

Jack Henry CEO Interview #2

**Highest Return on Invested Capital in
Study of 427 Software Firms:
500% from 1995 to 2005.
300% from 2012 to 2021**

Profitable 46 years in a row – 1976 to 2022

22% avg Net Profit 1995 to 2005

**27% Revenue Growth from 1995 to 2005
including significant acquisitions**

Earnings Averaged 14% during the “Tech Bust”, 2001 to 2006

\$14 billion Market Value on \$876 million invested capital in 2021

Almost No Price Competition

**Found the Right Strategy: *Hyper-Narrow Focus* + *Highest Possible Customer Application Value* = *Best Barrier to Competition*.
*Far superior to a technology / product leadership strategy***

Excellent Transition to SaaS / Subscription / Recurring Revenue Model Billing

**Found The Right Mix Of Software And Services...
Saying “No” to Big Customers
Saying “No” to Overpriced Acquisitions**

By Tom Ingram, PMP, CMC(e)

On Jan 10, 2023, Jack Prim, former CEO, discussed his 27 years with Jack Henry Software. This was the second interview that Jack was kind enough to provide.

[Link to video interview Jan 10 2023](#)

[Link to original success story from 2004](#)

Here are Key Discussion Points from the January 10, 2023 Call

Jack Prim’s Background, What Shaped His Views:

- Started in Sales -> helped -> Great – face to face with customers is an essential experience
 - o Always Selling
 - o With Burroughs. Found that Burroughs, NCR, Univac salespeople were “scrappier” than IBM salespeople

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- With a Jack Henry Competitor -> also selling to Community Banks
 - o Unfocused
 - o Too many niches / chasing tail
 - Community Banks
 - Big Banks
- **How He Learned the Focus Imperative:**
Went to work for Jack Henry > saw a Stark Difference > Narrow Focus > selling Core Accounting to Community Banks ONLY
 - o Next Niches: Core Accounting for Credit Unions
- Some Key Jack Henry Culture Items That Mattered:
 - o "Do Right Thing, Every Day"
 - o Saw the ENORMOUS PAIN for customer of a Core System change
 - DID SOMETHING ABOUT IT
 - Big part of their whole product solution
- **FOCUS: Limiting the Universe of Prospects to Less Than 500.**
 - o 2,500-3,000 Community Banks in U.S.
 - o Only 2-3% per year bought new
 - o Total Market: Only 75-90 sales of Core System per year
 - o FOCUSED ALL THEIR ENERGY ON THOSE PROSPECTS
- **Eventually added an "Entre Product"** – Electronic Documents – made it easier to get in the door.
- **How Jack Henry Got Started:**
 - o In the '70's, hardware prices were coming down
 - o Software was immature
 - o Jack Henry (the man) acquired some software, rewrote it, built customer base
 - o The market quickly grew to 50 competitors in the 80's & 90's
- Today:
 - o 3 competitors have 80% of the market for core systems for banks (Jack Henry, Fiserv, Fidelity)
 - o 10 other competitors exist – some are marginal
 - o IMPORTANT LESSON IN MATURATION AND CONSOLIDATION OF APPLICATION SOFTWARE SEGMENT (emphasis from Tom)

Top Success Attributes for Jack Henry in producing **SUPERIOR LONG TERM RETURNS and DURABLE BARRIERS TO COMPETITION:**

- Laser-like focus
- No dumb acquisitions
- Resisting Debt / Leverage
- Do Right Thing
- Customer loyalty -> Never seen as strong anywhere else

Next Recession – Jack Henry will really shine due to:

- Debt Free balance sheet
- No dumb acquisitions

Fiserv: A Major Competitor's Strategy Worked for a While:

- Acquire everything in sight
- Leave them alone if making the numbers
- Resulted in Internal competition. Sometimes three Fiserv units competing for the same business

Strategy Evolution: Eventually became

- "1 Product for Bank Market"
- "1 Product for Credit Union Product"

Did Not Do: What He Was Pitched – Hard – and Did Not Do

- Overpriced Acquisitions
 - o Insisted acquisition contribute to margins in 12 months or would not do. Would not accept dilution of margins beyond 12 months (a few exceptions)
 - o Used Discounted Cash Flow analysis
- Some Exceptions: Asked "What business will we lose if we don't invest?"
 - o e.g. Acquired a better internet banking system because essential to keep customers. Company was in Cedar Falls, IA with 35 people. 350 people today, spectacular product, the market leader in Digital Banking (Modern, Mobile, Internet Banking)
- **ROIC -> Return on Invested Capital > Best Ratio for quick evaluation (may be a Tom comment)**

Annual Strategy Board Meeting in January

- Dedicated to strategy – really enjoyed
- Inevitably – a board member would say "Why not offer our Core Capability to Hospitals?"

