

Jack Henry & Associate (JKHY)

\$168.20 (As of 08/20/20)

Price Target (6-12 Months): **\$143.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: B

Summary

Jack Henry & Associates reported fiscal fourth-quarter results wherein earnings topped the estimate but revenues missed the same. Headwinds related to COVID-19 pandemic remained concerns for the company's Payments segment. Further, sluggish Corporate segment was an overhang. Notably, declining license and in-house implementation revenues thanks to shift in customer preference to outsourced delivery from on-premise solutions remains a headwind. Additionally, rising headcounts and personnel costs are weighing on margin expansion. The stock has underperformed its industry on a year-to-date basis. Nevertheless, strong momentum across Core, Payments and Complementary segments is a tailwind. Further, Paycheck Protection Program lending line remains a major positive for processing revenues. However, intensifying market competition remains a risk.

Data Overview

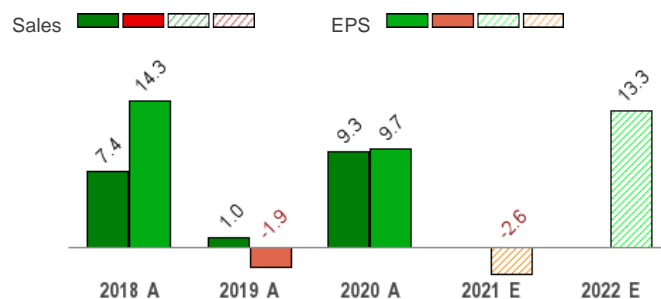
52 Week High-Low	\$200.98 - \$123.64
20 Day Average Volume (sh)	617,039
Market Cap	\$12.9 B
YTD Price Change	15.5%
Beta	0.57
Dividend / Div Yld	\$1.72 / 1.0%
Industry	Electronics - Miscellaneous Services
Zacks Industry Rank	Bottom 1% (251 out of 252)

Last EPS Surprise	2.6%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-5.6%
Expected Report Date	11/02/2020
Earnings ESP	0.0%
P/E TTM	43.6
P/E F1	44.7
PEG F1	3.9
P/S TTM	7.6

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	492 E	474 E	472 E	478 E	1,926 E
2021	450 E	440 E	441 E	445 E	
2020	438 A	419 A	429 A	411 A	1,697 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.31 E	\$1.11 E	\$0.98 E	\$0.97 E	\$4.26 E
2021	\$1.08 E	\$0.92 E	\$0.87 E	\$0.86 E	\$3.76 E
2020	\$1.16 A	\$0.94 A	\$0.96 A	\$0.80 A	\$3.86 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 08/20/2020. The reports text is as of 08/21/2020.

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.

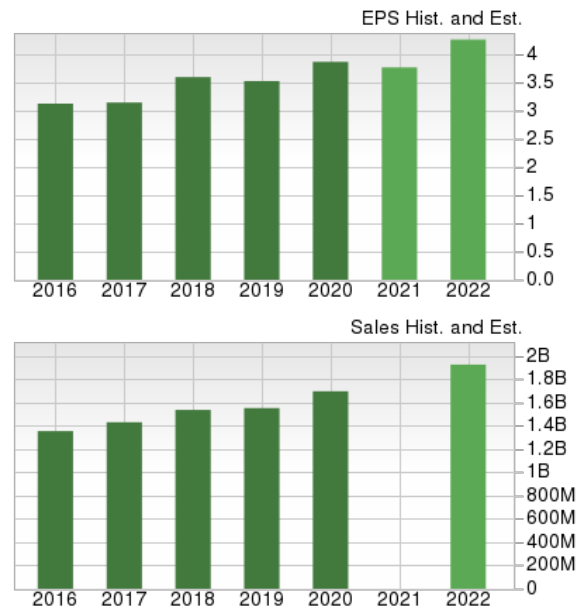
We note that Jack Henry & Associates generated \$1.7 billion revenues in fiscal 2020. The company earns revenues from four organized segments:

Core (34.3% 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 (35.2%) 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 (27.3%) offers additional software and services that can be utilized independently or can be integrated with the company's core solutions.

Corporate and Other (3.2%) 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 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.
- ▼ 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 7.8. 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.

