

Third Quarter Highlights and Financial Results

Fiscal 2024

PAYCHEX[®]

HR | Payroll | Benefits | Insurance

Forward Looking Statements

You should be aware that certain written and oral statements made by management may constitute “forward-looking statements” within the meaning of the safe-harbor provisions of the United States (“U.S.”) Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict, many of which are outside our control. Our actual results and financial conditions may differ materially from those indicated in the forward-looking statements. Therefore, you should not place undue reliance upon any of these forward-looking statements. The information provided in this document is based upon the facts and circumstances known at this time, and any forward-looking statement made in this document speaks only as of the date on which it was made. Except as required by law, we undertake no obligation to update these forward-looking statements after the date of issuance of this document to reflect events or circumstances after such date, or to reflect the occurrence of unanticipated events.

Paychex Overview

An industry-leading human capital management (“HCM”) company delivering a full suite of technology and advisory services in human resources, employee benefit solutions, insurance and payroll for small- to medium-sized businesses.

- Comprehensive technology-driven HCM solutions company
- Leading-edge technology platform backed by HR and compliance expertise
- Industry leader in comprehensive HR outsourcing solutions with approximately 2.2M worksite employees⁽¹⁾
- ~740,000 clients⁽¹⁾
- Strong financial position

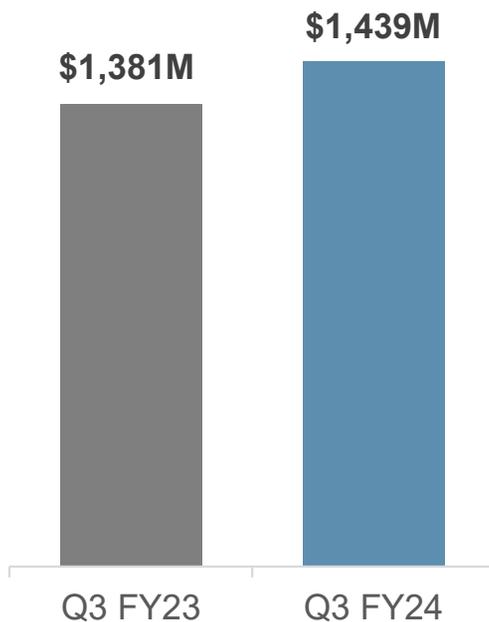
(1) As of May 31, 2023

Third Quarter Highlights

Third Quarter Financial Highlights

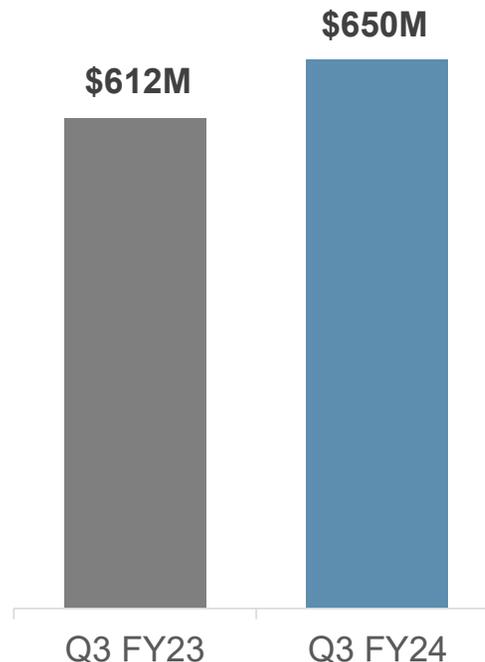
Total Revenue

↑ 4%



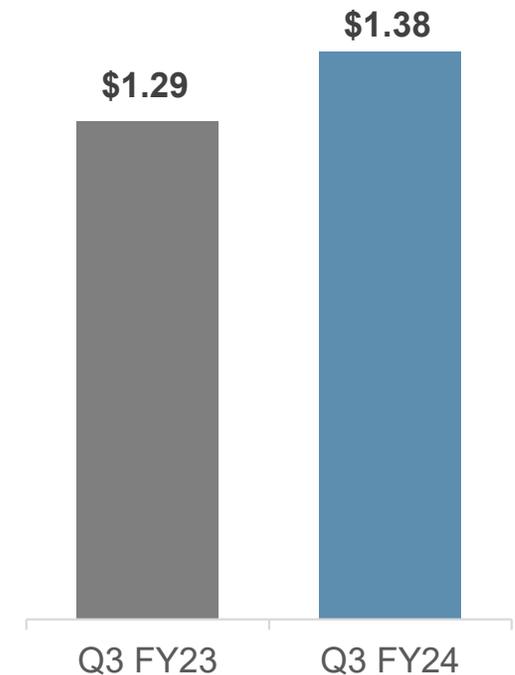
Operating Income

↑ 6%



Adjusted Diluted EPS⁽¹⁾

↑ 7%

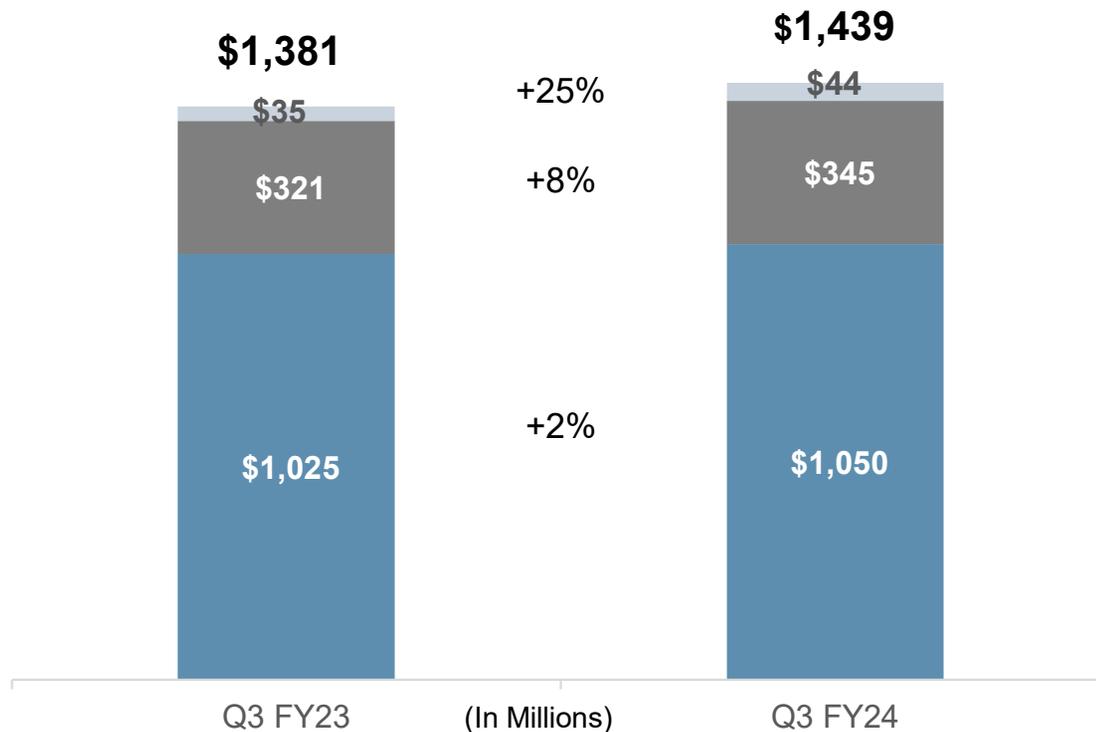


(1) Adjusted diluted earnings per share ("EPS") is not a U.S. generally accepted accounting principles ("GAAP") measure. Refer to slide 16 for a reconciliation to the corresponding GAAP measure.

