Jack Henry & Associates, Inc (JKHY) November 11, 2007

By Lynn Ostrem

Introduction:

John W. "Jack" Henry, the revered co-founder of Jack Henry & Associates, passed away on April 13, 2007 from natural causes. Jack was serving as vice chairman and senior vice president at the time of his death. He was a recognized and respected pioneer in the banking software industry. In 1976, he and Jerry Hall co-founded Jack Henry & Associates to provide in-house data processing solutions for community banks. Jack visualized and wrote the company's first core banking software package on a borrowed computer in space rented from an engine repair shop.

The company was incorporated in 1977, became a publicly traded company in 1985, and made its first in a series of more than 40 acquisitions in 1986. Today, the company is a leading provider of information and transaction processing solutions primarily for financial institutions, serving more than 8,700 clients, employing more than 3,500 associates, and operating a national network of more than 50 offices. The company's headquarters remains in Jack's hometown of Monett, Missouri.

What They Do:

Jack Henry & Associates develops, supplies, installs and maintains software and computer systems to help banks & credit unions to:

- Sell more products and services to their customer base
- Enable the customer to use services through the bank, like internet banking and bill paying, receiving statements online, process ATM transactions, and buy insurance products;
- It allows retail merchants to make remote deposits, as well as ACH and other transfers;
- It handles back office technology like security, imaging, fraud monitoring, cost-control and other reporting.

How They Make Money:

Jack Henry has three primary sources of income:

- software licenses (12% of 2007 revenue);
- support and service fees (75% of 2007 revenue); and
- hardware sales (they are resellers for IBM, Dell and NCR)(13% of 2007 revenue)

In the Information Technology/Application Software arena, the **two most crucial metrics** are licensing revenues and client retention rates. In 2007, licensing revenue was 66% of the total. Plus, the company had a backlog of 8% of annual revenues. When last reported, retention rates were in the 90% range, higher than any of its peers. (That figure was not updated in the last conference call, and the omission was mentioned in the Fool article attached,)

Licensing: These are reoccurring fees paid on a monthly basis. Contracts are typically 5-7 years. In fiscal year ending 2007, licensing revenue dropped 9%. This is an industry wide problem. Banks are consolidating at a rate of 2% per year and they are increasingly moving toward outsourcing which is profitable, but not "as" profitable. Licensing gross profits declined last year from 97% to 94%.

Support and Service Fees: Outsourcing includes everything from back office procedures to customer incentive programs. In 2007, this division realized an increase in sales of 18% with a gross profit of 38%.

Hardware: When a bank buys a turnkey system and license, it usually buys the computer system along with the package. The decline in licensing, coupled with the fact that hardware prices are coming down, contributed to only a modest increase of 7% in hardware sales for 2007. Yet, the gross profit was 43%.

Off-Shore Sales: Jack Henry sells and supports selected products and solutions in the Caribbean, and now have approximately 40 installations in Europe and South America as a result of recent acquisitions. International sales have accounted for less than 1% of our total revenues in each of the last 3 years.

Research & Development: Since technology is constantly changing, Jack Henry must improve and innovate. R&D expense has accounted for approximately 5% of gross revenues the past several years. Exchange Traded Fund (EFT) transaction processing is evidence of these changes—support jumped 32% in 2007.

Biometrics is one of the latest technologies in security for financial and non-financial institutions. They offer a fingerprint scanner along with state-of-the-art software for it.

Other:

Property: Company-owned facilities represent approximately 793,000 square feet of office space in nine states. They have 46 leased office facilities in 25 states.

Company Jets: They own six aircraft. Many of their customers are located in communities that do not have an easily accessible commercial airline service. They primarily use the airplanes in connection with implementation, sales of systems and internal requirements for day-to-day operations. Transportation costs for implementation and other customer services are billed to the customers.

Related Party: The board of directors includes 2 CEOs (one from a bank and one from a credit union) whose institutions pay approximately $200,000 each in annual service fees. Last year, the board adopted a written policy that requires all related party transactions to be reviewed and approved by the Audit Committee of the Board. No director may participate in any discussion, approval or ratification of any transaction in which he or she has an interest.

Officers: I like the key officers. The founder's son is the CEO. He started out as an installer and literally worked his way up the ladder. The president also worked his way into his position over 18 years with the company.

Insider Ownership: The Henry and Hall families still own a substantial amount of company common stock. Combined with other officers, insiders own 24%.

Competition:

Jack Henry tells us its biggest direct competitors are Fidelity National Information Services, Inc., Fiserv, Inc., Open Solutions, Inc., and Metavante (a subsidiary of Marshall and Isley Corporation). Of these, FISV is the only publicly held company. While JKHY is a much small competitor, margins are double this rival.

Industry Statistics:

- FDIC reports 9,000 commercial banks and savings institutions, and another 9,000 credit unions at the end of 2005, but the number is declining 2-3% annually through mergers—even though assets are increasing at 8% annually.
- In 2005 there was a rise in new bank charters by 40% which bodes well for Jack Henry's revenues since 80% come from banks with under $30 billion in assets.
- Approximately 56% of all commercial banks and 65% of all credit unions with assets over $25 million utilized in-house hardware and software systems to perform all of their core systems and data processing functions.
- Off-site data processing centers provided system services on an outsourced basis for 44% of all banks and 35% of all credit unions. In the last 5 years, spending on these services as increased annually at 6% and it's increasing.
- The financial services industry is subject to extensive and complex federal and state regulation. And the biggest risk for any company in this arena would be a breach of security to their systems.

Positive & Negative Influences:

In their 2007 annual report, Jack Henry stated their future drivers of growth were:

- Increase Market Share – especially through cross selling to existing clients
- Add New Products and Services

- Increase Recurring Revenue
- Pursue Disciplined Acquisitions

Key Positive Arguments	Key Negative Arguments
Jack Henry is the number two player in the small bank IT solutions market, with a large and stable market share.	Consolidation in the banking industry is shrinking Jack Henry's customer base, and the surviving banks are larger, potentially giving them greater bargaining power.
Solid growth in outsourcing has increased backlog and revenue in a challenging environment, according to bullish analysts.	The Company is more cyclical than its transaction processing peers, attributable to its high percentage of revenue derived from in-house sales.
Banks' increasing preference toward purchasing integrated suites of products as opposed to buying products individually should increase cross-selling opportunities for core processors, such as Jack Henry.	Jack Henry competes with larger firms that have significantly more resources to invest in upgrading their systems.
Given banks' reluctance to switch systems, this revenue is very stable.	Ongoing declines in the price of computer hardware are driving down revenue and margins in Jack Henry's hardware segment.
Unlike other core processors, Jack Henry has an unlevered balance sheet, giving it greater flexibility to pursue attractive acquisition opportunities as they arise.	Margins in Jack Henry's service and support segment are much lower than in its licensing segment. As service and support are accounting for an increasing portion of total revenue, this shift will pressure margins.
Regulatory changes are forcing smaller banks to upgrade their systems, driving demand for Jack Henry's products.	

Recent Financial Information:

For the periods of 1, 3, 5, and 10 years,
- Sales and net income have exceeded 10%
- Net margins have exceeded 14%
- ROE has exceed 15%
- And long term debt has been negligible

The company reported **1Q 2008 earnings** on October 29, 2007.
- While licensing revenue was down 13% QoverQ, Support and Service was up 20%
- Overall sales increased 16%
- Gross Profit increased 10% to 39% of revenues
- Earnings increased 10%
- On October 31st the company hit a 52 week high price.

As of November 1st, the price has increased substantially, yet Value Line is still bullish at the current price…and 3-5 years out.

