

Jack Henry & Associate (JKHY)

\$163.98 (As of 02/05/20)

Price Target (6-12 Months): **\$172.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: C

Momentum: A

Summary

Jack Henry & Associates reported impressive fiscal second-quarter results wherein both earnings and revenues improved year over year. Solid performance of Core, Payments and Complementary segments quarter drove the top line. Further, rising data processing and hosting fees drove services and support revenues. Moreover, hike in remittance fees and growth in card processing transaction volumes were tailwinds. Jack Henry's core customer wins, new payment platform, strategic acquisitions and expanding product portfolio remain positives. However, rising headcounts and personnel costs are weighing on margin expansion. Further, declining license and in-house implementation revenues thanks to shift in customer preference to outsourced delivery from on-premise solutions is a headwind. The stock has underperformed its industry over a year.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$165.74 - \$129.22
20 Day Average Volume (sh)	429,948
Market Cap	\$12.6 B
YTD Price Change	12.6%
Beta	0.88
Dividend / Div Yld	\$1.60 / 1.0%
Industry	Electronics - Miscellaneous Services
Zacks Industry Rank	Top 44% (112 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.6%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	44.8
P/E F1	45.1
PEG F1	3.9
P/S TTM	7.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	468 E	440 E	430 E	443 E	1,781 E
2020	438 A	419 A	401 E	415 E	1,666 E
2019	393 A	386 A	380 A	394 A	1,553 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.24 E	\$1.00 E	\$0.93 E	\$0.98 E	\$4.15 E
2020	\$1.16 A	\$0.94 A	\$0.78 E	\$0.81 E	\$3.64 E
2019	\$1.08 A	\$0.88 A	\$0.77 A	\$0.79 A	\$3.52 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/05/2020. The reports text is as of 02/06/2020.

Overview

Monett, MO-based Jack Henry & Associates, Inc. commonly known as JHA caters to community banks by offering technology solutions and payment processing services. The company's products are available via its three business brands:

Jack Henry Banking serves community banks, multi-billion-dollar institutions and many other financial institutions with assets up to \$50 billion. This brand offers integrated data processing systems, which support both in-house and outsourced operating environments. It also offers more than 140 complementary solutions like business intelligence and bank management, retail and business banking, digital and mobile internet banking, and electronic payment solutions, to name a few.

Symitar provides core data processing solutions, which also support both in-house and outsourced operating environments. The company caters to credit unions of all sizes via this brand. Symitar also offers over 100 complementary solutions that include business intelligence, credit union management, member and member business services.

ProfitStars offers highly specialized core agnostic products and services such as imaging and payments processing, information security and risk management, retail delivery, and online and mobile solutions.

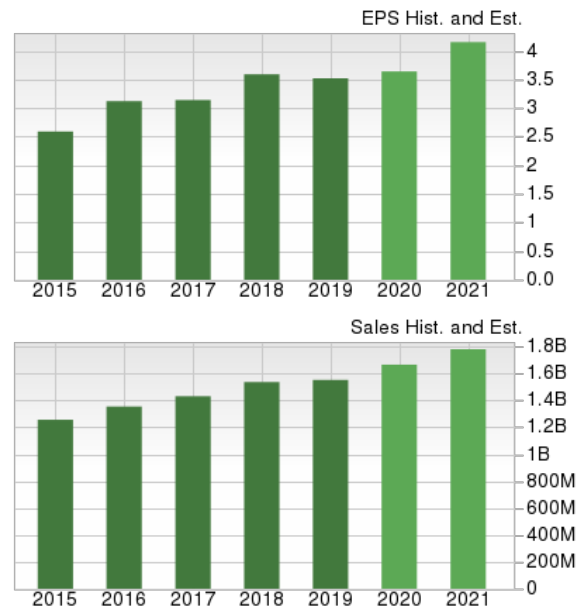
We note that Jack Henry & Associates generated \$1.55 billion revenues in fiscal 2019. The company earns revenues from four organized segments:

Core (34.4% of total revenues) provides core information processing platforms to banks and credit unions via Jack Henry Banking and Symitar brands, which consist of integrated applications required to process deposit, loan, and general ledger transactions, and maintain centralized customer/member information

Payments (35.3%) offers secure payment processing tools and services such as ATM, debit, and credit card processing services, online and mobile bill pay solutions, and risk management solutions.

