

## Jack Henry &amp; Associates

## Robust bookings continue to drive revenue growth

Reiterate Rating: BUY | PO: 186.00 USD | Price: 170.31 USD

## Another quarter of strong results

We are not surprised to see shares of JKHY up modestly following overall solid F2Q results, with revenues/EPS ahead of consensus. F24 revenue guide was narrowed and maintained at midpoint. JKHY reported another robust quarter of bookings, with top-line growth driven by success across business dimensions. We continue to view JKHY as a leading provider of core banking and payment functionality, reiterate Buy.

## Adj. revs guide maintained, EPS up on below line items

JKHY narrowed F24 adj. revenue guidance to \$2,197M-\$2,210M vs. BofAe/Street/prior guide of \$2,207M/\$2,204M/\$2,193M-\$2,214M, respectively. On a reported basis, revenue guidance was also narrowed but maintained at midpoint. We are encouraged to see adj. operating margin guide tweaked to high end of 22.2%-22.3% range prior (up 35-40bps y/y ex-Payrailz due to increased cost controls and lower personnel expense), in-line with BofAe/Street at 22.2%. This leads to an updated GAAP EPS guide of \$5.09-\$5.13, partially due to higher interest income and lower tax. JKHY reiterated FCF conversion guidance of ~60%, with modest potential upside. Management anticipates if recently proposed legislation (H.R. 7024) is passed, JKHY will return to historic 80%-100% FCF conversion in F24 or F25.

## Bookings remains strong across business offerings

JKHY experienced another quarter of strong bookings, with F2Q reporting the second highest sales quarter in history. Growth was driven by success in competitive core takeaways (14 takeaways, including 4 multibillion institutions), and increased adoption of complementary solutions (135 new Banno and 56 new Banno Business signings). Commentary suggests sales pipeline remains as robust as F1Q despite bookings success in F2Q.

## F2Q modestly ahead of consensus

Adj. revs of \$540.8M came in modestly ahead of BofAe/Street at \$536.3M/\$536.9M, driven by solid growth in adj. complementary and payments (up 8.4%/7.8% y/y, respectively). Services & Support revs increased 7.3% y/y (57.2% of total revs), with Processing up 8.9% y/y. Adj. op. margins of 21.3% were 110/140bps ahead of BofAe/Street. GAAP EPS of \$1.26 was ahead of BofAe/Street at \$1.14, with F2Q adj. FCF of \$22M reflecting seasonal lumpiness.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.94	5.02	5.11	5.74	6.27
EPS Change (YoY)	19.9%	1.6%	1.8%	12.3%	9.2%
Consensus EPS (Bloomberg)			5.05	5.62	6.18
DPS	1.89	2.01	2.14	2.28	2.44
<b>Valuation (Jun)</b>					
P/E	34.5x	33.9x	33.3x	29.7x	27.2x
Dividend Yield	1.1%	1.2%	1.3%	1.3%	1.4%
EV / EBITDA*	21.0x	19.4x	18.3x	16.8x	15.6x
Free Cash Flow Yield*	4.1%	3.1%	3.7%	4.3%	5.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,224.7	2,224.2
2025E Rev (m)	2,379.9	2,379.5
2026E Rev (m)	2,552.6	2,551.6
2024E EPS	5.01	5.11
2025E EPS	5.64	5.74
2026E EPS	6.16	6.27

## Jason Kupferberg

Research Analyst  
BofAS  
+1 646 855 1961  
[jason.kupferberg@bofa.com](mailto:jason.kupferberg@bofa.com)

## Tyler DuPont

Research Analyst  
BofAS  
+1 646 855 2944  
[tyler.dupont@bofa.com](mailto:tyler.dupont@bofa.com)

## Cassie Chan

Research Analyst  
BofAS  
+1 646 855 1829  
[cassie.chan@bofa.com](mailto:cassie.chan@bofa.com)

## Melissa Chen

Research Analyst  
BofAS  
+1 646 855 2589  
[melissa.chen3@bofa.com](mailto:melissa.chen3@bofa.com)