Stock Price History		
	Change	Relative Strength
Last 3 Months	20.7%	87
Last 6 Months	18.0%	83
Last 12 Months	32.7%	77

Jack Henry & Associates, Inc.

As of November 9th, Reuters is reporting that institutions are net buyers.

% Shares Owned:	80.93%	# New Positions:	37
# of Holders:	231	# Closed Positions:	14
Total Shares Held:	72,263,887	# Increased Positions:	92
3 Mo. Net Change:	5,190,318	# Reduced Positions:	68
Price Range Quarter:	25.86 - 29.22	# Net Buyers:	24

Analyst Estimates and Company Guidance:

	5-yr Sales	5-yr EPS
Manifest	11.1%	11.7%
Value Line	11%	11.3%
Morningstar	11%	--
S&P	11%	13%
Yahoo	--	17%

There was no specific guidance from the company.

Judgments on the SSG:

I chose 11% for sales and 12% for EPS going forward. I based these on the above analyst estimates. And while the opportunities for future growth look bright, the P/Es have been dropping for 5 years straight. There's no indication, at least not in this market, that they will improve to the average of 25 the analysts are suggesting, so I used last year's high and low. On Nov. 9th, at $27.02, the SSG has a 2.1:1 upside, 101.7% relative value, and a return of 8-1/2% to 12-1/2%. This company is a solid HOLD with a buy-below of $24.80.

Manifest Fundamental Forecast

Company	Ticker	Industry	Quality	PAR
Jack Henry	JKHY	Software (Accounting)	70.3	14.4%

Current Price (11/09)		$27.02
CAPS Rating (Rate this stock on CAPS)		★★★★☆
Expected Income Statement		
Current Sales		695.0
Sales Growth Forecast		11.1%
Net Profit Margin		15.3%
Projected Shares Outstanding		88.6
EPS - Five Year Forecast		$2.03
Average P/E Ratio		25.3
Projected Average Price		$51.34
Price Appreciation (Annualized)		13.7%
Annual Dividend Yield		0.7%
Projected Annual Return		14.4%
Quality		
Financial Strength	99	24.8
EPS Stability	82	20.5
Industry Sales Growth Rate	10.0%	13.8
Industry Net Profit Margin	17.0%	11.2
Calculated Quality Rating		70.3

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
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INVESTMENT EDUCATION FOR INDIVIDUALS AND CLUBS SINCE 1951

Stock Selection Guide ®

The most widely used aid to good investment judgment

Company **Jack Henry & Associates, Inc** Date **12/07/07**

Prepared by **Lynn** Data taken from **StkCntrl**

Where traded **NASDAQ** Major product/service **Business So**

CAPITALIZATION --- Outstanding Amounts Reference **Hemscott**

Preferred ($M)	0.0	% Insiders	% Institution	
Common (M Shares)	90.8	9.0	80.9	
Debt ($M)	0.0	% to Tot.Cap. 0.0	% Potential Dil.	None

1 VISUAL ANALYSIS of Sales, Earnings and Price

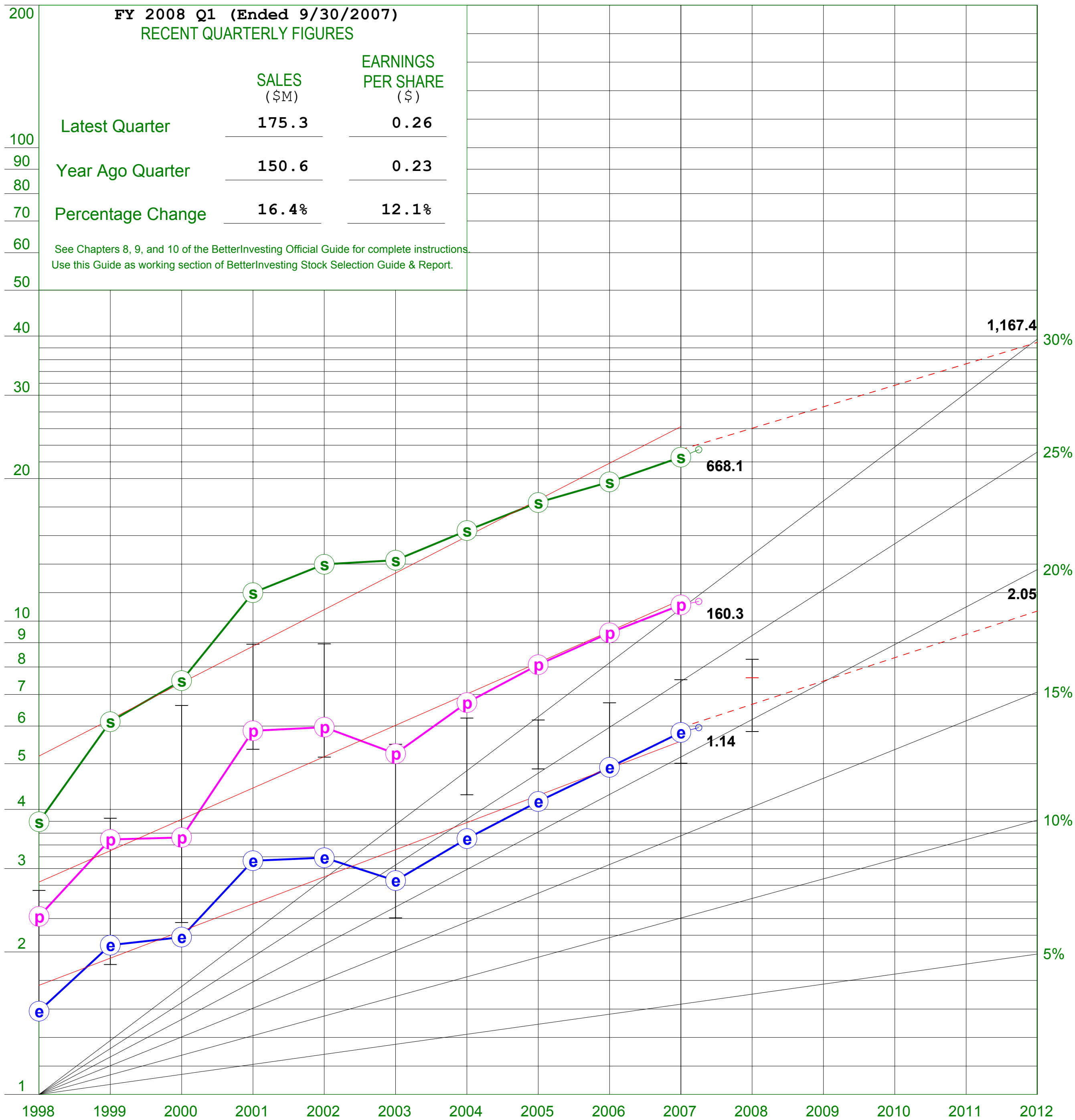
JKHY

FY 2008 Q1 (Ended 9/30/2007)

RECENT QUARTERLY FIGURES

	SALES ($M)	EARNINGS PER SHARE ($)
Latest Quarter	175.3	0.26
Year Ago Quarter	150.6	0.23
Percentage Change	16.4%	12.1%

See Chapters 8, 9, and 10 of the BetterInvesting Official Guide for complete instructions.
Use this Guide as working section of BetterInvesting Stock Selection Guide & Report.