Complementary (26.9%) offers additional software and services that can be utilized independently or can be integrated with the company's core solutions.

Corporate and Other (3.4%) segment includes hardware revenue and costs. The company offers hardware such as IBM Power Systems, HP servers and workstations, and Digital Check, to name a few, which support software solutions.



Reasons To Buy:

▲ Jack Henry enjoys a strong momentum across commercial banks, credit unions and other financial institutions of all asset sizes with the help of its integrated data processing solutions and systems. Its wide array of products and services provide core operating systems, in-house and outsourced delivery environments. Notably, Symitar business brand offers two functionally distinct core processing systems and 100 complementary solutions to credit unions. Its customer base comprises almost 830 credit unions. Further, the Jack Henry Banking brand provides three functionally distinct core bank processing systems and 140 complementary solutions to the commercial banks. We note that this brand serves 1,030 banks currently. Additionally, the company's ProfitStars serves over 9,000 financial services institutions with specialized solutions for generating additional revenue and growth. All these are constantly driving Jack Henry's organic revenue and earnings growth.

Jack Henry benefits from solid momentum across commercial banks, credit unions and other financial institutions. Strategic acquisitions and strong balance sheet are positives.

▲ Strategic acquisitions have played an important role in defining Jack Henry's growth trajectory over the years. The company has been utilizing the inorganic route to strengthen products and services portfolio and to foray into the new markets of financial services industry. It has completed 33 strategic buyouts since 1999 with the recent ones being BOLTS Technologies and Agiletics, both of which were acquired in 2019. Further, Ensenta buyout expanded Jack Henry's consumer remote deposit capture offerings and ability to conduct real-time transactions with third-party platforms. The acquisition of Vanguard Software has strengthened ProfitStars Lending Solutions Group.

▲ The company's strong efforts toward expansion of product portfolio through organic and inorganic initiatives continue to aid its market share growth. Moreover, the company has been exhibiting strong single-digit top-line growth, which indicates good management execution. In fiscal 2019, total revenues of the company improved 6% from the previous year, driven by strong performance of both processing and services & support business lines and acquisition benefits. Moreover, revenues of the company have witnessed a CAGR of 6% over a period of last five years. This can be attributed to internal expansion of the business and strengthening bank and credit union clientele.

▲ Jack Henry's strong balance sheet and cash flow generation ability enables it to pursue any growth strategy that includes acquisitions and further share repurchase. As of Dec 31, 2019, its cash and cash equivalents (and trade receivables) were \$277.2 million. The company generated cash flow from operations of \$215 million in the six-months ended Dec 2019. The company's strong and relatively stable cash flow make the stock quite attractive.

Reasons To Sell:

- ▼ Jack Henry operates in an intensely competitive market featuring the likes of Fidelity National Information Services, Fiserv and Finastra, to name a few, for technology solutions for financial institutions. The primary reasons behind rising competition are price, operating flexibility, functionality, customer support and existing customer references. Further, consolidation in the industry remains a headwind. We believe all these factors might hurt the company's market share and pricing power that will eventually affect profitability.
- ▼ The company's customer base primarily includes banks and other financial institutions, which are under severe threat owing to growing adoption of digital payment Solutions, virtual credit/debit cards, peer-to-peer transfer services and mobile wallets. Further, growing banking initiatives by online payment software providers like Square and PayPal are hurting the banking community. Further, tech giants like Apple, Google, Facebook and Amazon are leveraging advanced technologies including AI, blockchain, data analytics, AR, IoT and ML to reach the underbanked customers. Consequently, disruption in banking sector remains a concern.
- ▼ Jack Henry's aggressive acquisition strategy has escalated integration risks. Moreover, we note that the buyouts negatively impacted the company's balance sheet in the form of high level of goodwill and net intangible assets, which comprised almost 32% of total assets as of Jun 30, 2019. Acquisitions have also negatively impacted the company's balance sheet, as high indebtedness adds to the risk of investing in the company. We note that the company had funded the Ensenta buyout by borrowing revolving credit facility.
- ▼ Moreover, the company is trading at premium in terms of Price/Sales (P/S). Jack Henry currently has a trailing 12-month P/S ratio of 7.75. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is same as the higher end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/S perspective.

Intensifying market competition is a headwind for Jack Henry. Also, aggressive acquisition strategy and related indebtedness are major concerns.