## Mihir Bhatia

Research Analyst  
BofAS  
+1 415 436 3553  
[mihir.bhatia@bofa.com](mailto:mihir.bhatia@bofa.com)

## Stock Data

Price	170.31 USD
Price Objective	186.00 USD
Date Established	6-Dec-2023
Investment Opinion	B-1-7
52-Week Range	136.57 USD -182.25 USD
Mrkt Val / Shares Out (mn)	12,403 USD / 72.8
Free Float	99.4%
Average Daily Value	81.66 USD
BofA Ticker / Exchange	JKHY / NAS
Bloomberg / Reuters	JKHY US / JKHY.OQ
ROE (2024E)	20.7%
ESGMeter <sup>TM</sup>	Medium

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# iQprofile<sup>SM</sup> Jack Henry & Associates

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	19.6%	18.2%	16.8%	17.5%	16.9%
Return on Equity	26.9%	24.5%	20.7%	19.8%	19.1%
Operating Margin	24.4%	23.1%	21.8%	22.9%	23.2%
Free Cash Flow	505	382	459	535	616

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.0x	1.2x	1.3x	1.4x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	23.2%	22.7%	23.8%	24.0%	24.0%
Net Debt-to-Equity Ratio	4.8%	16.3%	-0.5%	-3.5%	-7.9%
Interest Cover	NM	31.9x	30.2x	30.3x	32.9x

## Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,943	2,078	2,224	2,379	2,552
% Change	10.5%	6.9%	7.1%	7.0%	7.2%
Gross Profit	814	859	917	973	1,052
% Change	17.2%	5.4%	6.8%	6.0%	8.2%
EBITDA	606	656	694	755	817
% Change	9.5%	8.3%	5.8%	8.7%	8.2%
Net Interest & Other Income	(2)	(6)	4	2	2
<b>Net Income (Adjusted)</b>	<b>363</b>	<b>367</b>	<b>373</b>	<b>416</b>	<b>452</b>
<b>% Change</b>	<b>16.5%</b>	<b>1.1%</b>	<b>1.5%</b>	<b>11.7%</b>	<b>8.6%</b>

## Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	363	367	373	416	452
Depreciation & Amortization	51	49	46	47	51
Change in Working Capital	(93)	(152)	(103)	(101)	(71)
Deferred Taxation Charge	32	(48)	(17)	0	0
Other Adjustments, Net	152	166	160	172	184
Capital Expenditure	0	0	0	0	0
<b>Free Cash Flow</b>	<b>505</b>	<b>382</b>	<b>459</b>	<b>535</b>	<b>616</b>
<b>% Change</b>	<b>9.2%</b>	<b>-24.4%</b>	<b>20.4%</b>	<b>16.5%</b>	<b>15.2%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(139)	(147)	(156)	(165)	(176)
Change in Debt	15	160	(20)	0	0

## Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	49	12	30	99	218
Trade Receivables	348	361	378	428	561
Other Current Assets	217	254	292	296	309
Property, Plant & Equipment	212	206	203	206	211
Other Non-Current Assets	1,630	1,940	1,987	2,062	2,156
<b>Total Assets</b>	<b>2,456</b>	<b>2,774</b>	<b>2,890</b>	<b>3,091</b>	<b>3,456</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	544	524	559	495	552
Long-Term Debt	115	275	21	21	21
Other Non-Current Liabilities	415	367	325	347	373
<b>Total Liabilities</b>	<b>1,074</b>	<b>1,165</b>	<b>904</b>	<b>863</b>	<b>945</b>
<b>Total Equity</b>	<b>1,382</b>	<b>1,609</b>	<b>1,986</b>	<b>2,227</b>	<b>2,511</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,456</b>	<b>2,774</b>	<b>2,890</b>	<b>3,091</b>	<b>3,456</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Other Financials

## Company Description

Founded in 1976, Jack Henry & Associates is a provider of core banking (ie, check and loans) systems as well as payments capabilities and add-on complimentary solutions including fraud management, customer support, and mobile functionality. In F23, Services & Support grew 5.0% y/y \$1,215M in revs, with Processing increasing 9.7% y/y to \$863M.