Third Quarter Revenue

Total Revenue

↑ 4%



Key Drivers

Management Solutions

- Growth in the number of clients served across our suite of HCM solutions
- Higher product penetration, including HR Solutions and Retirement
- A decline in revenue from ancillary services, primarily due to the winding down of our ERTC service, which impacted growth by approximately 300bps

PEO(1) & Insurance Solutions

- Growth in the number of average PEO worksite employees
- Increase in PEO insurance revenues

Interest on Funds Held for Clients

- Higher average interest rates

(1) Professional Employer Organization ("PEO")

Third Quarter Business Highlights

Sustained financial performance

- Revenue growth of 4% and adjusted diluted EPS⁽¹⁾ growth of 7%
- Excluding ERTC revenue, revenue growth accelerated in Q3 to 7%
- Operating margin expansion of 80 basis points year-over-year to 45.1%
- PEO momentum continues with strong results in sales, retention, and enrollment

Solid execution across key operational metrics

- New client volumes and retention in-line with expectations
- Revenue retention remains above pre-pandemic levels and near record levels
- HR outsourcing worksite employee retention remains at record levels
- Product penetration continues to increase across our suite of HCM solutions

Positioned for growth in fiscal 2024 and beyond

- Leading SaaS HCM platform with comprehensive, integrated suite of solutions from hire to retire. Paychex Flex[®] is consistently rated as a leader in the industry by independent analysts
- Investing in the business to drive sustainable, profitable growth with targeted investments in AI, digital, product and technology
- Leveraging vast data assets and accelerating AI investments to improve efficiency, enhance customer experience and provide our clients insights to help them succeed
- Long-standing reputation for stability among customers, employees, and investors. Balancing long-term investments with near-term cost discipline to navigate through uncertainty

Paid \$320M of dividends to shareholders during the quarter

Product & Technology Horizon

Innovation to meet our customers' evolving business needs



Recent Awards and Recognition

Paychex was recognized for its innovative technology and market leadership



FORTUNE® Magazine 2024 America's Most Innovative Companies

Paychex was recognized for a second consecutive year for its innovative technology and corporate culture



Ethisphere Worlds' Most Ethical Companies

Paychex recognized for the 16th time, and the 13th consecutive year



2024 G2 Best Software Award

Paychex was recognized for having one of the best HR software products for 2024

Additional Awards:

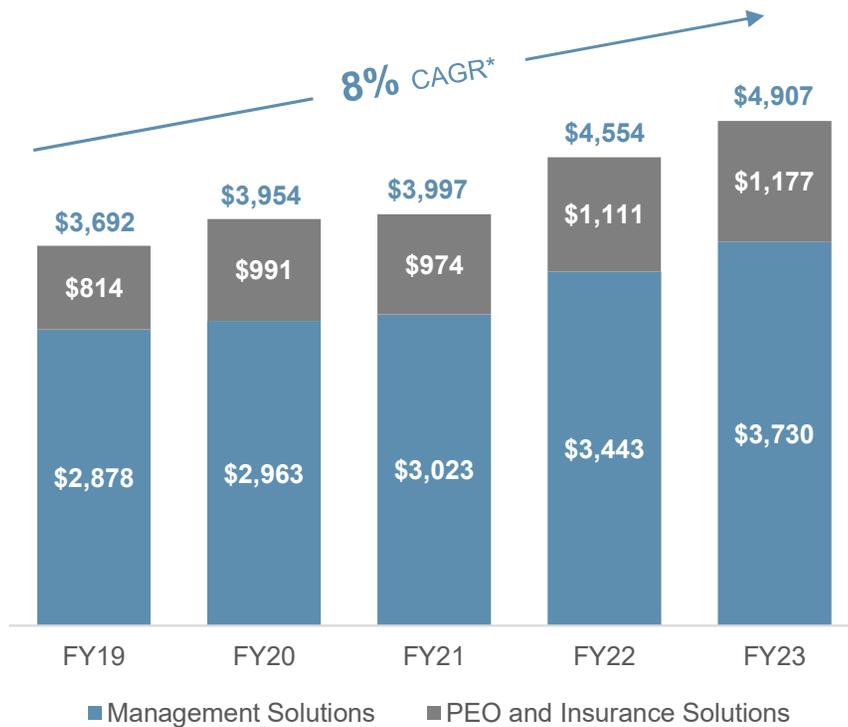


Sustained Financial Performance

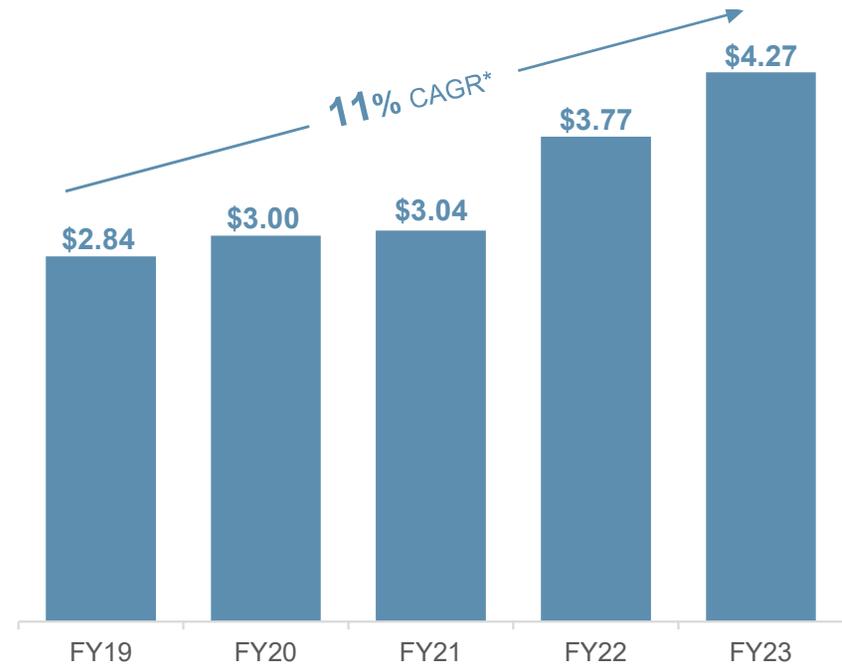
(in uncertain times)

(In Millions, Except Per Share Amounts)

Total Service Revenue



Adjusted Diluted EPS⁽¹⁾



* 5-Year CAGR

(1) Adjusted diluted EPS is a non-GAAP measure, which excludes the impact of certain discrete tax and one-time items. Refer to our Annual Report on Form 10-K for discussion of these measures and a reconciliation to the corresponding GAAP measures.

Fiscal 2024 Outlook

Fiscal Year 2024 Outlook

| | April 2, 2024 Year-over-Year Growth | December 21, 2023 Year-over-Year Growth | September 27, 2023 Year-over-Year Growth | June 29, 2023 Year-over-Year Growth |
|---|--|--|---|--|
| Management Solutions Revenue | 3.5% - 4.0% | 5% - 6% | 5% - 6% | 5% - 6% |
| PEO & Insurance Solutions Revenue | 7% - 9% | 7% - 9% | 6% - 9% | 6% - 9% |
| Total Revenue | 5% - 6% | 6% - 7% | 6% - 7% | 6% - 7% |
| Adjusted Diluted EPS ⁽¹⁾ | 10% - 11% | 10% - 11% | 9% - 11% | 9% - 10% |
| | Anticipated Result | Anticipated Result | Anticipated Result | Anticipated Result |
| Interest on Funds Held for Clients | \$140M - \$150M | \$140M - \$150M | \$140M - \$150M | \$135M - \$145M |
| Operating Income, as a Percent of Total Revenue | 41% - 42% | 41% - 42% | 41% - 42% | 41% - 42% |
| Other Income, net | \$40M - \$45M | \$35M - \$40M | \$30M - \$35M | \$30M - \$35M |
| Effective Income Tax Rate | 24% - 25% | 24% - 25% | 24% - 25% | 24% - 25% |

(1) Adjusted diluted EPS is a non-GAAP financial measure. Refer to our discussion of non-GAAP financial measures in our third quarter fiscal 2024 earnings press release.

