Jack Henry & Associates (JKHY)

Updated February 15th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$174	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$13B
Fair Value Price:	$128	**5 Year Growth Estimate:**	9.5%	**Ex-Dividend Date:**	03/07/24[1]
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	03/24/24[2]
Dividend Yield:	1.3%	**5 Year Price Target**	$201	**Years Of Dividend Growth:**	34
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 second quarter earnings results on February 6. The company generated revenues of $550 million during the quarter, which was 8% more than the revenues that Jack Henry & Associates generated during the previous year's quarter. Revenues were up 8.4% on an adjusted basis, which was up on a sequential basis. The company was able to grow the revenues for its services and support unit by 7%, which was a comparable growth rate to the previous quarter. Meanwhile, its processing business saw slightly stronger growth of 9%. Jack Henry & Associates' operating income was up 14% compared to the prior year's period.

Jack Henry earned $1.26 on a per-share basis during the second quarter, beating estimates easily. Management reiterated its guidance for fiscal 2024, calling for adjusted revenue to come in between $2.20 billion and $2.21 billion, which indicates solid growth of around 5%. Earnings-per-share are forecasted to come in at around $5.09 to $5.13 in fiscal 2024. This indicates that earnings-per-share will be up slightly during the current year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.36	$2.59	$3.12	$3.14	$3.65	$3.52	$3.86	$4.12	$4.94	$5.02	***$5.11***	***$8.04***
DPS	$0.84	$0.94	$1.06	$1.18	$1.36	$1.54	$1.72	$1.78	$1.96	$2.08	***$2.20***	***$3.38***
Shares[3]	83	81	79	77	77	77	77	75	74	73	***72***	***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

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	23.3	24.1	24.8	29.1	43.8	37.1	47.7	40.1	37.2	33.1	***34.1***	***25.0***
Avg. Yld.	1.5%	1.5%	1.4%	1.3%	0.9%	1.2%	0.9%	1.1%	1.1%	1.3%	***1.3%***	***1.7%***

Jack Henry & Associates is a high-quality growth company. Shares had been trading at a more inexpensive valuation a decade ago, but the stock has become pricier since then. The company currently is valued with an earnings multiple of 34, which we do not deem justified. The current very high valuation will result in a meaningful headwind for the company's total returns over the coming years, we believe.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	35.6%	36.3%	34.0%	37.6%	37.3%	43.8%	44.6%	43.2%	39.7%	41.4%	***43.1%***	***42.1%***

