

Jack Henry & Associate (JKHY)

\$146.73 (As of 01/06/20)

Price Target (6-12 Months): **\$154.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

Summary

Jack Henry & Associates is riding on its core solutions which are aiding it in winning new core customer contracts. Moreover, growing adoption of these solutions is driving its top-line growth. Further, it is gaining traction among existing in-house core customers for migrating to private cloud services. Also, it is enjoying solid momentum in the payment segment. Ensenta buyout benefits are tailwinds. Further, the company's growing core customer wins are likely to continue driving its business growth. However, slowdown in the license and in-house implementation revenues due to shift in customers' preference to outsourced delivery from on-premise solutions is a headwind. Its aggressive acquisition strategy is taking a toll on the balance sheet, which is a concern. Notably, the stock has underperformed the industry over a year.

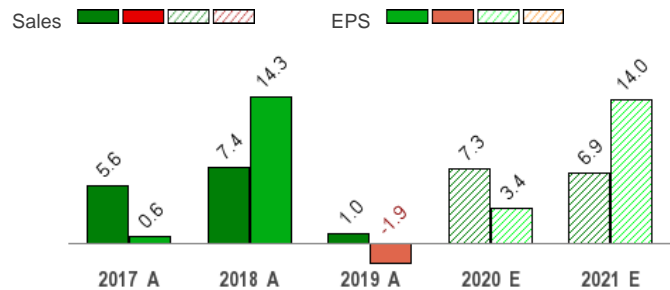
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$152.93 - \$122.92
20 Day Average Volume (sh)	301,545
Market Cap	\$11.3 B
YTD Price Change	0.7%
Beta	0.88
Dividend / Div Yld	\$1.60 / 1.1%
Industry	Electronics - Miscellaneous Services
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.5%
Last Sales Surprise	4.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	40.8
P/E F1	40.3
PEG F1	3.5
P/S TTM	7.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	468 E	440 E	430 E	443 E	1,781 E
2020	438 A	412 E	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	\$0.89 E	\$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 01/06/2020. The reports text is as of 01/07/2020.

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.

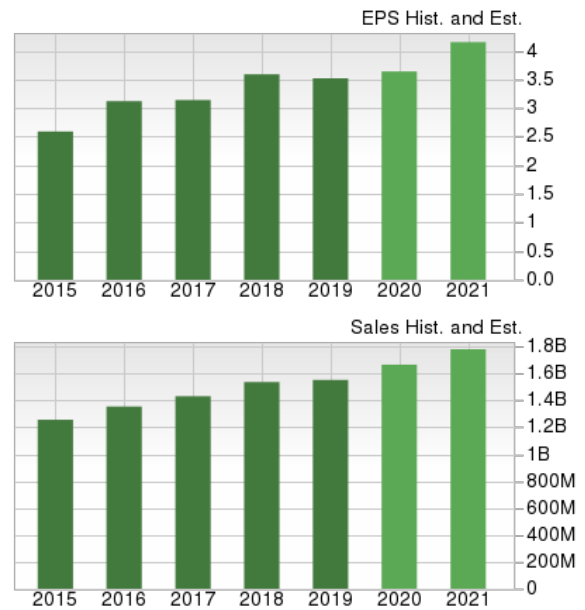
We note that Jack Henry & Associates generated \$1.55 billion revenues in fiscal 2019. The company earns revenues from four organized segments:

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 Sep 30, 2019, its cash and cash equivalents (and trade receivables) were \$331.1 million. The company generated cash flow from operations of \$123.1 million in fiscal first-quarter 2020. 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 7.08. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is near the high 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 Q1 Earnings Beat, Revenues Up Y/Y

Jack Henry & Associates reported first-quarter fiscal 2020 earnings of \$1.16 per share, which surpassed the Zacks Consensus Estimate by 12 cents and surged 7.4% from the year-ago quarter.

Revenues improved 12% year over year to \$438 million. The figure also outpaced the Zacks Consensus Estimate of \$421 million.

Further, the company's non-GAAP revenues came in \$420.7 million, up 9.4% year over year.

The top line was driven by solid performance of core and payments 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 instill investor optimism in the stock.

Segments in Detail

Core: The company generated \$155.9 million revenues from this segment (35.6% of total revenues), improved 12% year over year.

Payments: This segment yielded \$149.7 million revenues (34.2% of total revenues), climbing 12% from the year-ago quarter.

Complementary: This segment generated \$117.2 million revenues (26.7% of total revenues), increasing 11% year over year.

Corporate & Other: The company generated \$15.2 million revenues from this segment (3.5% of total revenues), surging 12% from the prior-year quarter.

Operating Details

In first-quarter fiscal 2020, total operating expenses were \$319.8 million, reflecting an increase of 10.5% year over year. This can primarily be attributed to rising headcounts, which led to an increase in personnel costs and salaries. Further, surge in selling, general and administrative expenses added to expenses.

As a percentage of revenues, operating expenses contracted 60 bps year over year to 73.1%.

Per the company reported, operating margin was 27%, expanding 100 bps year over year.

Balance Sheet & Cash Flow

As of Sep 30, 2018, cash and cash equivalents totaled \$96.7 million, which improved from \$93.6 million as of Jun 30, 2018.