Financial Results

Financial Results

For the Three and Nine Months ended February 29, 2024

| (In millions, except per share amounts) | Three Months Ended February 29, 2024 | % Change | Nine Months Ended February 29, 2024 | % Change |
|---|---|---------------------------|--|---------------------------|
| Management Solutions | \$ 1,049.9 | 2% | \$ 2,936.1 | 4% |
| PEO and Insurance Solutions | \$ 345.5 | 8% | \$ 939.0 | 7% |
| Total Service Revenue | \$ 1,395.4 | 4% | \$ 3,875.1 | 5% |
| Interest on Funds Held for Clients | \$ 43.9 | 25% | 108.1 | 44% |
| Total Revenue | \$ 1,439.3 | 4% | \$ 3,983.2 | 5% |
| Operating Income | \$ 649.8 | 6% | \$ 1,692.3 | 7% |
| Net Income | \$ 498.6 | 7% | \$ 1,310.5 | 9% |
| Diluted EPS | \$ 1.38 | 7% | \$ 3.62 | 9% |
| Non-GAAP Measures:⁽¹⁾ | | | | |
| EBITDA | \$ 694.6 | 6% | \$ 1,823.8 | 6% |
| Adjusted Net Income | \$ 498.3 | 7% | \$ 1,305.0 | 9% |
| Adjusted Diluted EPS | \$ 1.38 | 7% | \$ 3.60 | 9% |

(1) Refer to a reconciliation of non-GAAP financial measures to the related GAAP financial measures on slide 16.

Balance Sheets and Cash Flows

(\$ in Millions)

- Strong liquidity position with no net debt
- \$800M of private placement, fixed-rate long-term debt issued in 2019 to fund Oasis acquisition
- Return on equity of 47%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

| (In millions) | <u>February 29, 2024</u> | <u>May 31, 2023</u> |
|---|--------------------------|--------------------------|
| Cash, Restricted Cash, & Total Corporate Investments | \$ 1,772.8 | \$ 1,649.0 |
| Total Debt, Net of Debt Issuance Costs ⁽¹⁾ | \$ 817.3 | \$ 808.4 |
| Return on Equity | 47% | 48% |
| Fiscal Year-to-Date Period Ended: | <u>February 29, 2024</u> | <u>February 28, 2023</u> |
| Operating Cash Flow ⁽²⁾ | \$ 1,676.0 | \$ 1,288.8 |
| Free Cash Flow ⁽²⁾ | \$ 1,321.8 | \$ 1,175.9 |
| Dividends Paid | \$ 962.5 | \$ 854.1 |
| Dividend Coverage Ratio ⁽³⁾ | 1.4x | 1.4x |

(1) Excludes operating lease liabilities of \$72.2M and \$77.6M as of February 29, 2024 and May 31, 2023, respectively

(2) The consolidated statement of cash flows for the nine months ended February 28, 2023 includes a revision to previously reported amounts related to the presentation of the cash flows associated with the short-term receivables purchased from the Company's clients under non-recourse arrangements. The revision decreased net cash provided by operating activities and increased net cash provided by investing activities by \$1.3 million each.

(3) Dividend coverage ratio is calculated as free cash flow divided by dividends paid.