(1) Historical Sales Growth 19.5 %

(2) Estimated Future Sales Growth 11.0 %

(3) Historical Earnings Per Share Growth 14.1 %

(4) Estimated Future Earnings Per Share Growth 12.0 %

Printed: 12/09/07 08:56 AM Prepared by: Lynn Using The Investor's Toolkit

2 EVALUATING MANAGEMENT

Company Jack Henry & Associates, Inc (JKHY) 12/07/07

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	31.1	27.8	23.0	25.2	22.3	19.2	21.3	22.4	23.7	24.0	22.1	UP	
B	% Earned on Equity (E/S ÷ Book Value)	30.2	28.5	22.5	17.9	16.4	13.4	13.8	14.4	15.2	16.9	14.7	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

PRESENT PRICE 26.720 HIGH THIS YEAR 29.240 LOW THIS YEAR 20.570

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH A ÷ C	E Price Earnings Ratio LOW B ÷ C	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100
1	2003	19.3	8.3	0.55	34.9	15.0	0.140	25.3	1.7
2	2004	22.0	15.1	0.68	32.4	22.3	0.150	22.1	1.0
3	2005	21.8	17.2	0.81	26.8	21.2	0.170	20.9	1.0
4	2006	23.7	17.3	0.96	24.7	18.0	0.200	20.9	1.2
5	2007	26.5	17.6	1.14	23.3	15.5	0.240	21.1	1.4
6	TOTAL		75.5		142.1	92.0		110.3	
7	AVERAGE		15.1		28.4	18.4		22.1	

8 AVERAGE PRICE EARNINGS RATIO 23.4 9 CURRENT PRICE EARNINGS RATIO 23.0

Proj. P/E [20.57] Based on Next 4 qtr. EPS [1.30] Current P/E Based on Last 4 qtr. EPS [1.16]
PEG=171

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~28.4~~ 23.3 (3D7 as adj.) X Estimate High Earnings/Share 2.05 = Forecast High Price $ 47.8 (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~18.4~~ 15.5 (3E7 as adj.) X Estimated Low Earnings/Share ~~1.14~~ 1.17 = $ 18.1

(b) Avg. Low Price of Last 5 Years = 15.1 (3B7)

(c) Recent Severe Market Low Price = 17.3

(d) Price Dividend Will Support Present Divd. / High Yield (H) = 0.260 / 0.017 = 15.4

Selected Estimate Low Price = $ 18.1 (4B1)

C ZONING

47.8 (4A1) High Forecast Price Minus 18.1 (4B1) Low Forecast Price Equals 29.7 (C) Range. 1/3 of Range = 7.4 (4CD)

(4C2) Lower 1/3 = (4B1) 18.1 to 25.5 (Buy) Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = 25.5 to 40.4 (Maybe)

(4C4) Upper 1/3 = 40.4 to 47.8 (4A1) (Sell)

Present Market Price of 26.720 is in the Hold (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 47.8 Minus Present Price 26.720 / Present Price 26.720 Minus Low Price (4B1) 18.1 = 21.1 / 8.6 = 2.4 To 1 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 47.8 / Present Market Price 26.720 = (1.789) X 100 = (178.9) - 100 = 78.9 (4E) % Appreciation

Relative Value: 98.3% Proj. Relative Value: 87.9%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend $ 0.260 / Present Price of Stock $ 26.720 = 0.010 X 100 = 1.0 (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 1.64 X Avg. % Payout (3G7) 22.1 = 36.2 / Present Price $ 26.720 = 1.4 % (5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) 78.9 / 5 = 15.8 %

Average Yield (5B) 1.4 %

Average Total Annual Return Over the Next 5 Years (5C) 17.2 %

	P.A.R.	Tot. Ret.
Average Yield	1.1%	0.9%
Annual Appreciation	8.3%	12.3%
% Compd Ann Rate of Ret	9.4%	13.3%

J. HENRY & ASSOC. NDQ-JKHY

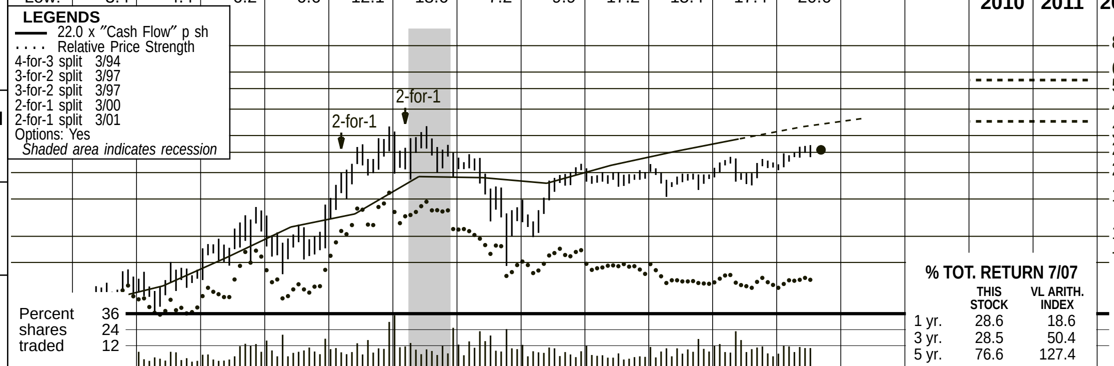
RECENT PRICE	25.63	P/E RATIO	21.7 (Trailing: 23.5 / Median: 27.0)	RELATIVE P/E RATIO	1.21	DIV'D YLD	1.0%	VALUE LINE

TIMELINESS 1 Raised 9/8/06
SAFETY 3 New 11/30/01
TECHNICAL 2 Raised 8/24/07
BETA 1.25 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
High:	7.0	7.6	13.8	14.1	33.1	33.2	24.5	22.0	21.0	22.0	23.8	27.0
Low:	3.4	4.4	6.2	6.6	12.1	18.6	7.2	9.9	17.2	15.4	17.4	20.6

Target Price Range

2010	2011	2012



2010-12 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+115%)	21%
Low	35	(+35%)	9%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	1	0	1	0	3	2
to Sell	2	1	2	3	1	3	2	4	1

Institutional Decisions

	3Q2006	4Q2006	1Q2007
to Buy	98	88	95
to Sell	78	79	90
Hld's(000)	67024	63744	64543

% TOT. RETURN 7/07

	THIS STOCK	VL ARITH. INDEX
1 yr.	28.6	18.6
3 yr.	28.5	50.4
5 yr.	76.6	127.4

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	© VALUE LINE PUB., INC.	10-12
.31	.35	.49	.55	.66	.95	1.10	1.50	2.29	2.62	3.89	4.08	4.47	5.16	5.82	6.30	*7.50*	*8.30*	Revenues per sh	*11.60*
- -	- -	- -	.12	.14	.22	.26	.36	.50	.58	.87	.86	.81	.98	1.14	1.31	*1.50*	*1.65*	"Cash Flow" per sh	*2.25*
.03	.06	.08	.09	.11	.16	.21	.28	.40	.41	.61	.62	.55	.68	.81	.96	*1.14*	*1.25*	Earnings per sh A	*1.75*
.02	.02	.03	.03	.04	.04	.05	.06	.07	.10	.11	.14	.14	.15	.17	.20	.24	*.26*	Div'ds Decl'd per sh B	*.30*
.00	.01	.06	.03	.04	.07	.14	.10	.48	.38	.65	.55	.51	.54	.63	.48	*.55*	*.60*	Cap'l Spending per sh	*.70*
.14	.18	.26	.34	.42	.53	.70	.97	1.42	1.80	3.40	3.76	4.03	4.89	5.62	6.12	*6.95*	*8.00*	Book Value per sh D	*12.05*
67.40	67.40	66.87	70.05	70.39	71.21	75.01	75.80	80.40	85.83	88.85	90.52	90.52	90.52	92.05	93.96	*89.00*	*89.00*	Common Shs Outst'g C	*88.00*
5.2	11.7	16.3	19.9	15.2	23.9	26.7	26.3	25.8	34.4	41.5	37.4	23.7	28.0	23.5	20.8	*19.5*		Avg Ann'l P/E Ratio	*25.0*
.33	.71	.96	1.31	1.02	1.50	1.54	1.37	1.47	2.24	2.13	2.04	1.35	1.48	1.25	1.12	*1.08*		Relative P/E Ratio	*1.65*
13.7%	3.2%	2.2%	1.8%	2.2%	1.1%	1.0%	.8%	.7%	.7%	.4%	.6%	1.1%	.8%	.9%	1.0%	1.1%		Avg Ann'l Div'd Yield	*.7%*