Trade receivables were nearly \$234.4 million, down from \$310.1 million in the previous quarter.

Further, the company generated \$123.1 million of cash from operations in fiscal first quarter.

Quarter Ending 09/2019

Report Date	Nov 04, 2019
Sales Surprise	4.08%
EPS Surprise	11.54%
Quarterly EPS	1.16
Annual EPS (TTM)	3.60

Recent News

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.

On **Aug 26, 2019**, Jack Henry's Board of Directors approved a quarterly dividend of 40 cents per share which is payable on Sep 30, 2019 to the shareholders of the record as of Sep 9, 2019.

On **Aug 22, 2019**, Jack Henry revealed that 500 banks, credit unions and non-regulated institutions are utilizing ProfitStars' core agnostic products and services which indicates strength of its customer base and reliability of its offerings.

On **Aug 7, 2019**, Jack Henry's Symitar Vendor Integration Program was joined by Hyland. This will provide the latter access to Symitar's technical resources.

Valuation

Jack Henry & Associates shares are up 7.8% in the six-month period and 16.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 8.4% and 13.7% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 17.1% and 31.7%, respectively.

The S&P 500 index is up 9.8% in the six-month period and 25.1% in the past year.

The stock is currently trading at 37.56X forward 12-month earnings, which compares to 27.83X for the Zacks sub-industry, 22.32X for the Zacks sector and 18.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.6X and as low as 22.23X, with a 5-year median of 30.57X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$154 price target reflects 39.49X 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	37.56	27.83	22.32	18.79
	5-Year High	39.6	29.95	22.32	19.34
	5-Year Low	22.23	15.3	16.86	15.17
	5-Year Median	30.57	19.65	19.24	17.44
EV/Sales TTM	Current	7	4.09	4.22	3.25
	5-Year High	8.54	4.65	4.22	3.3
	5-Year Low	4.08	2.62	2.56	2.16
	5-Year Median	5.67	3.59	3.44	2.8
EV/EBITDA TTM	Current	21.12	14.48	12.12	11.99
	5-Year High	29.67	18.6	12.6	12.86
	5-Year Low	11.62	8.66	7.67	8.48
	5-Year Median	15.65	12.52	10.52	10.67

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

Apple Inc. (AAPL)	Neutral
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	D	-	-	D	C	C
Market Cap	11.29 B	532.34 M	23.72 B	86.26 B	79.50 B	129.36 B
# of Analysts	6	1	13	14	14	14
Dividend Yield	1.09%	0.00%	1.79%	1.00%	0.00%	0.00%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.07	0.04	0.02	0.01	0.08
EV/EBITDA	22.00	-7.07	13.90	35.69	43.66	39.30
PEG Ratio	3.51	3.51	2.00	2.49	1.71	1.71
Price/Book (P/B)	7.64	3.93	3.34	1.75	2.36	7.85
Price/Cash Flow (P/CF)	26.19	19.58	13.67	14.48	25.36	44.24
P/E (F1)	40.31	40.31	18.72	22.27	23.63	31.58
Price/Sales (P/S)	7.06	3.11	2.66	9.42	10.33	7.59
Earnings Yield	2.48%	-6.35%	5.31%	4.49%	4.23%	3.17%
Debt/Equity	0.00	0.02	0.72	0.34	0.66	0.30
Cash Flow (\$/share)	5.60	2.28	6.94	9.69	4.61	2.49
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	8.80%	16.46%	10.56%	17.58%	16.43%	19.98%
Proj. EPS Growth (F1/F0)	3.41%	13.75%	7.42%	12.32%	23.44%	13.49%
Curr. Cash Flow Growth	0.40%	0.40%	14.83%	10.67%	18.73%	17.43%
Hist. Cash Flow Growth (3-5 yrs)	6.96%	23.27%	9.00%	16.71%	8.93%	15.82%
Current Ratio	1.23	1.53	1.23	0.86	1.08	1.43
Debt/Capital	0.00%	1.79%	42.92%	25.61%	39.69%	23.15%
Net Margin	17.38%	0.14%	11.08%	8.24%	12.11%	14.89%
Return on Equity	19.41%	-0.77%	17.16%	12.07%	16.73%	16.73%
Sales/Assets	0.76	1.08	0.55	0.22	0.26	0.36
Proj. Sales Growth (F1/F0)	7.30%	7.30%	4.15%	27.54%	6.99%	16.77%
Momentum Score	B	-	-	F	D	A
Daily Price Chg	0.69%	0.00%	0.10%	0.96%	0.48%	1.30%
1 Week Price Chg	-0.61%	0.41%	-0.30%	-0.52%	-0.61%	-0.59%
4 Week Price Chg	-1.44%	3.66%	2.33%	2.48%	1.90%	6.16%
12 Week Price Chg	3.35%	3.35%	7.02%	5.73%	10.29%	8.28%
52 Week Price Chg	18.50%	18.50%	24.61%	37.03%	60.03%	26.73%
20 Day Average Volume	301,545	49,113	1,589,897	2,677,281	2,136,790	5,346,016
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.00%	-0.01%	0.10%
(F1) EPS Est 12 week change	6.38%	-0.51%	-0.56%	-1.14%	1.92%	-3.02%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.32%	-0.40%	0.88%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	C
Momentum Score	B
VGM Score	D

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

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