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- Jack P had to say No -> every 2-3 years
 - Great Board -> was not a real problem

The Transition to SaaS, Recurring Revenue Pricing

- Early on, saw a segment of customers wanting “cloud-like” benefit of not dealing with the hardware
- In early 2000s Jack Prim sold the board on creating a “private cloud” offering where Jack Henry owned the hardware and customer ran the exact same software as an on premise solution.
 - Lots of resistance internally
- By 2003-04 saw license sales go down -> Jack Henry was ahead, well down the cloud adoption curve
- “Its not that hard. It is the same application software – someone else owns the computer.”
- Today: Nobody wants on-premise.
 - Jack Henry sold 48 cloud based systems last year
 - Sold 1 or 2 on premise
- Jack Henry did very well with SaaS / Recurring Revenue model. Competitive Advantage instead of really hurt by it – as happened to some competitors
- Big Benefit: If the sales organization completely fails, falls apart – Jack Henry still knows where its next 12 months of revenue is coming from – has time to react
 - Very different than the feast or famine of license sales
- Example of Struggling Competitor – Slow to Transition: Temenos – International competitor – stock down 60% in last 3 years because still selling license software.
- How Fund Investments Needed under SaaS recurring revenue model (Group discussion)
 - R&D Investment needed in SAAS software
 - Capitalizing VS Expensing Software
 - FASB Rules changed during the period resulting in **Restatement** > spreading revenue over many years. One of Jack Prim’s top 3 worst experiences
- **TOM NOTE: I ADMIRE JACK PRIM’S MODESTY BUT THIS SUCCESS IS NOT LUCK.** Jack Henry had:
 - Leadership spotting new customer needs / trends

- The desire for continuous improvement
 - willing to try
- Ability to say “NO” to all the distractions, nonsense and pitches
- Ability to say “YES” to this good initiative
- The MARGINS to try without betting the company

Regarding EDS as a Competitor

- Tried to do Community Banking (software called Peerless)
- Could not get traction / critical mass – moved attention elsewhere
- Sold the software and customer base to Jack Henry

On IBM -> Good News / Bad News

- Provided GREAT Hardware platform to grow on over several decades: System 34, 36, as400 iseries
- When customer ready to buy IBM hardware, IBM brought in 3 application software providers
 - Tough to compete

On Burroughs / Unisys:

- APPLICATION SOFTWARE VERY STRONG – ONLY WAY COULD WIN vs IBM
- e.g. ITI Software, Lincoln Nebraska: Very strong Application software. ALWAYS WON with great Applications
- APPLICATION SOFTWARE SO GOOD – Burroughs was able to win even though had some questionable hardware installs
- Eventually sold out to Fiserv

Post-Call Follow up Discussion with Jack Prim and Tom 1/12/23

- The Volume Issue: How big is big enough to fund what needed, get to return needed. A big question – all his career.
- Focus issue: Everybody thinks they are focused. Hard to hire people with right focus.

Hiring Is Hard:

- e.g. Hired ex-IBM guy. Big ego, big company results and history. Could not adjust to small company / no ego / no politics at Jack Henry. Had to fire him.

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Application Software Value

- Selling hosted customers
 - o Straight forward cost saving to move on premise

Tyler Technologies: Well known – another Winner in Tom’s studies. Possibly claiming to be the “Jack Henry of government software.” (Might be a rumor)

====Additional Success Story Details=====

- **Strong, Consistent Profit over 25 Years = Sustained High Market Value**
- **Transitioned to 90% Recurring Revenue by 2021 (SaaS subscription based software) while maintaining profits**
- **Strategy based on High Value for Customer as sustainable competitive advantage**
- **Software Sells Services. Service margins higher after transition to recurring revenue**
- **Sustained focus on customer excellence**
- **Sells for highest price among competitors, occasionally loses on price, happy about it**
- Software/Services Mix: 56% services in 2005.
- SG&A 11% of revenues in 2020
- **Not distracted by stock price, quarterly earnings, cash-out dream**
- **Stopped selling to IT dept – sold to line executives with a significant problem and a budget**

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