

Jack Henry & Associates (JKHY - \$153.66 - NASDAQ) Lower Revs; Compelling Valuation- Buy

Year	EPS	P/E	PMV		
2023P	\$4.65	34.9	\$227	Dividend: \$1.72	Current Return: 1.1%
2022P	4.15	39.1	211	Shares O/S: 76.6 million	
2021E	3.80	47.8	193	52-Week Range: \$200.98 - \$123.64	
2020A	3.86	49.6	---		

COMPANY OVERVIEW

Jack Henry & Associates (JHA) provides core processing, payments, and complementary services primarily to financial services firms through three main brands: Jack Henry Banking and Symitar, which provide integrated data processing to depository banks and credit unions, respectively; and ProfitStars, which offers core-agnostic products and services to financial and nonfinancial customers.

Reason for Comment

Jack Henry issued Q1 (FYE 6/30) results and provided full year 2021 guidance of GAAP revenue \$1,760-70M (based on \$33M of deconversion fees), implying Adj. Revenue in the \$1,727M to \$1,737M range and 6-6.5% non-GAAP revenue growth. Additionally, management also guided to a 2021 GAAP EPS range of \$3.75-80. This outlook primarily drives our sequential downward estimate revisions (see below).

- Qualitatively, management indicated that GAAP revenue growth pressures in FY2021 derive from both sequentially lower deconversion fees (in Q2) followed by a tough YoY comp (in Q3). We also suspect that the previously indicated weak Core RFP volumes in Q4 2020 may inform management's relatively conservative revenue guidance. On that topic, Q1 commentary indicated a partial rebound in Core RFPs: although we would expect most of that improvement to present beyond 6/30 FYE. However, this sets up Jack Henry quite nicely for a convergence of receding headwinds in Q4 2021 and beyond: especially with the completion of the card platform conversion, where parallel systems have provided meaningful margin pressure in the Payments segment.
- We have shifted our 2021E Adj. Revenue expectations down from \$1,759 to \$1,735 to reflect management's new growth guidance of 6-6.5%. Accordingly, Adj. EBITDA also drops from \$545M to \$521M. In general, we think management's guided range seems relatively conservative, and we could imagine upside to our estimates if COVID-19-induced growth headwinds abate before Q4 21: although we do not predict this in our estimates. We would finally note that the company repurchased ~400K shares during Q1, providing a nice support signal and potentially some downside protection if management were to continue to purchase opportunistically.

Investment Case

We continue to see the Jack Henry bull case as market recognition of the stock's meaningful valuation discount to peers on a sum-of-the-parts basis, which should highlight itself more clearly following the completion of the card platform transition in Q3 2021. With the substantial secular tailwinds from bank back-office process digitization/automation, "temporary" branch shutdowns/permanent closures, and growing customer-facing digital banking penetration, we think our medium-term growth outlook and valuation multiple remain mostly intact after these results: although the lower expected revenue does reduce our 2021 PMV estimate from \$196 to \$193 per share. We retain our Buy recommendation on Jack Henry & Associates.

Table 1 Jack Henry & Associates Earnings Model 2018A-2024P

Fiscal year end 6/30 (\$ millions, except per share)	2019	2020	2021E	2022P	2023P	2024P	2025P	CAGR 20-'25P
Adj. Revenue	\$1,521.4	\$1,634.2	\$1,735.1	\$1,880.7	\$1,995.5	\$2,117.8	\$2,248.0	6.6 %
Adj. EBITDA	491.6	507.5	521.0	600.0	663.9	720.1	772.8	8.8
EPS	\$3.52	\$3.86	\$3.80	\$4.15	\$4.65	\$5.10	\$5.50	7.4
EV / Revenue	8.0x	7.5x	7.0x	6.5x	6.1x	5.8x	5.4x	
EV / EBITDA	24.9	24.1	23.5	20.4	18.4	17.0	15.8	
P / E	49.2	49.6	47.8	39.1	34.9	31.8	29.5	

Source: Company data and g.research estimates

Table 2

Jack Henry & Associates
Private Market Value Analysis
2021E-2025P

	2021E	2022P	2023P	2024P	2025P
Core Adj. Revenue	\$ 588.3	635.6	673.7	714.2	757.0
Val. Multiple	<u>6.0</u> x	<u>6.0</u> x	<u>6.0</u> x	<u>6.0</u> x	<u>6.0</u> x
Core Segment Value	3,529.8	3,813.7	4,042.5	4,285.0	4,542.1
ProfitStars Adj. Revenue	\$ 1,097.7	1,190.1	1,266.3	1,347.6	1,434.3
Val. Multiple	<u>10.0</u> x	<u>10.0</u> x	<u>10.0</u> x	<u>10.0</u> x	<u>10.0</u> x
ProfitStars Segment Value	10,976.6	11,901.0	12,662.6	13,475.5	14,343.3
Corp. Rev/Seg. Value	49.2	54.9	55.5	56.0	56.6
Total Private Market Value	\$ 14,555.5	15,769.6	16,760.6	17,816.6	18,942.0
(Net Debt) / Cash	\$ 224.4	377.2	568.3	791.2	1,042.4
Options	<u>(17.5)</u>	<u>(20.5)</u>	<u>(23.0)</u>	<u>(25.8)</u>	<u>(28.8)</u>
Equity Private Market Value	\$ 14,762.4	16,126.3	17,305.9	18,582.0	19,955.6
Shares Outstanding	<u>76.3</u>	<u>76.3</u>	<u>76.3</u>	<u>76.3</u>	<u>76.3</u>
PMV per share	\$193	\$211	\$227	\$244	\$262
<i>Current market - discount to PMV</i>	<i>19%</i>	<i>30%</i>	<i>40%</i>	<i>50%</i>	<i>61%</i>

Source: Company data and g.research estimates

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Important Disclosures

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A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

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