

## Jack Henry & Associate (JKHY)

**\$183.81** (As of 05/07/20)

Price Target (6-12 Months): **\$193.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 05/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

### Summary

Jack Henry & Associates reported impressive fiscal third-quarter results wherein both earnings and revenues improved year over year. Solid performance of Core, Payments, Corporate 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. The stock has outperformed its industry over a year. 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.

### Data Overview

|                            |                                                      |
|----------------------------|------------------------------------------------------|
| 52 Week High-Low           | <b>\$185.67 - \$123.64</b>                           |
| 20 Day Average Volume (sh) | <b>551,167</b>                                       |
| Market Cap                 | <b>\$14.1 B</b>                                      |
| YTD Price Change           | <b>26.2%</b>                                         |
| Beta                       | <b>0.59</b>                                          |
| Dividend / Div Yld         | <b>\$1.72 / 0.9%</b>                                 |
| Industry                   | <a href="#">Electronics - Miscellaneous Services</a> |
| Zacks Industry Rank        | <b>Top 9% (24 out of 253)</b>                        |

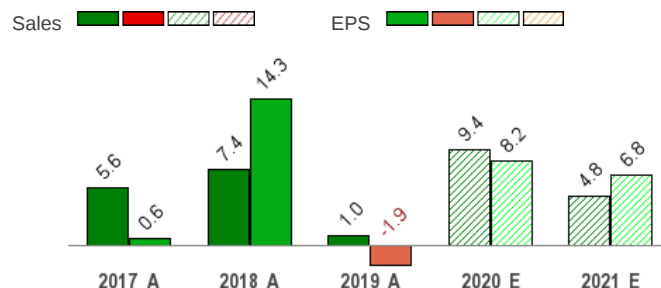
|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>18.5%</b>      |
| Last Sales Surprise       | <b>4.8%</b>       |
| EPS F1 Est- 4 week change | <b>3.7%</b>       |
| Expected Report Date      | <b>08/18/2020</b> |
| Earnings ESP              | <b>-1.0%</b>      |

|         |             |
|---------|-------------|
| P/E TTM | <b>47.7</b> |
| P/E F1  | <b>48.2</b> |
| PEG F1  | <b>4.2</b>  |
| P/S TTM | <b>8.4</b>  |

### Price, Consensus & Surprise



### Sales and EPS Growth Rates (Y/Y %)



### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 452 E | 442 E | 442 E | 443 E | 1,780 E |
| 2020 | 438 A | 419 A | 429 A | 413 E | 1,699 E |
| 2019 | 393 A | 386 A | 380 A | 394 A | 1,553 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.19 E | \$0.99 E | \$0.83 E | \$0.96 E | \$4.07 E |
| 2020 | \$1.16 A | \$0.94 A | \$0.96 A | \$0.78 E | \$3.81 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 05/07/2020. The reports text is as of 05/08/2020.

## 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.

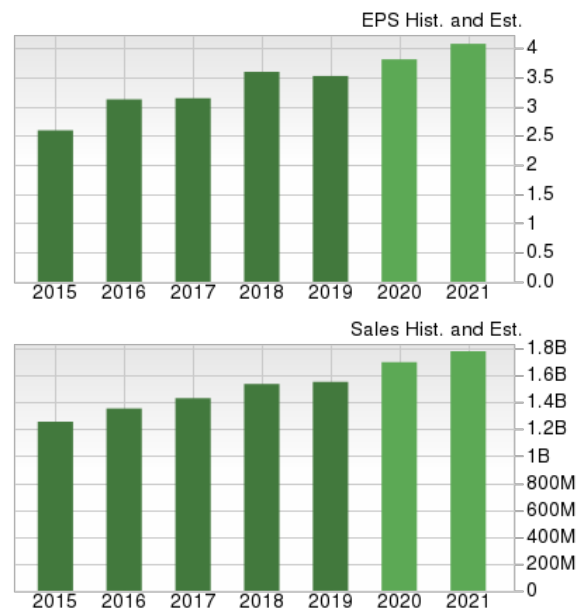
We note that Jack Henry & Associates generated \$1.55 billion revenues in fiscal 2019. The company earns revenues from four organized segments:

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.



