



Jack Henry & Associates (JKHY)

Updated August 27th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$171	5 Year CAGR Estimate:	7.4%	Market Cap:	\$12B
Fair Value Price:	\$146	5 Year Growth Estimate:	9.5%	Ex-Dividend Date:	09/17/24 ¹
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.1%	Dividend Payment Date:	09/24/24 ²
Dividend Yield:	1.3%	5 Year Price Target	\$229	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 fourth quarter earnings results on August 20. The company generated revenues of \$560 million during the quarter, which was 5% more than the revenues that Jack Henry & Associates generated during the previous year's quarter. Revenues were up 6% on an adjusted basis, which was down sequentially. The company was able to grow the revenues for its services and support unit by 2%, which was a lower growth rate compared to the previous quarter. Meanwhile, its processing business saw stronger growth of 9%. Jack Henry & Associates' operating income was up 1% compared to the prior year's period.

Jack Henry earned \$1.38 on a per-share basis during the fourth quarter, beating estimates easily. Management announced its guidance for fiscal 2024, calling for adjusted revenue to come in between \$2.35 billion and \$2.38 billion, which indicates solid growth of around 6%. Earnings-per-share are forecasted to come in at around \$5.78 to \$5.87 in fiscal 2025. This indicates that earnings-per-share will grow by a nice 11% this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.59	\$3.12	\$3.14	\$3.65	\$3.52	\$3.86	\$4.12	\$4.94	\$5.02	\$5.23	\$5.83	\$9.18
DPS	\$0.94	\$1.06	\$1.18	\$1.36	\$1.54	\$1.72	\$1.78	\$1.96	\$2.08	\$2.20	\$2.20	\$3.38
Shares³	81	79	77	77	77	77	75	74	73	72	71	68

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.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	24.1	24.8	29.1	43.8	37.1	47.7	40.1	37.2	33.1	31.2	29.3	25.0
Avg. Yld.	1.5%	1.4%	1.3%	0.9%	1.2%	0.9%	1.1%	1.1%	1.3%	1.3%	1.3%	1.5%

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 29, which we do not deem justified. The current 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	36.3%	34.0%	37.6%	37.3%	43.8%	44.6%	43.2%	39.7%	41.4%	42.1%	37.7%	36.9%