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		10-12
	82.6	113.4	184.5	225.3	345.5	369.0	404.6	467.4	535.9	592.2	*670*	*740*	Revenues ($mill)	*1020*
	34.3%	34.3%	31.0%	29.5%	31.2%	29.1%	25.0%	26.9%	27.8%	29.2%	*29.0%*	*29.0%*	Operating Margin	*29.0%*
	4.1	5.1	7.9	15.5	21.9	20.9	24.0	26.8	29.8	33.4	*34.0*	*36.0*	Depreciation ($mill)	*42.0*
	15.8	22.2	32.5	34.4	55.6	57.1	49.4	62.3	75.5	89.9	*104*	*112*	Net Profit ($mill)	*156*
	37.2%	37.1%	36.7%	33.6%	36.0%	35.5%	36.5%	37.5%	37.0%	35.8%	*37.0%*	*37.0%*	Income Tax Rate	*38.0%*
	19.1%	19.6%	17.6%	15.2%	16.1%	15.5%	12.2%	13.3%	14.1%	15.2%	*15.5%*	*15.1%*	Net Profit Margin	*15.3%*
	15.5	29.8	22.1	d47.1	65.1	67.3	70.5	85.9	13.7	42.9	*60.0*	*90.0*	Working Cap'l ($mill)	*220*
	- -	- -	- -	.3	.2	- -	- -	- -	.2	.2	*Nil*	*Nil*	Long-Term Debt ($mill)	*Nil*
	52.8	73.5	114.5	154.5	302.5	340.7	365.2	442.9	517.2	575.2	*620*	*710*	Shr. Equity ($mill)	*1060*
	29.9%	30.2%	28.4%	22.8%	18.5%	16.7%	13.5%	14.1%	14.6%	15.6%	*16.5%*	*15.5%*	Return on Total Cap'l	*14.5%*
	29.9%	30.2%	28.4%	22.2%	18.4%	16.7%	13.5%	14.1%	14.6%	15.6%	*16.5%*	*15.5%*	Return on Shr. Equity	*14.5%*
	23.0%	24.1%	23.4%	17.5%	15.2%	13.3%	10.2%	11.0%	11.6%	12.4%	*13.0%*	*12.0%*	Retained to Com Eq	*12.0%*
	23%	20%	17%	21%	17%	20%	25%	22%	20%	20%	*22%*	*21%*	All Div'ds to Net Prof	*17%*

CAPITAL STRUCTURE as of 3/31/07
Total Debt None

Leases, Uncapitalized: Annual rentals $4.2 mill.

No Defined Benefit Pension Plan

Pfd Stock None

Common Stock 89,666,463 shs.
as of 5/31/07

MARKET CAP: $2.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2005	2006	3/31/07
Cash Assets	12.6	76.3	28.8
Receivables	209.9	180.3	114.5
Other	37.8	49.8	46.5
Current Assets	260.3	306.4	189.8
Accts Payable	15.9	14.5	4.5
Debt Due	- -	- -	- -
Other	230.7	249.0	157.4
Current Liab.	246.6	263.5	161.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '04-'06 to '10-'12
Revenues	23.0%	14.5%	*12.5%*
"Cash Flow"	22.0%	12.0%	*12.0%*
Earnings	21.0%	11.5%	*13.5%*
Dividends	16.5%	13.0%	*9.5%*
Book Value	29.0%	20.0%	*14.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) Sep. 30	Dec. 31	Mar. 31	Jun. 30	Full Fiscal Year
2004	108.9	112.7	119.7	126.1	467.4
2005	124.1	136.0	134.4	141.4	535.9
2006	137.0	147.4	145.5	162.3	592.2
2007	150.6	167.2	168.9	*183.3*	*670*
2008	*175*	*180*	*180*	*205*	*740*

Fiscal Year Ends	EARNINGS PER SHARE A Sep. 30	Dec. 31	Mar. 31	Jun. 30	Full Fiscal Year
2004	.15	.16	.18	.19	.68
2005	.18	.19	.21	.23	.81
2006	.21	.23	.25	.27	.96
2007	.23	.30	.29	*.32*	*1.14*
2008	*.26*	*.31*	*.32*	*.36*	*1.25*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	June.30	Sept.30	Dec.31	Full Year
2003	.035	.035	.035	.035	.14
2004	.04	.04	.04	.04	.16
2005	.045	.045	.045	.045	.18
2006	.055	.055	.055	.055	.22
2007	.065	.065			

BUSINESS: Jack Henry & Associates Inc. provides integrated computer systems and services to banks and other financial institutions. It has developed several banking application software systems that it markets, along with computer hardware, to financial institutions. In addition, it performs data conversion, software installation, and software customization for the implementation of its systems. Acquired BancData Solutions, 4/00; Symitar Systems, 6/00; Transcend Systems, 3/02. It has a business partnership with SEDONA, an IBM Advanced Business Partner. Has about 3,310 employees. Off. & dir. own 13.7% of stock (9/06 Proxy). Chrmn.: Michael Henry. CEO: Jack F. Prim. Inc.: DE. Addr.: 663 Highway 60, P.O. Box 807, Monett, MO 65708. Tel.: 417-235-6652. Web: www.jackhenry.com.

Jack Henry likely closed fiscal 2007 on solid ground (year ended June 30th). We think share earnings jumped 19%, year over year, to $1.14, as the top line climbed 13%. Support and service sales, which currently represent approximately 75% of total revenues, probably benefited from greater demand for in-house support, electronic funds transfer, and increased ATM/Debit card switch services. Also, we believe that license revenues improved modestly, as sales to larger banks offset weakness in the credit union segment. Meanwhile, revenues from the hardware segment, which has shown greater strength over the past few quarters, likely rose 5%–10%.

We project a 10% earnings advance in fiscal 2008. Backlog, which is a measure of future business, continues to rise, especially for outsourcing sales. This should augur well for revenues in both the license and the support and services divisions. Furthermore, an ongoing recovery in hardware sales will probably lift the bottom line. This growth, along with the cross-selling of higher-margined products to credit unions, and greater cost-containment initiatives will likely drive the gains we envision over the coming quarters.

The outlook for the company over the 2010–2012 stretch is appealing. We anticipate further improvement in the economic landscape over this period, which should lead to a rise in information technology spending by banks and credit unions. What's more, we believe operating margins will remain healthy, as sales growth outpaces research and development expenditures. Greater cash flow generation in the years ahead will probably also help Jack Henry to expand through acquisitions. Overall, we project annual growth rates of 10%–15% in the top and bottom lines over next 3 to 5 years, assuming greater demand by financial institutions for Jack Henry's solutions.

This equity has had a nice run-up over the past six months. Moreover, it is ranked 1 (Highest) for relative price performance over the next year. Even at the present quotation, with these gains, the stock still possesses above-average appreciation potential over the 2010–2012 pull.

Randy Shrikishun *August 24, 2007*

(A) Fiscal year ends June 30th. Diluted earnings per share. Next earnings report due early November.
(B) Dividends historically paid in late February, May, September, and December.
(C) In millions, adjusted for stock splits.
(D) Includes intangibles, as of fiscal '06: $212.5 million, $2.32/share.