Last Earnings Report

Jack Henry's Q2 Earnings Beat, Revenues Up Y/Y

Jack Henry & Associates reported second-quarter fiscal 2020 earnings of 94 cents per share, which surpassed the Zacks Consensus Estimate by 5.6%. Further, the figure surged 6.8% from the year-ago quarter.

Revenues improved 9% year over year to \$419.12 million. The figure also outpaced the Zacks Consensus Estimate of \$411.61 million.

Further, the company's non-GAAP revenues came in \$409.36 million, up 8% on a year-over-year basis.

The top line was driven by solid performance of Core, Payments and Complementary segments during the reported quarter. Additionally, accelerating processing, and services and support revenues contributed to the results.

We believe Jack Henry's continued core customer wins and robust new payment platform will continue to drive its business growth. Further, benefits from strategic acquisitions and expanding product portfolio are likely to sustain investor optimism.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	1.82%
EPS Surprise	5.62%
Quarterly EPS	0.94
Annual EPS (TTM)	3.66

Top-Line in Detail

Services & Support: The company generated \$255.2 million revenues in this category (61% of revenues). Notably, the figure increased 8% from the year-ago quarter, owing to increase in data processing and hosting fees. Further, accelerating consulting fee revenues was a positive. Moreover, hike in implementation fees of the company's private cloud offerings and deconversion fees contributed to the results.

Processing: Revenues worth \$163.9 million came from this category (39% of revenues) during the reported quarter, surging 10% year over year. This can be attributed to hike in remittance fees and growth in card processing transaction volumes.

Segments in Detail

Core: The company generated \$138.4 million revenues from this segment (33% of total revenues), improved 7% year over year.

Payments: This segment yielded \$152 million revenues (36.3% of total revenues), climbing 10% from the year-ago quarter.

Complementary: This segment generated \$113.5 million revenues (27.1% of total revenues), increasing 10% year over year.

Corporate & Other: The company generated \$15.2 million revenues from this segment (3.6% of total revenues), declining 0.4% from the prior-year quarter.

Operating Details

In second-quarter fiscal 2020, total operating expenses were \$325.4 million, reflecting an improvement of 9.1% year over year. As a percentage of revenues, the figure expanded 40 bps year over year to 77.6%.

This can primarily be attributed to rising headcounts, which led to an increase in personnel costs and salaries. This led to a surge in R&D, and selling, general and administrative expenses.

Consequently, operating margin came in 22%, contracted 100 bps year over year.

Balance Sheet

As of Dec 31, 2019, cash and cash equivalents totaled \$72.5 million, which improved from \$96.7 million as of Sep 30, 2019.

Trade receivables were nearly \$204.7 million, down from \$234.4 million in the previous quarter.

Recent News

On **Jan 30, 2020**, Jack Henry unveiled a cloud-based digital banking system namely JHA BankAnywhere, which is available to any bank. The solution is based on core and digital platforms.

On **Jan 21, 2020**, Jack Henry acquired a customer namely Habib American Bank via its ProfitStars division. In a bid to advance the commercial lending process, the bank is leveraging ProfitStars' Commercial Lending Center Suite.

On **Dec 4, 2019**, Jack Henry & Associates rolled out iPay CardPay which is a near real-time Card-funded bill payment product. It will help Jack Henry banks and credit unions in providing relevant bill pay experience based on users' preferences.

On **Oct 29, 2019**, Jack Henry revealed that 15 financial institutions will adopt JHA PayCenter to connect to the RTP network from The Clearing House. This will strengthen the company's client base, which in turn is likely to drive its top-line.

On **Oct 17, 2019**, Jack Henry's unit ProfitStars announced that it will integrate JHA SmartPay mRDC to the Independent Community Banks of America Preferred Service Provider program.

Valuation

Jack Henry & Associates shares are up 19.6% in the past six-month period and 24.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 20% and 21.1% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 24.6% and 29.3%, respectively.

The S&P 500 index is up 16% in the past six-month period and 22.2% in the past year.

The stock is currently trading at 41.53X forward 12-month earnings, which compares to 30.55X for the Zacks sub-industry, 22.62X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 41.53X and as low as 22.45X, with a 5-year median of 30.81X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$172 price target reflects 43.65X forward 12-month earnings.