## Investment Rationale

We rate JKHY Buy driven by company's high quality business model, solid bookings and pipeline, more palatable valuation, and prospect for margin expansion and FCF conversion to improve in F25 (Jun). We believe JKHY can generate about 7-8% revenue growth over the next several years due to an ample market opportunity, sticky customer relationships, and ongoing opportunities in card processing.

## Stock Data

Average Daily Volume 479,468

## Quarterly Earnings Estimates

	2023	2024
Q1	1.46A	1.39A
Q2	1.10A	1.26A
Q3	1.12A	1.15E
Q4	1.34A	1.31E

## Price objective basis & risk

### Jack Henry & Associates (JKHY)

We calculate our price objective of \$186 based on a blend of a 35x our C24 P/E estimate and our discounted cash flow (DCF) model. Our target multiple is a 15% premium to comps, given the consistency of JKHY's financial performance. Our DCF assumes a weighted average cost of capital (WACC) of 7.68% and a terminal growth rate of 3%.

Downside risks are 1) exposure to regional banking sector, 2) US consumer spending softness, 3) intense competition among core banking providers, 4) client base in secular decline due to consolidation, 5) data and security breaches - an ongoing industry threat, 6) heavy regulatory oversight.

Upside risks are: 1) increasing stability within the regional banking sector, 2) elevated payment adoption among both debit and credit transactions, 3) better-than-expected US macro resiliency, 4) slowdown in US bank and credit union consolidation.

## Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia



**US - Payments, Processors, Specialty Finance and IT services Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
  
Basic EBIT + Depreciation + Amortization

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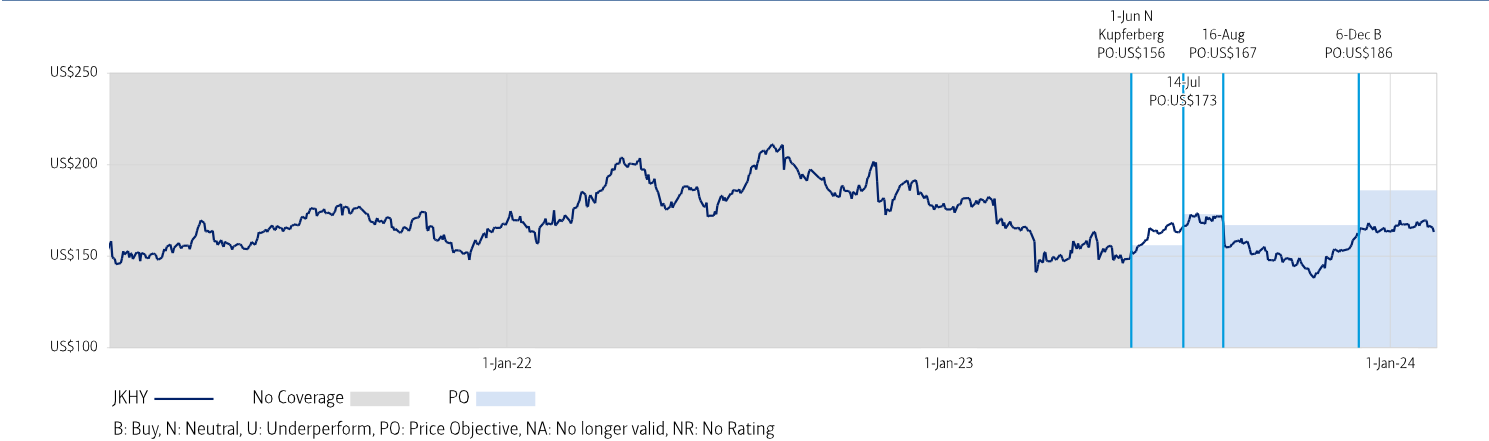
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### Jack Henry (JKHY) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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