Jack Henry & Associates (JKHY)

Updated August 19th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$203	**5 Year CAGR Estimate:**	0.9%	**Market Cap:**	$15B
Fair Value Price:	$127	**5 Year Growth Estimate:**	9.5%	**Ex-Dividend Date:**	09/03/22[1]
% Fair Value:	160%	**5 Year Valuation Multiple Estimate:**	-9.0%	**Dividend Payment Date:**	09/25/22[2]
Dividend Yield:	1.0%	**5 Year Price Target**	$200	**Years Of Dividend Growth:**	32
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

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, such as insurance corporations.

Jack Henry & Associates reported its fiscal fourth quarter earnings results on August 17. The company generated revenues of $483 million during the quarter, which was 7% more than the revenues that Jack Henry & Associates generated during the previous year's quarter. Revenues were up 8% on an adjusted basis, which was down slightly on a sequential basis. The company was able to grow the revenues for its services and support unit by 7%, while its processing business saw slightly higher growth, at 8%. Thanks to some margin expansion, Jack Henry & Associates' operating income was up 13% compared to the prior year's period.

Jack Henry earned $1.10 on a per-share basis during the fourth quarter, which was up by 6% year over year as taxes offset some of the operating income growth. Management announced its guidance for fiscal 2023, calling for ongoing growth during the current year. The company forecasts revenues of $2.08 billion, which equates to revenue growth of around 7% year over year, while earnings-per-share are forecasted to come in at around $5.05 to $5.09 in fiscal 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.04	$2.36	$2.59	$3.12	$3.14	$3.65	$3.52	$3.86	$4.12	$4.94	***$5.07***	***$7.98***
DPS	$0.56	$0.84	$0.94	$1.06	$1.18	$1.36	$1.54	$1.72	$1.78	$1.96	***$1.96***	***$3.02***
Shares[3]	85	83	81	79	77	77	77	77	75	74	***73***	***70***

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 was not been able to grow its earnings-per-share in line with the years prior. Earnings growth has been relatively reliable 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. In recent years, Jack Henry & Associates did not manage to grow its operating margin by a lot, 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.

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[1] Estimated date
[2] Estimated date
[3] In Millions

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.1	23.3	24.1	24.8	29.1	43.8	37.1	47.7	40.1	37.2	***40.0***	***25.0***
Avg. Yld.	1.4%	1.5%	1.5%	1.4%	1.3%	0.9%	1.2%	0.9%	1.1%	1.1%	***1.0%***	***1.5%***

Jack Henry & Associates is a high-quality growth company. Shares had been trading at a relatively inexpensive valuation a decade ago, but the stock has become much more expensive in recent years. The valuation currently stands at an earnings multiple of 40, which we do not deem justified. The current very high valuation will result in a meaningful headwind to the company's total returns over the coming years, we believe.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	27.5%	35.6%	36.3%	34.0%	37.6%	37.3%	43.8%	44.6%	43.2%	39.7%	***38.7%***	***37.8%***