Non-GAAP Financial Measures

For the Three and Nine Months ended February 29, 2024

(In millions, except per share amounts)

| | Three Months Ended | | | Nine Months Ended | | |
|--|----------------------|----------------------|-------------|----------------------|----------------------|-------------|
| | February 29, 2024 | February 28, 2023 | % Change | February 29, 2024 | February 28, 2023 | % Change |
| Net Income | \$ 498.6 | \$ 467.4 | 7% | \$ 1,310.5 | \$ 1,206.9 | 9% |
| Non-GAAP Adjustments: | | | | | | |
| Excess Tax Benefit Related to Employee Stock-Based Compensation Payments ⁽¹⁾ | (0.3) | (0.7) | | (5.5) | (8.9) | |
| Adjusted Net Income⁽²⁾ | <u>\$ 498.3</u> | <u>\$ 466.7</u> | 7% | <u>\$ 1,305.0</u> | <u>\$ 1,198.0</u> | 9% |
| Diluted EPS | \$ 1.38 | \$ 1.29 | 7% | \$ 3.62 | \$ 3.33 | 9% |
| Non-GAAP Adjustments: | | | | | | |
| Excess Tax Benefit Related to Employee Stock-Based Compensation Payments ⁽¹⁾ | - | - | | (0.02) | (0.02) | |
| Adjusted Diluted EPS⁽²⁾ | <u>\$ 1.38</u> | <u>\$ 1.29</u> | 7% | <u>\$ 3.60</u> | <u>\$ 3.31</u> | 9% |
| Net Income | \$ 498.6 | \$ 467.4 | 7% | \$ 1,310.5 | \$ 1,206.9 | 9% |
| Non-GAAP Adjustments: | | | | | | |
| Interest income, net | (9.4) | (5.8) | | (33.3) | (3.0) | |
| Income Taxes | 160.6 | 150.0 | | 415.7 | 377.7 | |
| Depreciation and Amortization Expense | 44.8 | 44.2 | | 130.9 | 132.5 | |
| Total Non-GAAP Adjustments | <u>196.0</u> | <u>188.4</u> | | <u>513.3</u> | <u>507.2</u> | |
| EBITDA⁽²⁾ | <u>\$ 694.6</u> | <u>\$ 655.8</u> | 6% | <u>\$ 1,823.8</u> | <u>\$ 1,714.1</u> | 6% |

(1) Net tax windfall benefits related to employee stock-based compensation payments recognized in income taxes. This item is subject to volatility and will vary based on employee decisions on exercising employee stock options and fluctuations in our stock price, neither of which is within the control of management.

(2) Adjusted net income, adjusted diluted EPS, and EBITDA are non-GAAP financial measures. Refer to our third quarter fiscal 2024 press release for further discussion.

Investment Portfolio Results

| (\$ in millions) | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------------|----------------------|-------------|----------------------|----------------------|-------------|
| | February 29, 2024 | February 28, 2023 | % Change | February 29, 2024 | February 28, 2023 | % Change |
| Average Investment Balances: | | | | | | |
| Funds Held For Clients | \$ 4,975.7 | \$ 4,935.7 | 1% | \$ 4,389.6 | \$ 4,355.5 | 1% |
| Corporate Cash Equivalents and Investments | \$ 1,526.8 | \$ 1,508.0 | 1% | \$ 1,591.3 | \$ 1,411.3 | 13% |
| Average Rate of Return Earned: | | | | | | |
| Funds Held For Clients | 3.5% | 2.9% | | 3.3% | 2.3% | |
| Corporate Cash Equivalents and Investments | 5.1% | 3.9% | | 5.1% | 2.9% | |
| Realized Gain/(Loss), Net | \$ 0.0 | \$ 0.0 | | \$ (0.0) | \$ 0.1 | |
| <u>End of Period:</u> | February 29, 2024 | | | May 31, 2023 | | |
| Unrealized Loss, Net | \$161.9 | | | \$175.3 | | |

- Average invested balances for funds held for clients increased for the three-month period primarily due to wage inflation.

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The Power of Simplicity