Company's Financial Strength	B++
Stock's Price Stability	45
Price Growth Persistence	35
Earnings Predictability	85

STANDARD & POOR'S

Jack Henry & Associates Inc

S&P Recommendation HOLD ★★★★★

Price $28.33 (as of Oct 26, 2007)

12-Mo. Target Price $28.00

Investment Style Mid-Cap Growth

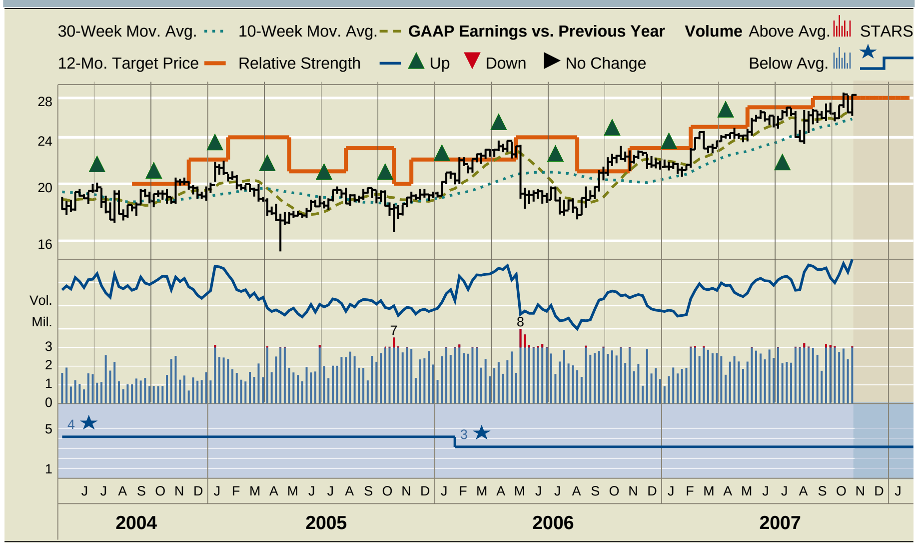
GICS Sector Information Technology
Sub-Industry Application Software

Summary JKHY provides integrated computer systems, software and services addressing the information technology and data processing needs of banks and credit unions.

Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	$28.68–20.57	S&P Oper. EPS 2008**E**	1.29	P/E on S&P Oper. EPS 2008**E**	22.0	Dividend Rate/Share	$0.26
Trailing 12-Month EPS	$1.14	S&P Oper. EPS 2009**E**	1.47	Common Shares Outstg. (M)	89.3	Yield (%)	0.92
Trailing 12-Month P/E	24.9	S&P Core EPS 2008**E**	1.29	Market Capitalization(B)	$2.529	Beta	1.48
$10K Invested 5 Yrs Ago	$27,577	S&P Core EPS 2009**E**	1.47	Institutional Ownership (%)	80	S&P Credit Rating	NA

Price Performance



Options: Ph

Analysis prepared by **Zaineb Bokhari** on August 30, 2007, when the stock traded at **$ 25.82**.

Highlights

- We expect revenues to rise 11% in FY 08 (Jun.), slowing modestly from 13% in FY 07. We see license revenues rising 15% after a 9% decline in FY 07. We look for support and services revenues to rise 13% in FY 08, while hardware sales decline modestly. We project 11% revenue growth in FY 09. We look for JKHY to post growth in its existing client base by cross-selling acquired niche products and services that fit its suite of offerings.
- We expect gross margins to widen slightly in FY 08 and FY 09, helped by a shift in the sales mix away from hardware and due to wider gross margins on professional services. We look for operating margins to widen modestly in FY 08 as leverage over technology offerings and economies of scale are partly offset by the impact of pricing pressures and increased staffing. We think FY 09's operating margins will be slightly above FY 08.
- We estimate operating EPS growth of about 13% for FY 08, to $1.29, from $1.14 reported in FY 07. We see EPS rising about 14% in FY 09, to $1.47. We anticipate that JKHY will buy back shares, aiding EPS in both years.

Investment Rationale/Risk

- JKHY has what we think is a solid history of successfully penetrating a large market. We view the stability of operating performance as strong over the past decade; the stock's S&P Quality Ranking is A+. Backlog increased to $239.3 million at June 30, 2007, up 8% year to year, and we see continued strong growth within JKHY's bank segment, partly offset by slower growth for the company's credit union segment.
- Risks to our recommendation and target price include decreased capital spending in the banking industry; consolidation among financial institutions; a change in JKHY's strategic relationship with IBM; and operational or security failure.
- Our discounted cash flow analysis (which assumes a weighted average cost of capital of 10.9% and a terminal growth rate of 3%) indicates intrinsic value of about $28. At this level, the shares would trade at a P/E to growth (PEG) ratio of about 1.5X, within the historical range of 1.2X-1.6X, on our $1.29 FY 08 EPS estimate and our long-term earnings growth projection of about 14%. Our 12-month target price is $28.

Qualitative Risk Assessment

LOW | **MEDIUM** | HIGH

Our risk assessment for the company reflects our outlook for continued consolidation within the financial services industry that it serves, which may cause sales disruptions. Our concern is offset by our favorable view of JKHY's rising outsourcing backlog.

Quantitative Evaluations

S&P Quality Ranking A+

D | C | B- | B | B+ | A- | A | **A+**

Relative Strength Rank STRONG

78

LOWEST = 1 HIGHEST = 99

Revenue/Earnings Data

Revenue (Million $)

	1Q	2Q	3Q	4Q	Year
2007	150.6	167.2	168.9	181.3	668.1
2006	137.0	147.4	145.5	162.3	592.2
2005	124.1	136.0	134.4	141.4	535.9
2004	108.9	112.7	119.7	126.0	467.4
2003	93.98	102.6	98.90	109.2	404.6
2002	92.57	98.23	99.78	106.1	396.7

Earnings Per Share ($)

	1Q	2Q	3Q	4Q	Year
2007	0.23	0.30	0.29	0.33	1.14
2006	0.21	0.23	0.25	0.27	0.96
2005	0.18	0.19	0.21	0.23	0.81
2004	0.15	0.16	0.18	0.19	0.68
2003	0.13	0.13	0.14	0.16	0.55
2002	0.16	0.14	0.15	0.17	0.62

Fiscal year ended Jun. 30. Next earnings report expected: Late October. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Dividend Data (Dates: mm/dd Payment Date: mm/dd/yy)

Amount ($)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.055	11/01	11/14	11/16	12/05/06
0.065	02/05	02/15	02/20	03/08/07
0.065	05/14	05/17	05/21	05/31/07
0.065	08/27	09/05	09/07	09/21/07

Dividends have been paid since 1990. Source: Company reports.

Jack Henry & Associates Inc

Business Summary August 30, 2007

CORPORATE OVERVIEW. Founded in 1976 by John W. Henry, Jack Henry & Associates provides integrated computer systems to commercial banks, with under $30 billion of total assets, accounting for 80% of revenue in FY 06 (Jun.), and to credit unions (20% of revenue) and other financial institutions. The company offers a complete, integrated suite of data processing system solutions designed to improve customer management of their entire back office and customer interaction processes. Acquisitions have enabled the company to broaden and supplement its existing product offerings, and expand its addressable market. From fiscal 2002 to 2006, the company purchased 17 companies.

Each of the company's core software systems consists of several fully integrated application modules, such as deposits, loans, general ledger, and the customer information file, a centralized customer data file for all applications. Core applications can be purchased for use in-house or on an outsourced basis. JKHY offers core applications such as Silverlake, used primarily by banks with assets of $500 million to $30 billion; CIF 20/20, used and targeted to de novo banks, up to banks with assets of $1 billion; and Core Director, a Windows server based solution that is also targeted to de novo banks, up to banks with assets of $1 billion. For its credit union customers, JKHY offers core applications such as Episys, used primarily by credit unions with more than $50 million in assets, and Cruise, which is mainly used by credit unions with fewer than $50.0 million in total assets.