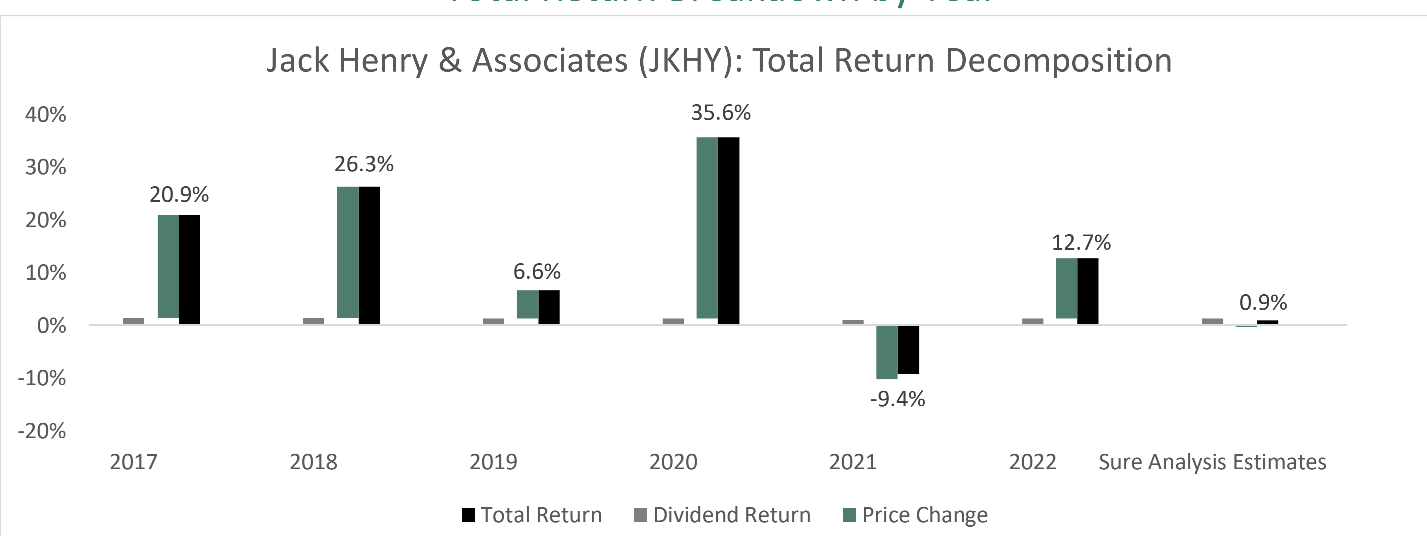
Jack Henry & Associates has raised its dividend at a very compelling pace over the last decade, which was partially possible due to an increase in the company's dividend payout ratio, and partially due to its strong earnings growth. Jack Henry & Associates pays out roughly 40-50% of its net profits, 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 industry tailwinds. The company has weathered the coronavirus crisis well, but due to a too-high valuation we still rate the stock a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,108	1,173	1,256	1,355	1,388	1,471	1,553	1,697	1,758	1,943
Gross Profit	461	494	536	581	582	618	630	689	695	814
Gross Margin	41.7%	42.1%	42.7%	42.9%	42.0%	42.0%	40.6%	40.6%	39.5%	41.9%
SG&A Exp.	147	139	153	158	159	172	186	198	187	218
D&A Exp.	100	108	119	130	140	152	161	172	176	178
Operating Profit	251	288	311	342	338	356	347	381	399	475
Operating Margin	22.6%	24.6%	24.8%	25.3%	24.4%	24.2%	22.4%	22.4%	22.7%	24.4%
Net Profit	168	187	211	249	230	365	272	297	311	363
Net Margin	15.1%	15.9%	16.8%	18.4%	16.5%	24.8%	17.5%	17.5%	17.7%	18.7%
Free Cash Flow	211	230	228	202	209	262	260	333	304	313
Income Tax	77	101	105	112	111	(9)	75	84	86	109

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,672	1,681	1,837	1,816	1,909	2,033	2,185	2,428	2,336	2,456
Cash & Equivalents	128	70	148	70	115	31	94	213	51	49
Accounts Receivable	231	224	245	254	277	297	310	301	307	348
Goodwill & Int. Ass.	822	875	898	915	927	1,092	1,118	1,152	1,164	
Total Liabilities	657	713	845	819	877	710	756	879	1,017	1,074
Accounts Payable	12	11	10	15	7	30	10	10	18	
Long-Term Debt	14	4	51	-	50	-	-	-	100	-
Shareholder's Equity	1,016	967	992	996	1,032	1,323	1,429	1,550	1,319	1,382
LTD/E Ratio	0.01	0.00	0.05	-	0.05	-	-	-	0.08	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.2%	11.1%	12.0%	13.6%	12.3%	18.5%	12.9%	12.9%	13.1%	15.1%
Return on Equity	16.8%	18.8%	21.6%	25.0%	22.6%	31.0%	19.8%	19.9%	21.7%	26.9%
ROIC	15.6%	18.7%	21.0%	24.4%	22.1%	30.4%	19.8%	19.9%	21.0%	25.9%
Shares Out.	85	83	81	79	77	77	77	77	75	74
Revenue/Share	12.79	13.74	15.39	16.99	17.74	18.96	20.07	22.06	23.24	26.44
FCF/Share	2.44	2.69	2.80	2.53	2.67	3.38	3.37	4.33	4.02	4.26

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