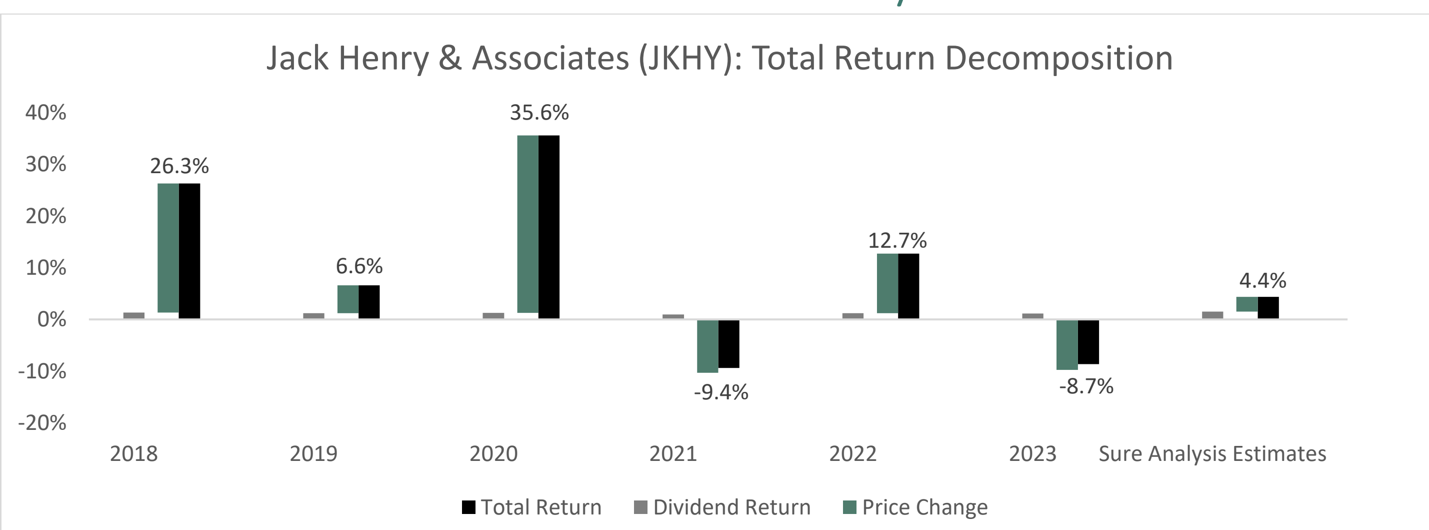
Jack Henry & Associates has raised its dividend at a very compelling pace over the last decade, which was partially possible due to an increase in the company's dividend payout ratio, and partially due to its strong earnings growth. Jack Henry & Associates pays out roughly 40-50% of its net profits, 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 rate the stock a hold 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,173	1,256	1,355	1,388	1,471	1,553	1,697	1,758	1,943	2,078
Gross Profit	494	536	581	582	618	630	689	695	814	859
Gross Margin	42.1%	42.7%	42.9%	42.0%	42.0%	40.6%	40.6%	39.5%	41.9%	41.3%
SG&A Exp.	139	153	158	159	172	186	198	187	218	235
D&A Exp.	108	119	130	140	152	161	172	176	178	191
Operating Profit	288	311	342	338	356	347	381	399	475	481
Operating Margin	24.6%	24.8%	25.3%	24.4%	24.2%	22.4%	22.4%	22.7%	24.4%	23.1%
Net Profit	187	211	249	230	365	272	297	311	363	367
Net Margin	15.9%	16.8%	18.4%	16.5%	24.8%	17.5%	17.5%	17.7%	18.7%	17.6%
Free Cash Flow	230	228	202	209	262	260	333	304	313	175
Income Tax	101	105	112	111	(9)	75	84	86	109	108

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,681	1,837	1,816	1,909	2,033	2,185	2,428	2,336	2,456	2,774
Cash & Equivalents	70	148	70	115	31	94	213	51	49	12
Accounts Receivable	224	245	254	277	297	310	301	314	356	369
Goodwill & Int. Ass.	875	898	915	927	1,092	1,118	1,152	1,164	1,193	1,456
Total Liabilities	713	845	819	877	710	756	879	1,017	1,074	1,165
Accounts Payable	11	10	15	7	30	10	10	18	21	19
Long-Term Debt	4	51	-	50	-	-	-	100	115	275
Shareholder's Equity	967	992	996	1,032	1,323	1,429	1,550	1,319	1,382	1,609
LTD/E Ratio	0.00	0.05	-	0.05	-	-	-	0.08	0.08	0.17

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.1%	12.0%	13.6%	12.3%	18.5%	12.9%	12.9%	13.1%	15.1%	14.0%
Return on Equity	18.8%	21.6%	25.0%	22.6%	31.0%	19.8%	19.9%	21.7%	26.9%	24.5%
ROIC	18.7%	21.0%	24.4%	22.1%	30.4%	19.8%	19.9%	21.0%	24.9%	21.7%
Shares Out.	83	81	79	77	77	77	77	75	74	73
Revenue/Share	13.74	15.39	16.99	17.74	18.96	20.07	22.06	23.24	26.44	28.42
FCF/Share	2.69	2.80	2.53	2.67	3.38	3.37	4.33	4.02	4.26	2.39

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