To complement its core software applications, JKHY provides a number of complementary products and services, including the Vertex Teller Automation System (an on-line teller automation system); the Streamline Platform Automation (a fully automated new account origination solution); and the 4/sight item image solution (allows customers to create and store digital check images). The company also offers customer relationship management solutions through its Synapsys and ARGOKeys products and a suite of fully integrated Internet products and services that enable financial institutions to offer Internet banking and e-commerce solutions.

MARKET PROFILE. There were approximately 9,000 U.S. commercial and savings banks at December 31, 2005, according to the Federal Deposit Insurance Corporation. However, ongoing consolidation within the banking industry has resulted in a 2% compound annual decline in the population of the industry from calendar 2001 to 2005. Despite the decline, aggregate assets of these banks increased at a compound annual growth rate (CAGR) of 8% from 2001 to 2005. JKHY's target market of banks with assets under $30 billion numbered 8,800 at the end of 2005, down from 8,900 at the end of 2004. There were approximately 9,000 credit unions in the U.S. at the end of 2005, according to the National Credit Union Association, down from 9,200 at the end of 2004. The number of credit unions has declined at a 3% CAGR between 2001 to 2005. Over this period, aggregate assets of credit unions increased at a 9% CAGR, to $694.2 billion from 2001 to 2005.

According to the Automation in Banking 2006 report cited by the company in its FY 06 10-K, U.S. financial institutions increased spending on hardware, software, services and telecommunications to $50.2 billion in calendar 2005, from $40.7 billion in calendar 2001, a 6% CAGR. Spending on technology and telecommunications by U.S. financial institutions rose by 9.5% in 2005 from 2004, an acceleration from historical five-year growth rates.

FINANCIAL TRENDS. Revenue and net income from continuing operations have grown at a 10% CAGR from FY 02 to FY 06. Growth resulted from internal expansion, supplemented by strategic acquisitions, allowing JKHY to develop and acquire new products and services and expand the number of customers using its software and services to more than 8,700 customers at June 30, 2006, up from 6,900 in the prior fiscal year and 2,800 in 2000. Revenue sources in FY 06 were as follows: support & services 72%, hardware sales 14%, and software license fees 14%.

By segment, the company's bank systems and services segment has posted revenue growth in the low double-digit range since FY 04, a trend that we expect to continue in FY 08. Growth for JKHY's credit union systems and services segment slowed to about 2% in FY 06 from about 26% in FY 05 and 39% in FY 04, impacted by a lower volume of large transaction and ongoing consolidation among industry participants.

Corporate Information

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Officers

Chrmn
M.E. Henry

VP & CTO
M. Forbis

Pres
T. Wormington

CFO & Treas
K.D. Williams

CEO
J.F. Prim

Board of Directors
W. A. Brown
C. R. Curry
J. J. Ellis
M. Flanigan
J. D. Hall
M. E. Henry
J. Prim
M. Shepherd

Domicile
Delaware

Founded
1969

Employees
3,583

Stockholders
44,000

Jack Henry & Associates Inc

STANDARD &POOR'S

Quantitative Evaluations

S&P Fair Value Rank 5+

1	2	3	4	5

LOWEST — HIGHEST

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation $29.50

Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that JKHY is slightly undervalued by $1.17 or 4.1%.

Investability Quotient Percentile 97

LOWEST = 1 — HIGHEST = 100

JKHY scored higher than 97% of all companies for which an S&P Report is available.

Volatility LOW | AVERAGE | HIGH

JKHY has had Low price volatility over the past year.

Technical Evaluation BULLISH

Since August, 2007, the technical indicators for JKHY have been BULLISH.

Insider Activity UNFAVORABLE | NEUTRAL | FAVORABLE

Expanded Ratio Analysis

	2007	2006	2005	2004
Price/Sales	3.90	3.39	3.31	3.91
Price/EBITDA	12.44	10.96	12.00	13.82
Price/Pretax Income	16.27	14.33	14.81	18.34
P/E Ratio	24.91	22.32	23.51	29.35
Avg. Diluted Shares Outstg (M)	92.0	93.8	93.0	91.9

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	12.81	12.43	11.74	19.49
Net Income	16.41	18.90	15.43	16.50
Ratio Analysis (Annual Avg.)				
Net Margin (%)	15.67	14.98	14.10	14.87
% LT Debt to Capitalization	Nil	Nil	Nil	0.03
Return on Equity (%)	17.84	16.68	15.89	19.99

Company Financials

Per Share Data ($) Year Ended Jun. 30	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Tangible Book Value	3.19	3.24	2.77	3.94	2.92	2.63	2.26	0.55	1.11	0.77
Cash Flow	1.69	1.43	1.12	1.07	0.89	0.92	0.85	0.58	0.48	0.35
Earnings	1.14	0.96	0.81	0.68	0.55	0.62	0.61	0.41	0.39	0.28
S&P Core Earnings	1.14	0.96	0.80	0.60	0.48	0.52	0.40	NA	NA	NA
Dividends	0.24	0.20	0.17	0.15	0.14	0.13	0.11	0.09	0.08	0.06
Payout Ratio	21%	21%	21%	22%	25%	21%	18%	22%	22%	21%
Prices:High	28.68	23.77	21.96	21.00	22.04	24.49	33.24	33.13	14.13	13.75
Prices:Low	20.57	17.40	15.35	17.17	16.25	7.24	18.56	12.06	6.61	6.19
P/E Ratio:High	25	25	27	31	40	40	54	82	37	49
P/E Ratio:Low	18	18	19	25	30	12	30	30	17	22

Income Statement Analysis (Million $)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Revenue	668	592	536	467	405	397	345	225	184	113
Operating Income	210	183	148	132	107	114	108	66.5	57.3	38.9
Depreciation	51.0	43.8	28.9	33.5	30.2	27.5	21.9	15.5	7.86	5.11
Interest Expense	1.76	1.36	0.39	0.11	0.11	0.19	0.92	1.91	Nil	Nil
Pretax Income	160	140	120	99.7	77.8	88.5	86.9	51.8	51.3	35.4
Effective Tax Rate	34.7%	35.8%	37.0%	37.5%	36.5%	35.5%	36.0%	33.6%	36.7%	37.1%
Net Income	105	89.9	75.5	62.3	49.4	57.1	55.6	34.4	32.5	22.2
S&P Core Earnings	105	89.9	74.5	55.1	42.8	47.7	36.5	NA	NA	NA

Balance Sheet & Other Financial Data (Million $)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Cash	88.6	74.1	11.6	53.8	32.0	17.8	18.6	5.19	3.19	23.3
Current Assets	350	306	260	259	217	180	172	104	79.8	69.1
Total Assets	999	906	814	654	549	486	433	321	175	115
Current Liabilities	330	263	247	173	147	113	107	151	57.7	39.3
Long Term Debt	Nil	Nil	Nil	Nil	Nil	Nil	0.23	0.32	Nil	Nil
Common Equity	598	575	517	443	365	341	303	155	114	73.5
Total Capital	652	623	554	472	389	357	311	160	117	76.0
Capital Expenditures	34.2	45.4	58.0	49.1	46.0	49.5	57.8	32.6	38.8	7.80
Cash Flow	156	134	104	95.9	79.6	84.5	77.5	49.8	40.4	27.3
Current Ratio	1.1	1.2	1.1	1.5	1.5	1.6	1.6	0.7	1.4	1.8
% Long Term Debt of Capitalization	Nil	Nil	Nil	Nil	Nil	Nil	0.1	0.2	Nil	Nil
% Net Income of Revenue	15.7	15.2	14.1	13.3	12.2	14.4	16.1	15.2	17.6	19.6
% Return on Assets	11.0	10.5	10.3	10.4	9.5	12.4	14.8	13.8	21.2	22.5
% Return on Equity	17.8	16.5	15.7	15.4	14.0	17.7	24.3	25.4	33.0	35.2

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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★★★★★ **5-STARS (Strong Buy)**: Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy)**: Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold)**: Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell)**: Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ **1-STARS (Strong Sell)**: Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In the U.S. the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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For residents of Malaysia, all queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng, or Ching Wah Tam.