Risks

- 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.
 - 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.
 - Jack Henry has a solid balance sheet. As of Jun 30, 2020, the company's net cash amounted to \$213.02 million compared with \$55 million as of Mar 31, 2020. The strong net cash balance will not only help it pursue strategic acquisitions but will also enable it repurchase shares aggressively in the long haul. Notably, the company's times interest earned was 554.9 as of Jun 30, 2020, up from the industry's average of 275.9. Further, the company generated cash flow from operations of \$510.5 million in the year ended Jun 2020 which surged from \$431.1 million in the year ended Jun 2019. The company's strong and relatively stable cash flow make the stock quite attractive.
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Last Earnings Report

Jack Henry's Q4 Earnings Beat, Revenues Up Y/Y

Jack Henry & Associates reported fourth-quarter fiscal 2020 earnings of 80 cents per share, which surpassed the Zacks Consensus Estimate by 2.6%. Further, the bottom line increased 1.3% from the year-ago quarter.

Revenues improved 4.3% year over year to \$410.5 million. However, the top line missed the Zacks Consensus Estimate of \$410.9 million.

Further, the company's non-GAAP revenues were \$399.8 million, up 4% 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.

However, headwinds related to coronavirus pandemic especially in the Payments segment were concerns. Moreover, sluggish Corporate segment was an overhang.

Top-Line in Detail

Services & Support: The company generated revenues of \$247.2 million from this category (60% of revenues). Notably, the figure improved 3% from the year-ago quarter, courtesy of increase in data processing and hosting fees. Further, spike in deconversion fees contributed to the performance.

Processing: This category yielded revenues worth \$163.3 million (40% of revenues) during the reported quarter, up 7% year over year. This can be attributed to growth in card processing transaction volumes and hike in associated fee revenues. Further, Paycheck Protection Program lending line remained a major positive and surge in its related transaction and digital revenues drove processing revenues.

Segments in Detail

Core: The company generated revenues of \$141.5 million from this segment (34.5% of total revenues), improving 4% year over year.

Payments: This segment yielded revenues of \$145.5 million (35.4% of total revenues), increasing 3% from the year-ago quarter.

Complementary: This segment generated \$114 million revenues (27.8% of total revenues), increasing 9% year over year.

Corporate & Other: The company generated revenues of \$9.5 million from this segment (2.3% of total revenues), down 12% from the prior-year quarter.

Operating Details

In fourth-quarter fiscal 2020, total operating expenses were \$333.7 million, reflecting an improvement of 6% 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 expanded 150 basis points (bps) year over year to 81.3%. This was due to expansion of 100 bps year over year in the research and development expenses, which as a percentage of revenues was 7%.

Selling, general and administrative expenses remained flat year over year at 12% as a percentage of revenues.

Notably, operating margin was 19%, contracting 100 bps year over year. This can primarily be attributed to disruptions caused by coronavirus pandemic.

Balance Sheet

As of Jun 30, 2020, cash and cash equivalents totaled \$213.3 million, which improved from \$109.5 million as of Mar 31, 2020.

Trade receivables were nearly \$300.9 million, up from \$212.1 million in the previous quarter.

Further, current and long-term debt stood at \$323,000 at the end of the fiscal fourth quarter compared with \$55.2 million at the end of the fiscal third quarter.

Guidance

For fiscal year 2021, the company projects GAAP revenues between \$1.75 billion and \$1.77 billion.

The company anticipates non-GAAP revenues to exhibit year-over-year growth between 5.5% and 6.5%.

Further, earnings per share for fiscal 2021 are expected within the range of \$3.70-\$3.75.

Quarter Ending 06/2020

Report Date	Aug 18, 2020
Sales Surprise	-0.08%
EPS Surprise	2.56%
Quarterly EPS	0.80
Annual EPS (TTM)	3.86

Recent News

On **Aug 12, 2020**, Jack Henry unveiled Jack Henry Loan Marketplace in a bid to strengthen its lending offerings. Notably, the company strives to help financial institutions in engaging in buying and selling loans via Jack Henry Loan Marketplace.

On **May 28, 2020**, Jack Henry acquired a client namely UNIFY Financial Credit Union. Notably, the latter's Episys will be shifted to the company's private cloud environment.

On **May 18, 2020**, Jack Henry's Board of Directors approved a quarterly dividend of 43 cents per share for the shareholders of the record as of May 28, 2020 which will be paid on Jun 12, 2020.

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.

Valuation

Jack Henry & Associates shares are up 15.4% in the year-to-date period and 17.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 15.5% and 23% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 18.4% and 37.7%, respectively.

The S&P 500 index is up 5.1% in the year-to-date period and 16.1% in the past year.