The table below shows summary valuation data for JKHY

Valuation Multiples - JKHY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	41.53	30.55	22.62	19.09
	5-Year High	41.53	30.55	22.62	19.34
	5-Year Low	22.45	15.87	16.87	15.18
	5-Year Median	30.81	19.76	19.28	17.46
EV/Sales TTM	Current	7.69	4.56	4.4	3.35
	5-Year High	8.54	4.65	4.4	3.35
	5-Year Low	4.09	2.68	2.57	2.12
	5-Year Median	5.72	3.6	3.48	2.79
EV/EBITDA TTM	Current	21.66	14.85	12.29	11.95
	5-Year High	29.67	18.6	12.59	12.85
	5-Year Low	11.63	8.88	7.68	8.49
	5-Year Median	15.78	12.56	10.52	10.66

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
Fidelity National Information Services, Inc. (FIS)	Neutral
Fiserv, Inc. (FISV)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Intuit Inc. (INTU)	Neutral
PayPal Holdings, Inc. (PYPL)	Neutral
Square, Inc. (SQ)	Neutral

Industry Comparison Industry: Electronics - Miscellaneous Services				Industry Peers		
	JKHY Neutral	X Industry	S&P 500	FIS Neutral	FISV Neutral	PYPL Neutral
VGM Score	C	-	-	C	B	C
Market Cap	12.62 B	559.91 M	24.26 B	89.81 B	82.72 B	140.57 B
# of Analysts	6	1	13	13	16	16
Dividend Yield	0.98%	0.00%	1.75%	0.96%	0.00%	0.00%
Value Score	F	-	-	D	D	D
Cash/Price	0.01	0.07	0.04	0.01	0.01	0.08
EV/EBITDA	24.61	-9.53	14.19	36.93	44.84	42.76
PEG Ratio	3.93	3.92	2.04	2.59	1.77	1.89
Price/Book (P/B)	8.49	3.88	3.31	1.82	2.39	8.30
Price/Cash Flow (P/CF)	29.27	19.32	13.70	15.08	18.17	36.77
P/E (F1)	45.24	45.05	19.17	23.13	24.44	34.68
Price/Sales (P/S)	7.74	3.07	2.67	9.81	8.12	7.91
Earnings Yield	2.22%	-5.33%	5.22%	4.33%	4.09%	2.88%
Debt/Equity	0.00	0.02	0.71	0.34	0.62	0.29
Cash Flow (\$/share)	5.60	2.28	6.92	9.69	6.70	3.26
Growth Score	C	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	8.80%	16.46%	10.80%	17.58%	16.43%	20.43%
Proj. EPS Growth (F1/F0)	3.41%	13.75%	7.35%	14.65%	24.47%	11.35%
Curr. Cash Flow Growth	0.40%	0.40%	10.12%	10.67%	147.85%	30.28%
Hist. Cash Flow Growth (3-5 yrs)	6.96%	23.27%	8.55%	16.71%	8.93%	18.18%
Current Ratio	0.69	1.56	1.20	0.86	1.08	1.43
Debt/Capital	0.00%	1.79%	42.91%	25.61%	38.74%	22.68%
Net Margin	17.27%	0.17%	11.79%	8.24%	8.77%	13.84%
Return on Equity	19.37%	-0.42%	17.21%	12.07%	11.78%	17.33%
Sales/Assets	0.76	1.08	0.54	0.22	0.22	0.36
Proj. Sales Growth (F1/F0)	7.30%	7.30%	4.15%	27.56%	56.84%	17.56%
Momentum Score	A	-	-	C	A	F
Daily Price Chg	6.64%	0.00%	1.40%	-0.88%	-1.79%	-0.30%
1 Week Price Chg	-1.13%	-5.23%	-2.60%	-2.88%	-1.85%	-2.64%
4 Week Price Chg	11.77%	11.77%	1.96%	4.21%	4.17%	7.06%
12 Week Price Chg	10.57%	14.64%	6.04%	9.19%	9.29%	17.24%
52 Week Price Chg	24.18%	24.18%	16.68%	33.20%	43.80%	29.78%
20 Day Average Volume	429,948	32,159	1,966,046	2,795,993	2,747,936	7,448,839
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.44%	0.16%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.24%	0.44%	-0.20%
(F1) EPS Est 12 week change	2.03%	-2.69%	-0.08%	0.35%	1.40%	-0.10%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.20%	-0.16%	-6.48%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.