83	81	79	77	77	77	77	***77***	***75***

Jack Henry & Associates has a great earnings-per-share growth track record. Since 2010, its earnings-per-share grew by 12% annually. Between 2013 and 2018, earnings-per-share grew by 12.3% annually, although 2019 and 2020 were years during which the company has not been able to grow its earnings-per-share in line with the years prior. Earnings growth has been relatively reliant in the past, as Jack Henry & Associates' earnings-per-share grew during almost every year over the last decade, even during the financial crisis. 2019 was the only year during which 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. This is not a surprise, as Jack Henry & Associates benefits from solid operating leverage. Due to a 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 long term, 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 in the future.

[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.1	18.0	20.1	23.3	24.1	24.8	29.1	43.8	37.1	47.7	***42.1***	***25.0***
Avg. Yld.	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.3%	0.9%	1.2%	0.9%	***1.1%***	***1.8%***

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 has expanded to an earnings multiple north of 40, which we do not deem justified at all. The current very high valuation 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25.2%	24.7%	27.5%	35.6%	36.3%	34.0%	37.6%	37.3%	43.8%	44.6%	***45.5%***	***44.5%***

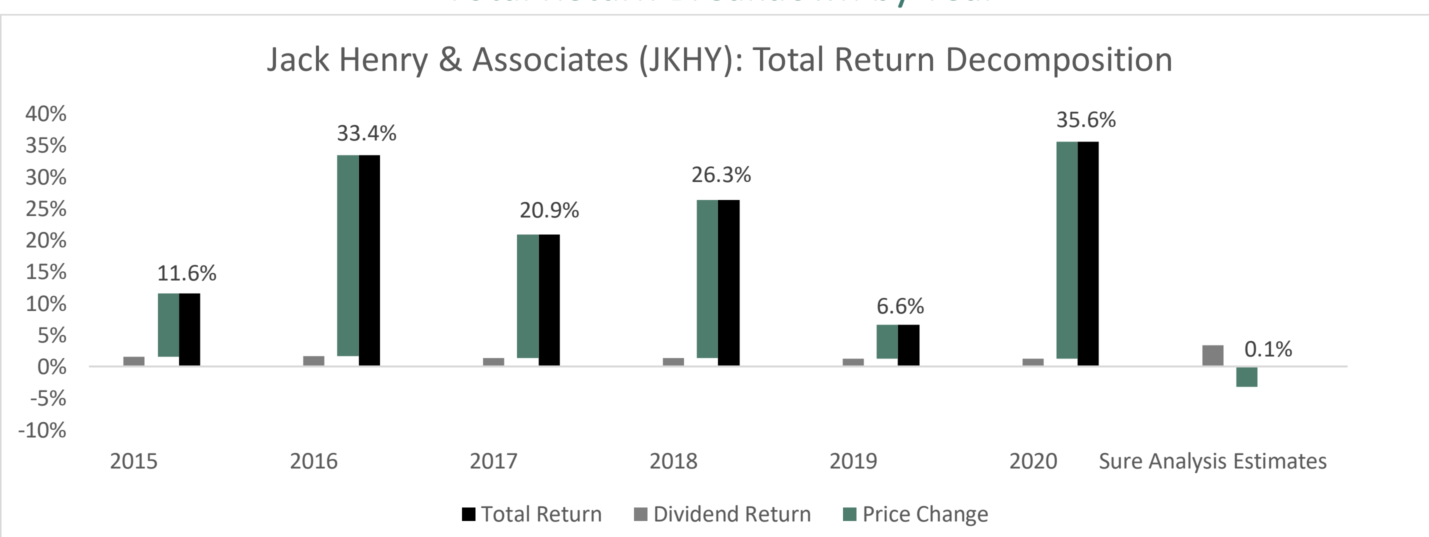
Jack Henry & Associates has raised its dividend at a very compelling pace over the last decade, which was partially possible due to an increase in the company's dividend payout ratio, and partially due to its strong earnings growth. Jack Henry & Associates pays out roughly 40-50% of its net profits, which is why the dividend looks relatively safe. It is likely that Jack Henry & Associates will also be able to raise its dividend during recessions or economic downturns, as this is what the company did during the last financial crisis, too.

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 huge 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, mainly due to strong industry tailwinds. The company should weather the coronavirus crisis 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	967	1,018	1,108	1,173	1,256	1,355	1,388	1,471	1,553	1,697
Gross Profit	399	419	461	494	536	581	582	618	630	689
Gross Margin	41.3%	41.2%	41.7%	42.1%	42.7%	42.9%	42.0%	42.0%	40.6%	40.6%
SG&A Exp.	120	126	147	139	153	158	159	172	186	198
D&A Exp.	91	95	100	108	119	130	140	152	161	172
Operating Profit	216	232	251	288	311	342	338	356	347	381
Operating Margin	22.4%	22.8%	22.6%	24.6%	24.8%	25.3%	24.4%	24.2%	22.4%	22.4%
Net Profit	137	152	168	187	211	249	230	365	272	297
Net Margin	14.2%	14.9%	15.1%	15.9%	16.8%	18.4%	16.5%	24.8%	17.5%	17.5%
Free Cash Flow	181	185	211	230	228	202	209	262	260	333
Income Tax	70	75	77	101	105	112	111	(9)	75	84

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1,506	1,619	1,672	1,681	1,837	1,816	1,909	2,033	2,185	2,428
Cash & Equivalents	63	157	128	70	148	70	115	31	94	213
Accounts Receivable	208	218	231	224	245	254	277	297	310	301
Goodwill & Int. Ass.	834	822	822	875	898	915	927	1,092	1,118	1,152
Total Liabilities	626	636	657	713	845	819	877	710	756	879
Accounts Payable	13	16	12	11	10	15	7	30	10	10
Long-Term Debt	151	131	14	4	51	-	50	-	-	-
Shareholder's Equity	880	983	1,016	967	992	996	1,032	1,323	1,429	1,550
D/E Ratio	0.17	0.13	0.01	0.00	0.05	-	0.05	-	-	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.0%	9.7%	10.2%	11.1%	12.0%	13.6%	12.3%	18.5%	12.9%	12.9%
Return on Equity	16.9%	16.3%	16.8%	18.8%	21.6%	25.0%	22.6%	31.0%	19.8%	19.9%
ROIC	12.7%	14.2%	15.6%	18.7%	21.0%	24.4%	22.1%	30.4%	19.8%	19.9%
Shares Out.	86	86	85	83	81	79	77	77	77	77
Revenue/Share	11.15	11.66	12.79	13.74	15.39	16.99	17.74	18.96	20.07	22.06
FCF/Share	2.09	2.11	2.44	2.69	2.80	2.53	2.67	3.38	3.37	4.33

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