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## 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 Mar 31, 2020, its cash and cash equivalents (and trade receivables) were \$321.6 million compared with \$277.2 million as of Dec 31, 2019. The company generated cash flow from operations of \$279.4 million in the nine-months ended Mar 2020. The company's strong and relatively stable cash flow make the stock quite attractive.

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## 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 7.48. 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 Q3 Earnings Beat, Revenues Up Y/Y

Jack Henry & Associates reported third-quarter fiscal 2020 earnings of 96 cents per share, which surpassed the Zacks Consensus Estimate by 18.5%. Further, the bottom line surged 25% from the year-ago quarter.

Revenues improved 13% year over year to \$429.41 million. The figure also outpaced the Zacks Consensus Estimate of \$409.65 million.

Further, the company's non-GAAP revenues came in \$404.27 million, up 9% on a year-over-year basis.

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

#### Top-Line in Detail

**Services & Support:** The company generated \$270.2 million revenues in this category (63% of revenues). Notably, the figure improved 15% from the year-ago quarter, courtesy of increase in data processing and hosting fees. Moreover, hike in implementation fees of the company's private cloud offerings and accelerating software usage revenues contributed to the upside.

**Processing:** Revenues worth \$159.2 million came from this category (37% of revenues) during the reported quarter, up 9% 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 \$146.4 million revenues from this segment (34% of total revenues), improved 12% year over year.

**Payments:** This segment yielded \$150.4 million revenues (35% of total revenues), climbing 11% from the year-ago quarter.

**Complementary:** This segment generated \$118.7 million revenues (28% of total revenues), increasing 16% year over year.

**Corporate & Other:** The company generated \$13.9 million revenues from this segment (3% of total revenues), up 13.9% from the prior-year quarter.

#### Operating Details

In third-quarter fiscal 2020, total operating expenses were \$337.5 million, reflecting an improvement of 11% year over year. This can primarily be attributed to rising headcounts, which led to an increase in personnel costs and salaries, and rising costs related to the company's card processing platform.

As a percentage of revenues, the figure contracted 130 basis points (bps) year over year to 78.6%. This was due to contraction of 100 bps year over year in the selling, general, & administrative expenses, which as a percentage of revenues came in at 11%.

Research and Development expenses expanded 100 bps year over year to 7% as a percentage of revenues.

Notably, operating margin came in at 21%, expanding 100 bps year over year.

#### Balance Sheet

As of Mar 31, 2020, cash and cash equivalents totaled \$109.5 million, which improved from \$72.5 million as of Dec 31, 2019.

Trade receivables were nearly \$212.1 million, up from \$204.7 million in the previous quarter.

Further, current and long-term debt stood at \$55.2 million at the end of the fiscal third quarter.

#### Guidance

For fourth-quarter fiscal 2020, Jack Henry expects revenues between \$408 million and \$415 million.

For fiscal year 2020, the company projects revenues between \$1.695 billion and \$1.702 billion.

The company anticipates coronavirus pandemic to impact sales bookings and revenues in the near term.

Nevertheless, its growing initiatives to combat the disruptions caused by this novel virus remain noteworthy.

Quarter Ending 03/2020

| Report Date      | May 04, 2020 |
|------------------|--------------|
| Sales Surprise   | 4.82%        |
| EPS Surprise     | 18.52%       |
| Quarterly EPS    | 0.96         |
| Annual EPS (TTM) | 3.85         |

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## Recent News

On **Apr 3, 2020**, Jack Henry rolled out Protection Program (PPP) loan solution which allows banks and credit unions to support PPP by enabling small and medium businesses to upload the required documents and other information online securely.

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.

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## Valuation

Jack Henry & Associates shares are up 26.9% in the year-to-date period and 38% over the trailing 12-month period. While stocks in the Zacks sub-industry are up 22.6%, the same in the Zacks Computer & Technology sector are down 0.6% in the year-to-date period. Over the past year, the Zacks sub-industry is up 34% and the sector is up 11.2%.