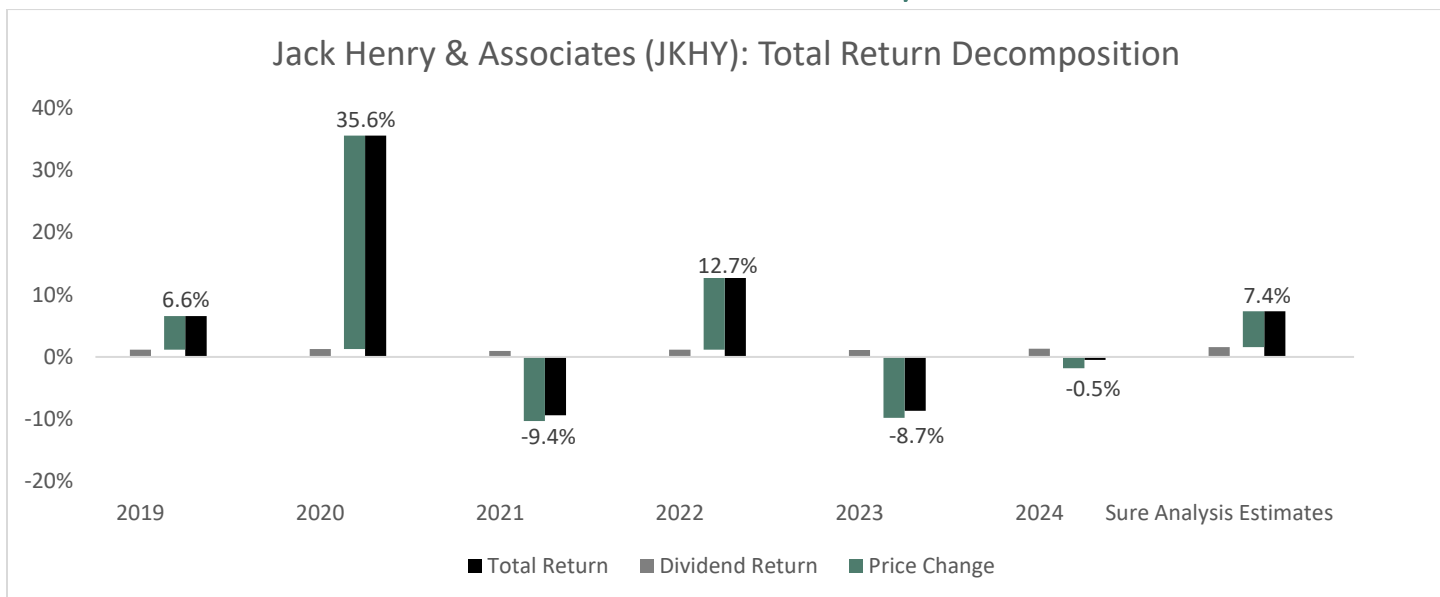
Jack Henry & Associates has raised its dividend at a very compelling pace over the last decade, which was partially possible due to an increase in the company's dividend payout ratio, and partially due to its strong earnings growth. Jack Henry & Associates pays out roughly 40-50% of its net profits, 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. Total returns are expected to come in at a solid but not overly attractive level going forward, which is why we rate Jack Henry & Associates a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,256	1,355	1,388	1,471	1,553	1,697	1,758	1,943	2,078	2,216
Gross Profit	536	581	582	618	630	689	695	814	859	916
Gross Margin	42.7%	42.9%	42.0%	42.0%	40.6%	40.6%	39.5%	41.9%	41.3%	41.3%
SG&A Exp.	153	158	159	172	186	198	187	218	235	278
D&A Exp.	119	130	140	152	161	172	176	178	191	200
Operating Profit	311	342	338	356	347	381	399	475	481	489
Operating Margin	24.8%	25.3%	24.4%	24.2%	22.4%	22.4%	22.7%	24.4%	23.1%	22.1%
Net Profit	211	249	230	365	272	297	311	363	367	382
Net Margin	16.8%	18.4%	16.5%	24.8%	17.5%	17.5%	17.7%	18.7%	17.6%	17.2%
Free Cash Flow	228	202	209	262	260	333	304	313	175	336
Income Tax	105	112	111	(9)	75	84	86	109	108	116

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,837	1,816	1,909	2,033	2,185	2,428	2,336	2,456	2,774	2,924
Cash & Equivalents	148	70	115	31	94	213	51	49	12	38
Accounts Receivable	245	254	277	297	310	301	314	356	369	341
Goodwill & Int. Ass.	898	915	927	1,092	1,118	1,152	1,164	1,193	1,456	1,476
Total Liabilities	845	819	877	710	756	879	1,017	1,074	1,165	1,082
Accounts Payable	10	15	7	30	10	10	18	21	19	25
Long-Term Debt	51	-	50	-	-	-	100	115	275	150
Shareholder's Equity	992	996	1,032	1,323	1,429	1,550	1,319	1,382	1,609	1,842
LTD/E Ratio	0.05	-	0.05	-	-	-	0.08	0.08	0.17	0.08

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	12.0%	13.6%	12.3%	18.5%	12.9%	12.9%	13.1%	15.1%	14.0%	13.4%
Return on Equity	21.6%	25.0%	22.6%	31.0%	19.8%	19.9%	21.7%	26.9%	24.5%	22.1%
ROIC	21.0%	24.4%	22.1%	30.4%	19.8%	19.9%	21.0%	24.9%	21.7%	19.7%
Shares Out.	81	79	77	77	77	77	75	74	73	72
Revenue/Share	15.39	16.99	17.74	18.96	20.07	22.06	23.24	26.44	28.42	30.34
FCF/Share	2.80	2.53	2.67	3.38	3.37	4.33	4.02	4.26	2.39	4.60

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

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