

Jack Henry & Associates

Positive vibes on the road with management

Maintain Rating: BUY | PO: 186.00 USD | Price: 175.26 USD

Expect steady strategy from new CEO

We recently hosted investor meetings with JKHY management, including COO Greg Adelson (who becomes CEO on 7/1/24) and Head of Investor Relations, Vance Sherard, in SF and LA. We expect JKHY's business priorities and enviable culture to remain unchanged under Mr. Adelson, who has been heavily involved in shaping JKHY's strategy for over a decade. Against a backdrop of solid bank IT spending, JKHY is executing well on tech modernization of its product set and taking share in core banking. Maintain Buy.

Taking share amid healthy end markets

JKHY suggested that bank IT spend is expected to grow 5-10% this year. SMB banks, JKHY's core client base, are more confident the Fed is done raising rates, and are spending actively on tech to aid in deposit gathering, efficiency, fraud management, and improving the digital interface with their customers. JKHY has no exposure to NYCB. JKHY enjoys a record pipeline and expects to continue winning ~50-55 competitive core system takeaways/year, while moving incrementally upmarket.

Innovation and client service are differentiators

JKHY continues to actively invest in innovation, moving more products to cloud-native architecture. The Banno digital products (Retail + Business) bring JKHY closer to its clients end customers and are resonating in the market. JKHY will start offering Banno to non-JKHY core clients in C25, which could ultimately stimulate more core wins. JKHY is also encouraged by the early success of its fraud product, Financial Crimes Defender. JKHY is not the low-price provider, but wins on product and client service.

High degree of comfort with near-term + med-term guide

JKHY expressed confidence in its F24 (Jun) guidance, as well as the medium-term (2-3 years) outlook for 7-8% revs growth, presented at last year's Analyst Day. Management indicated a firm commitment to ongoing operating margin expansion, driven by move from on prem to cloud, cost containment, and R&D efficiency. Longer-term, expanded use of AI could drive expense leverage in software development and customer service. JKHY sees modest upside potential to F24 FCF guidance even if pending Section 174 legislation doesn't become law. If it does pass, JKHY would expect a sizeable tax refund, with FCF conversion moving back into the upper part of the historical 80-100% range.

Uptick in bank M&A starting; JKHY's M&A pipeline quiet

JKHY is seeing an uptick in bank M&A, with some clients asking JKHY to prepare for new conversions in anticipation of deal activity. Credit unions are currently more active than community banks. JKHY itself remains interested in M&A, but is approaching deals from a position of strength given the limited product and technology gaps the company needs to fill. Aside from M&A, dividend and buybacks (to at least offset dilution) remain capital deployment priorities.

15 February 2024

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Stock Data

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|----------------------------|------------------------|
| Price | 175.26 USD |
| Price Objective | 186.00 USD |
| Date Established | 6-Dec-2023 |
| Investment Opinion | B-1-7 |
| 52-Week Range | 136.57 USD -178.37 USD |
| Mrkt Val / Shares Out (mn) | 12,771 USD / 72.9 |
| Free Float | 99.4% |
| Average Daily Value | 90.87 USD |
| BofA Ticker / Exchange | JKHY / NAS |
| Bloomberg / Reuters | JKHY US / JKHY.OQ |
| ROE (2024E) | 21.9% |
| ESGMeter™ | Medium |

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Timestamp: 15 February 2024 12:01AM EST

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.

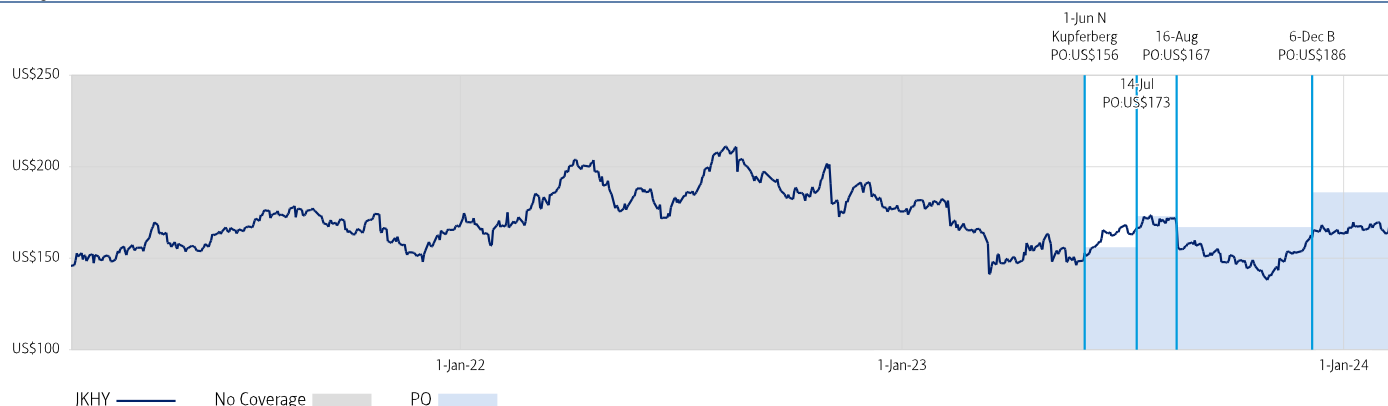
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Important Disclosures

Jack Henry (JKHY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | 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 ^{R1} | 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% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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