This investment analysis was prepared from the following sources: S&P MarketScope, S&P Compustat, S&P Industry Reports, I/B/E/S International, Inc.; Standard & Poor's, 55 Water St., New York, NY 10041.

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Jack Henry & Associates JKHY
by Brett Horn

Analyst Note 10-30-2007

Jack Henry JKHY reported solid first-quarter results, and we are maintaining our fair value estimate. Revenue growth was strong at 16% and almost entirely internal. The one negative in the quarter was disappointing license revenue, which decreased 13% because of deal slippage and an ongoing trend toward outsourcing rather than licensing for in-house use. More than offsetting this decline was strong service and support revenue, which was up 20%. The operating margin fell from 22% to 20% year over year because of the decline in higher-margin license sales. While a shift away from license sales has hurt margins in the near term, in our opinion, growth in the service and support segment will be a bigger driver of long-term value. Service and support revenue is stable and recurring, while license sales, although highly profitable, are one-time and somewhat lumpy.

Thesis 09-06-2007

Jack Henry & Associates provides core processing services for banks, the nuts and bolts systems needed to maintain deposit and loan accounts and post-daily transactions. Banks are very reluctant to switch their core processing provider, creating a wide economic moat for the company's business. This protects Jack Henry's enviable returns on invested capital, which have averaged almost 20% during the last five years, well above its cost of capital.

Given the integral nature of core processing to their operations, banks rarely switch their systems. Beyond the potential for interruptions to basic day-to-day operations, converting to a new system requires banks to retrain employees. Customers typically sign five- to seven-year contracts with Jack Henry, and attrition is very low--only about 3% annually--with the bulk of customer losses the result of customers being acquired by another bank.

Jack Henry has three sources of revenue. The first is license revenue, which accounts for only 14% of sales, but 32% of gross profit. The majority of the costs associated with software applications are associated with initial development, and license revenue drops almost completely to the bottom line. However, license revenue historically has been somewhat erratic because of its one-time nature. Margins in the service and support segment, which accounts for 72% of revenue and 60% of gross profit, are much lower but still healthy, and the revenue from this part of the business is recurring and very stable because of low customer attrition. Additionally, there is a general upward trend to margins in this segment based on the scalability of the business. Finally, Jack Henry also purchases and resells the hardware necessary to run its systems, but declining hardware prices are making this a less important part of the business.

While substantial switching costs mean Jack Henry rarely loses customers, it also makes it difficult to take business from competitors and increase the top line. To combat this, Jack Henry leverages its core processing relationships with its existing customer base to cross-sell ancillary products, such as Internet banking and electronic funds transfer. Through its acquisitions and internal development, Jack Henry has developed an essentially complete portfolio of products to address banks' needs. Further, its focus on small banks, which are more likely to use only one technology provider, leaves it well-positioned.

Consolidation in the banking industry may create a more difficult growth environment for Jack Henry, but this trend has been in place for the last decade. Jack Henry has been able to grow despite bank consolidation by tying prices to customer banks' size, so its growth is more closely related to total industry asset growth, rather than the number of banks.

Valuation

Our fair value estimate for Jack Henry is $25 per share. We project 11% compound annual revenue growth during the next five years, with 2% of this growth coming from acquisitions. We expect the service and support segment to drive most of the growth, and project only modest growth in the license segment and declining revenue in the hardware segment. We forecast operating margins to increase from 24% to 25% by fiscal 2012, with improving margins in the service and support segment based on the scalability of the business partially offset by slower growth in the higher-margin license segment and continuing margin declines in the hardware segment. If margins stayed flat at the fiscal 2007 level, our fair value estimate would fall to $23 per share.

Risk

A security breach in Jack Henry's systems or any prolonged interruption at its outsourcing facilities could damage the company's credibility with its customers. Overpaying for acquisitions or failing to integrate acquired companies could destroy shareholder wealth and distract management.

Close Competitors	TTM Sales $Mil	Market Cap $Mil
Jack Henry & Associates	**668**	**2,412**
* Fiserv	4,789	8,565
* Fidelity National Information Services	4,510	8,066
* Marshall & Ilsley	3,622	7,768

Data as of 06-30-07

Strategy

Jack Henry tries to drive revenue growth by cross-selling ancillary products and services to its core processing customers. Additionally, management looks for small acquisitions that will give the company access to new customers or new products to sell to its existing customer base. It has completed 15 acquisitions in the last three years.

Management & Stewardship

Stewardship at Jack Henry is good on the whole. The company was founded by Jack Henry and Jerry Hall in 1976. Hall maintains a seat on the board, and Jack's son, Michael, is chairman. The management team is very stable; the top five executives have been with Jack Henry for 18 years on average. The Henry family and Hall continue to hold significant ownership stakes, and total management and director holdings are substantial at 14% of outstanding shares. Jack Prim was promoted to CEO in 2004, the first time someone outside the Henry family has held the position. Management's pay is very reasonable, with Prim earning total compensation of only $456,000 in fiscal 2006. Although we don't like that management's bonuses are tied to earnings per share, a number that is easily manipulated, the fact that management hasn't received bonuses in the last three years suggests it is playing fair. We'd like to see more banking industry experience on the board. Of the seven directors, only two have direct banking experience.

Profile

Jack Henry provides core processing services for banks and credit unions on an in-house or outsourced basis. In addition, Jack Henry leverages its core processing relationships to sell customer service, sales management, business banking, Internet banking, electronic funds transfer, asset management, and document imaging products. The company also purchases and resells the hardware necessary to run its systems.

Growth

Jack Henry has achieved solid revenue growth, with a 13% compound annual rate during the last three years. A significant portion of this growth has come from acquisitions, but we estimate that organic growth has been respectable in the high single digits range.

Profitability

Jack Henry improved its operating margins from 19% in fiscal 2003 to 24% in fiscal 2007, driven primarily by higher margins in its service and support segment based on the scalability of the business.

Financial Health

Jack Henry's balance sheet is very healthy. Although the company added a small amount of debt to finance acquisitions in 2005, it has paid the debt off with free cash flow.

Foolish Forecast: Hail, Jack Henry

http://www.fool.com/investing/general/2007/08/17/foolish-forecast-hail-jack-henry.aspx

Rich Smith
August 17, 2007

All fiscal year long, **Jack Henry & Associates** (Nasdaq: JKHY) has put Wall Street's finest to shame, beating every consensus earnings estimate the Street could throw at it. But can the financial data-cruncher end its year with a bang? We'll find out when Jack Henry reports its fiscal Q4 and full-year 2007 earnings Tuesday afternoon.

What analysts say:

- **Buy, sell, or waffle?** Nine analysts follow Jack Henry. Twice as many rate it a hold as do a buy.
- **Revenues.** On average, they're looking for 10% sales growth to $178.6 million.
- **Earnings.** Profits are predicted to rise 18% to $0.32 per share.