The S&P 500 index is down 10.5% in the year-to-date period but up 0.2% in the past year.

The stock is currently trading at 44.47X forward 12-month earnings, which compares to 33.28X for the Zacks sub-industry, 23.31X for the Zacks sector and 20.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.47X and as low as 22.66X, with a 5-year median of 31.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$193 price target reflects 46.69X 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       | 44.47 | 33.28        | 23.31  | 20.81   |
|                            | 5-Year High   | 44.47 | 33.28        | 23.31  | 20.81   |
|                            | 5-Year Low    | 22.66 | 15.87        | 16.71  | 15.19   |
|                            | 5-Year Median | 31.31 | 20.2         | 19.23  | 17.44   |
| EV/Sales TTM               | Current       | 8.33  | 4.89         | 3.96   | 2.85    |
|                            | 5-Year High   | 8.54  | 4.89         | 4.43   | 3.43    |
|                            | 5-Year Low    | 4.09  | 2.68         | 2.58   | 2.11    |
|                            | 5-Year Median | 6.07  | 3.75         | 3.58   | 2.8     |
| EV/EBITDA TTM              | Current       | 26.26 | 17.54        | 11.38  | 10.57   |
|                            | 5-Year High   | 29.67 | 18.6         | 12.7   | 12.86   |
|                            | 5-Year Low    | 11.46 | 8.75         | 7.56   | 8.28    |
|                            | 5-Year Median | 17.15 | 12.93        | 10.63  | 10.77   |

As of 05/07/2020

## Industry Analysis Zacks Industry Rank: Top 9% (24 out of 253)



## Top Peers

| Company (Ticker)                                 | Rec     | Rank |
|--------------------------------------------------|---------|------|
| Apple Inc (AAPL)                                 | Neutral | 3    |
| Amazoncom Inc (AMZN)                             | Neutral | 3    |
| Fidelity National Information Services Inc (FIS) | Neutral | 3    |
| Fiserv Inc (FISV)                                | Neutral | 4    |
| Alphabet Inc (GOOGL)                             | Neutral | 3    |
| Intuit Inc (INTU)                                | Neutral | 3    |
| PayPal Holdings Inc (PYPL)                       | Neutral | 4    |
| Square Inc (SQ)                                  | Neutral | 4    |