The stock is currently trading at 41.51X forward 12-month earnings, which compares to 33.45X for the Zacks sub-industry, 26.71X for the Zacks sector and 22.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 49.23X and as low as 23.16X, with a 5-year median of 32.41X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$143 price target reflects 35.29X 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	41.51	33.45	26.71	22.83
	5-Year High	49.23	34.4	26.71	22.83
	5-Year Low	23.16	16.38	16.72	15.25
	5-Year Median	32.41	20.78	19.61	17.58
EV/Sales TTM	Current	7.5	5.3	4.83	3.31
	5-Year High	8.9	6.24	4.83	3.46
	5-Year Low	4.15	2.72	2.59	2.14
	5-Year Median	6.47	3.83	3.63	2.87
EV/EBITDA TTM	Current	23.16	20.23	13.61	12.81
	5-Year High	29.67	23.83	13.61	12.85
	5-Year Low	11.63	8.88	7.59	8.25
	5-Year Median	18.75	13.34	10.93	10.91

As of 08/20/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (251 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Outperform	1
PayPal Holdings, Inc. (PYPL)	Outperform	2
Amazon.com, Inc. (AMZN)	Neutral	3
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
Intuit Inc. (INTU)	Neutral	3
Square, Inc. (SQ)	Neutral	3

Industry Comparison Industry: Electronics - Miscellaneous Services				Industry Peers		
	JKHY	X Industry	S&P 500	FISV	GOOGL	SQ
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	B	B	F
Market Cap	12.89 B	610.20 M	23.46 B	64.96 B	1,072.11 B	69.13 B
# of Analysts	5	1	14	14	12	13
Dividend Yield	1.02%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	C	F
Cash/Price	0.01	0.06	0.07	0.01	0.12	0.04
EV/EBITDA	25.22	11.08	13.34	25.68	18.79	144.33
PEG Ratio	3.89	3.73	3.00	1.35	2.16	9.39
Price/Book (P/B)	8.32	3.87	3.12	1.97	5.17	35.79
Price/Cash Flow (P/CF)	30.02	19.06	12.60	14.48	22.70	419.23
P/E (F1)	44.73	44.71	21.61	21.93	35.23	341.68
Price/Sales (P/S)	7.59	3.22	2.44	4.51	6.46	11.75
Earnings Yield	2.24%	-1.28%	4.43%	4.56%	2.84%	0.30%
Debt/Equity	0.04	0.09	0.76	0.65	0.07	1.12
Cash Flow (\$/share)	5.60	2.28	6.93	6.70	69.45	0.37
Growth Score	A	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	7.51%	14.32%	10.44%	17.88%	22.11%	NA
Proj. EPS Growth (F1/F0)	-2.54%	-5.68%	-5.53%	10.57%	-9.00%	-42.98%
Curr. Cash Flow Growth	0.40%	4.17%	5.20%	147.85%	12.62%	130.71%
Hist. Cash Flow Growth (3-5 yrs)	6.96%	23.27%	8.52%	29.38%	19.91%	26.09%
Current Ratio	0.91	1.48	1.33	1.04	3.41	1.70
Debt/Capital	3.52%	8.35%	44.50%	39.73%	6.63%	52.90%
Net Margin	17.48%	3.20%	10.13%	5.82%	18.99%	5.15%
Return on Equity	19.69%	13.79%	14.67%	8.34%	15.62%	-1.20%
Sales/Assets	0.75	0.75	0.51	0.19	0.61	1.05
Proj. Sales Growth (F1/F0)	4.68%	2.56%	-1.54%	37.55%	7.51%	49.83%
Momentum Score	B	-	-	A	C	A
Daily Price Chg	-2.33%	-2.33%	-0.59%	-3.42%	2.05%	3.65%
1 Week Price Chg	5.63%	5.63%	1.09%	-3.98%	0.42%	-3.57%
4 Week Price Chg	-7.47%	17.73%	1.91%	-5.08%	3.92%	26.79%
12 Week Price Chg	-5.43%	29.91%	6.82%	-8.65%	11.14%	95.75%
52 Week Price Chg	17.70%	28.56%	1.47%	-10.32%	32.29%	140.97%
20 Day Average Volume	617,039	617,039	1,873,576	4,469,025	1,587,017	12,165,322
(F1) EPS Est 1 week change	-5.59%	-5.57%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.59%	-5.57%	1.79%	0.22%	6.37%	49.53%
(F1) EPS Est 12 week change	-7.55%	-6.55%	3.35%	1.39%	7.88%	43.34%
(Q1) EPS Est Mthly Chg	-8.38%	-10.44%	0.42%	3.12%	7.83%	55.42%

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	F
Growth Score	A
Momentum Score	B
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

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