What management says:
CEO Jack Prim pronounced himself "very pleased" with last quarter's revenue and earnings growth. (Investors, it seems, have been less enthusiastic -- the stock trades today for nearly the same price it did just prior to last quarter's earnings report.) Although Jack Henry didn't bring in as much licensing revenue as it had been expecting, Prim noted that "increases in support and service revenue more than offset any shortfall," and that "our business continues to be less dependent on license fees to drive revenue growth while still providing upside opportunities when larger license transactions do occur in a particular quarter."

All true, of course, but it does seem to skip over one important fact: Jack Henry makes better margins on licensing than it does on support and service. As a result, while support and service may have made up the potential revenue shortfall, profits did not grow quite as fast as did sales last quarter (12% vs. 16%.)

What management does:
Now, this was just a single quarter's relative performance, and so pretty insignificant in the larger scheme of things (like, for example, the year-to-date performance, where we've watched profits rise *faster* than sales). Still, it's worth pointing out, if only to explain why Jack Henry's gross and net margins got dinged last quarter. Bigger picture, you should probably focus on the trend toward generally stable-to-rising margins, and the fact that Jack Henry earns better margins on its revenue than do competitors **Online Resources** (Nasdaq: ORCC) and **CheckFree** (Nasdaq: CKFR), which is soon to be acquired by yet a third competitor, **Fiserv** (Nasdaq: FISV).

Margins	12/05	3/06	6/06	9/06	12/06	3/07
Gross	42.7%	43.0%	43.3%	43.4%	43.3%	42.9%
Operating	23.1%	23.3%	23.5%	23.4%	23.5%	23.6%
Net	14.7%	15.1%	15.2%	15.2%	15.7%	15.6%

All data courtesy of Capital IQ, a division of Standard & Poor's. Data reflects trailing-12-month performance for the quarters ended in the named months.

One Fool says:
Once upon a time, I devoted a good portion of my research efforts to Jack Henry and the other companies in its industry niche. Problem is, the industry has shrunk so much, and so quickly, that there are precious few companies left to research here. And what competitors *do* remain are in large part now larger operations, which have incorporated the niche players into their network of subsidiaries -- like **Intuit** (Nasdaq: INTU), which bought Digital Insight, or CheckFree, which bought Corillian before being bought in turn by Fiserv, and so on. Today, the only really independent players (of which I'm aware) are Online Resources, **S1** (Nasdaq: SONE) and Jack Henry.

Still, in the little time I was afforded to get to know this industry, I managed to learn that there are a few key differences that make one company better than another. Margins, of course. Growth, naturally. But two statistics are most important of all: licensing revenue, which brings with it higher margins, and recurring revenue. The best firms in this industry, such as Digital Insight once was, were able to boast 90%-plus retention rates on their clients -- rates sufficient to make growth and value investors alike drool.

So rather than worry on Tuesday about how well Jack Henry performed last quarter with regard to earnings or sales, I'd suggest you focus instead on CFO Kevin Williams' comments regarding how much of the firm's support and services revenue was "recurring." (Hint: At last report, it was on the rise.) And of course, how the licensing arm of the business did. In the long term, these are the statistics to watch.

Fool contributor Rich Smith does not own shares of any company named above. The Motley Fool has a disclosure policy.

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Guru Screen

Five Techs For The Market's Best

John Reese, Validea Hot List 09.20.07, 12:50 PM ET

[This is only a partial piece of this article. To read the entire article, go to www.forbes.com and search on JKHY).

[snip]

Jack Henry & Associates**:** This Missouri-based company provides a variety of computer systems that more than 8,700 banks and other financial institutions use to process transactions, automate business processes and manage information. In addition to banks and corporations, Jack Henry's products are used by more than 630 credit unions, including 30 with assets exceeding $1 billion. Its market cap is $2.44 billion.

While building his investment empire, the great Warren Buffett usually shied away from tech stocks, in part because they typically didn't exhibit the type of steady, predictable earnings he favors. Jack Henry, however, is one tech firm that has established a strong, lengthy track record, so much so it gets approval from the strategy I base on Buffett's approach--one of my most fundamentally stringent models.

To get approval from this method, a company must have posted a decade's worth of steady EPS growth. Over the past 10 years, Jack Henry's earnings have increased in every year but one, rising from 29 cents to $1.14 during that time. That's good enough to pass my Buffett-based model's earnings predictability test.

Like Lynch, Buffett favors conservatively financed companies. The model I base on his approach requires a firm to generate enough annual earnings that it could, if it needed to, pay off all of its long-term debt within two years. Jack Henry doesn't need two years to pay off its debt--in fact, it doesn't even need two days. The company has no long-term debt, easily passing this test.

Another criterion dictated bu Buffett is strong management. One way he measures this is by looking at return on equity, which measures how much profit a firm makes using its shareholders' money. The model I base on Buffett's approach likes firms to have posted an average ROE of at least 15 percent over both the past decade and the past three years. The return on equity also must have been consistent, exceeding 10 percent in each year of the past decade, with the possible exception of the most recent fiscal year.

Over the past 10 years, Jack Henry has posted an average ROE of 18.4 percent, and over the past three years that figure has been 15.5 percent. In addition, its ROE has been at least 13.4 percent in each year for the past decade. Management appears to be doing a good job steering the company, passing all of these ROE-based tests.

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A Tale of 2 Jacks

http://www.fool.com/investing/general/2007/08/23/a-tale-of-two-jacks.aspx

Rich Smith
August 23, 2007

Previewing **Jack Henry & Associates**' (Nasdaq: JKHY) fiscal 2007 earnings report last week, I promised to focus on two indicators that I've found to be key to the fortunes of firms in the online payments business: (1) licensing revenue, and (2) recurring revenue. We'll check those two out in a moment. But first, an overview of the fiscal year:

- Revenue for the year came to $668 million, up 13% from fiscal 2006.
- Profits per share amounted to $1.14, a 19% improvement.
- Free cash flow proved the laggard metric, rising just 10% to $119.3 million.
- Free cash flow did, however, exceed net income reported under GAAP, which came to just $104.7 million.

Now, on to the (even more) important numbers.

Licensing
Licensing revenues declined 9% in comparison to fiscal 2006, composing just 11% of total revenues, as opposed to last year's 14%. CEO Jack Prim painted this trend in a positive light, reassuring investors that "the increase in support and services and hardware revenue continued to offset any shortfall" in licensing. Still, let me illustrate how important getting a high proportion of revenue from licensing is to Jack Henry's business. In fiscal 2007:

- Licensing revenues brought with them a 94% gross margin. That's down from 97% last year, but still exceedingly lucrative.
- In contrast, support and services revenue grossed just 38%, up from last year's 36%.
- Hardware sales grossed a mere 26%, down from last year's 27%.

So you see, it's a matter of quality, not quantity. Prim's assertion that higher support and services revenue can truly "offset any shortfall" in licensing is a bit disingenuous. "Mitigate," yes. "Offset," no.

Now, I don't want to overdramatize this point. Jack Henry's monster 23.7% operating margin still handily beats those of rivals like **Online Resources** (Nasdaq: ORCC), **CheckFree** (Nasdaq: CKFR), and **Fiserv** (Nasdaq: FISV). Still, had Jack Henry managed to bring in a higher proportion of high-margin licensing revenues, I expect it would have widened that lead even more.

Recurring revenues
The second factor I suggested you keep an eye out for -- the rate at which Jack Henry's clients renewed their contracts -- went missing. Unlike last quarter, when CFO Kevin Williams made a point of highlighting the firm's 90%-plus retention rate, he kept mum this quarter. Make of that omission what you will.

Related Foolishness:

- CheckFree No More

- This Just In: Upgrades and Downgrades

Fool contributor Rich Smith does not own shares of any company named above. The Motley Fool has a disclosure policy.

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