| Industry Comparison Industry: Electronics - Miscellaneous Services |         |            |           | Industry Peers |           |            |
|--------------------------------------------------------------------|---------|------------|-----------|----------------|-----------|------------|
|                                                                    | JKHY    | X Industry | S&P 500   | FIS            | FISV      | PYPL       |
| Zacks Recommendation (Long Term)                                   | Neutral | -          | -         | Neutral        | Neutral   | Neutral    |
| Zacks Rank (Short Term)                                            | 2       | -          | -         | 3              | 4         | 4          |
| VGM Score                                                          | B       | -          | -         | D              | C         | D          |
| Market Cap                                                         | 14.10 B | 452.87 M   | 19.51 B   | 79.96 B        | 72.58 B   | 171.59 B   |
| # of Analysts                                                      | 4       | 2.5        | 14        | 14             | 15        | 15         |
| Dividend Yield                                                     | 0.94%   | 0.00%      | 2.15%     | 1.08%          | 0.00%     | 0.00%      |
| Value Score                                                        | C       | -          | -         | D              | F         | F          |
| Cash/Price                                                         | 0.01    | 0.12       | 0.06      | 0.01           | 0.01      | 0.08       |
| EV/EBITDA                                                          | 27.57   | 8.76       | 11.77     | 29.91          | 27.99     | 41.14      |
| PEG Ratio                                                          | 4.19    | 4.03       | 2.54      | 1.71           | 1.76      | 2.47       |
| Price/Book (P/B)                                                   | 9.32    | 2.92       | 2.67      | 1.63           | 2.11      | 10,717.11  |
| Price/Cash Flow (P/CF)                                             | 32.81   | 14.30      | 10.44     | 15.92          | 16.03     | 44.93      |
| P/E (F1)                                                           | 48.20   | 32.32      | 19.30     | 23.06          | 24.25     | 44.56      |
| Price/Sales (P/S)                                                  | 8.39    | 2.37       | 1.99      | 7.04           | 5.83      | 9.40       |
| Earnings Yield                                                     | 2.07%   | 2.07%      | 4.91%     | 4.33%          | 4.13%     | 2.24%      |
| Debt/Equity                                                        | 0.00    | 0.11       | 0.75      | 0.39           | 0.62      | 0.50       |
| Cash Flow (\$/share)                                               | 5.60    | 2.28       | 7.01      | 8.13           | 6.70      | 3.26       |
| Growth Score                                                       | B       | -          | -         | D              | A         | B          |
| Hist. EPS Growth (3-5 yrs)                                         | 8.01%   | 15.68%     | 10.87%    | 18.44%         | 17.05%    | 20.43%     |
| Proj. EPS Growth (F1/F0)                                           | 8.10%   | 15.04%     | -9.87%    | 0.06%          | 10.65%    | 5.91%      |
| Curr. Cash Flow Growth                                             | 0.40%   | 4.17%      | 5.88%     | 57.47%         | 147.85%   | 30.28%     |
| Hist. Cash Flow Growth (3-5 yrs)                                   | 6.96%   | 23.27%     | 8.55%     | 26.53%         | 29.38%    | 18.18%     |
| Current Ratio                                                      | 0.77    | 1.71       | 1.24      | 1.05           | 1.08      | 1.39       |
| Debt/Capital                                                       | 0.00%   | 10.99%     | 44.23%    | 27.85%         | 38.74%    | 33.23%     |
| Net Margin                                                         | 17.64%  | -0.28%     | 10.68%    | 1.45%          | 8.51%     | 10.27%     |
| Return on Equity                                                   | 20.07%  | -3.37%     | 16.36%    | 7.89%          | 10.60%    | 21.24%     |
| Sales/Assets                                                       | 0.76    | 1.07       | 0.55      | 0.16           | 0.21      | 0.49       |
| Proj. Sales Growth (F1/F0)                                         | 9.44%   | 2.56%      | -2.26%    | 20.54%         | 39.89%    | 12.76%     |
| Momentum Score                                                     | A       | -          | -         | B              | C         | C          |
| Daily Price Chg                                                    | 2.97%   | 2.97%      | 1.52%     | -1.87%         | 1.73%     | 14.01%     |
| 1 Week Price Chg                                                   | -0.38%  | 0.00%      | 0.53%     | 2.83%          | 4.11%     | 0.36%      |
| 4 Week Price Chg                                                   | 8.02%   | 8.02%      | 0.73%     | 3.45%          | 8.16%     | 38.22%     |
| 12 Week Price Chg                                                  | 8.80%   | -21.90%    | -21.09%   | -16.12%        | -11.35%   | 21.39%     |
| 52 Week Price Chg                                                  | 37.26%  | -7.72%     | -10.17%   | 11.71%         | 26.72%    | 33.32%     |
| 20 Day Average Volume                                              | 551,167 | 36,494     | 2,398,409 | 3,821,481      | 3,763,155 | 10,178,631 |
| (F1) EPS Est 1 week change                                         | 3.71%   | 0.00%      | 0.00%     | 0.00%          | -2.48%    | -1.19%     |
| (F1) EPS Est 4 week change                                         | 3.71%   | 0.00%      | -6.95%    | -7.58%         | -8.13%    | -3.96%     |
| (F1) EPS Est 12 week change                                        | 3.18%   | -0.13%     | -15.68%   | -11.14%        | -10.88%   | -5.45%     |
| (Q1) EPS Est Mthly Chg                                             | -1.76%  | -0.88%     | -13.12%   | -14.50%        | -12.38%   | -3.83%     |

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## 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.

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### 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    | C |
| Growth Score   | B |
| Momentum Score | A |
| VGM Score      | B |

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.

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### Disclosures

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