

# Second Quarter Highlights and Financial Results

Fiscal 2024



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
- Leader in comprehensive HR outsourcing solutions with approximately 2.2M worksite employees<sup>(1)</sup>
- ~740,000 clients<sup>(1)</sup>
- Strong financial position

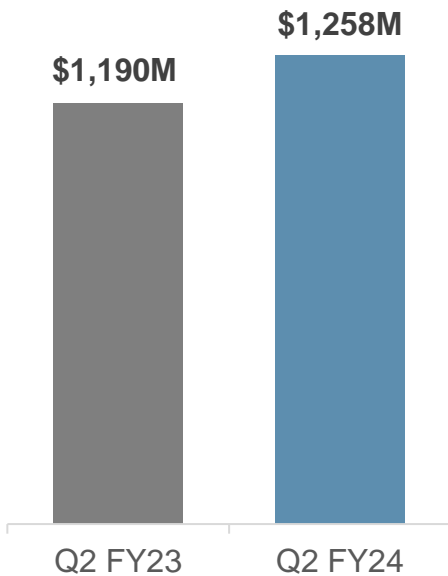
(1) As of May 31, 2023

# Second Quarter Highlights

# Second Quarter Financial Highlights

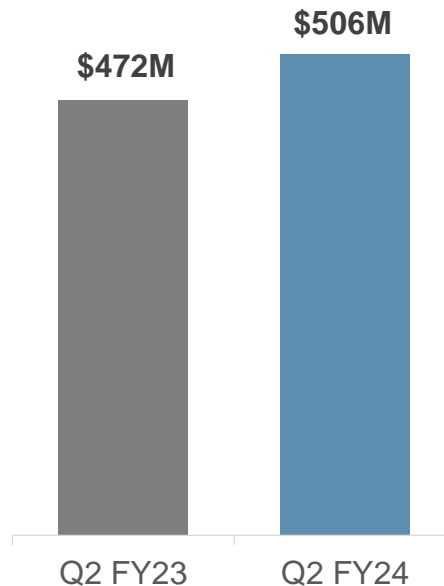
## Total Revenue

↑ 6%



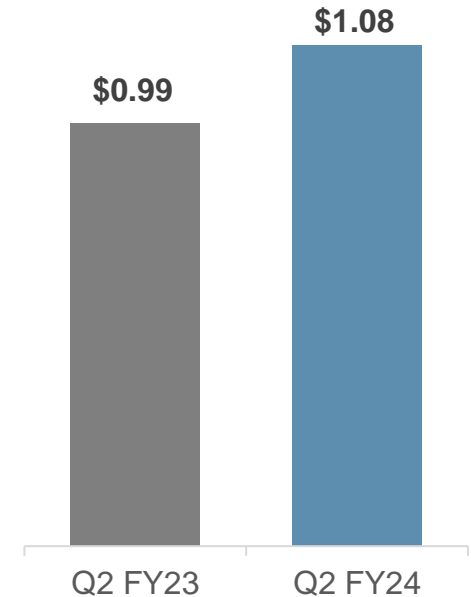
## Operating Income

↑ 7%



## Adjusted Diluted EPS<sup>(1)</sup>

↑ 9%

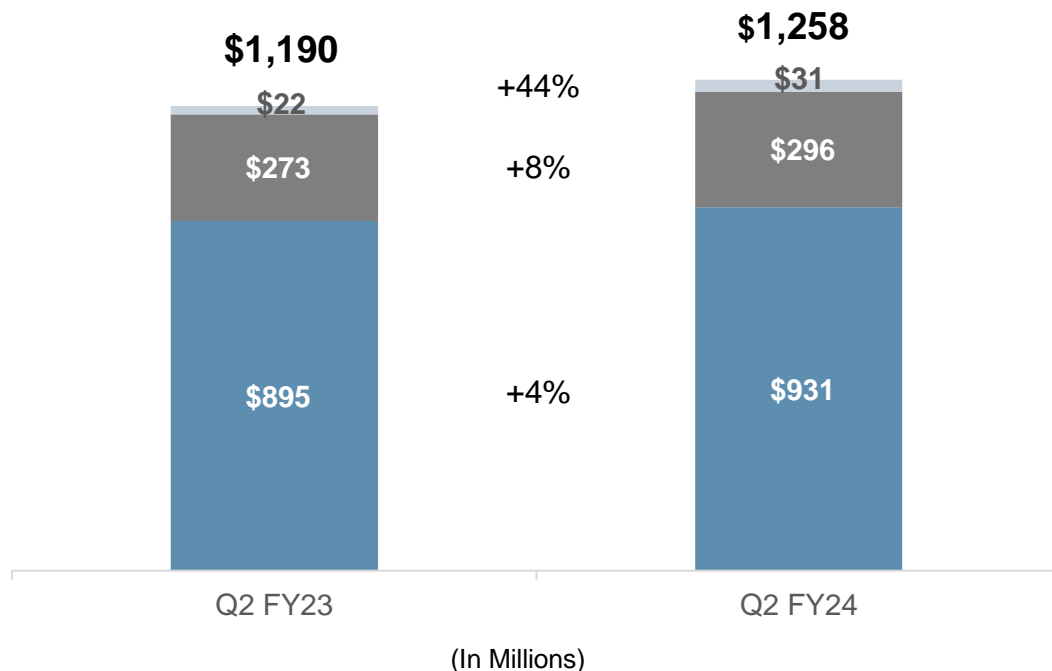


(1) Adjusted diluted earnings per share ("EPS") is not a U.S. generally accepted accounting principles ("GAAP") measure. Refer to slide 16 for a reconciliation to the corresponding GAAP measure.

# Second Quarter Revenue

## Total Revenue

↑ 6%



## Key Drivers

### Management Solutions

- Growth in the number of clients served across our suite of HCM solutions
- Higher revenue per client from price realization and product penetration, including HR Solutions and retirement
- Growth in ancillary services

### PEO<sup>(1)</sup> & Insurance Solutions

- Growth in the number of average PEO worksite employees
- Increase in PEO insurance revenues
- Higher revenue from ancillary services

### Interest on Funds Held for Clients

- Higher average interest rates

(1) Professional Employer Organization ("PEO")

# Second Quarter Business Highlights

## Sustained financial performance

- Revenue growth of 6% and adjusted diluted EPS<sup>(1)</sup> growth of 9%
- Operating margin expansion of 50 basis points year-over-year to 40.2%
- Strong performance in PEO, mid-market, and retirement

## Solid execution across key operational metrics

- Revenue retention remains above pre-pandemic levels and improvement in client retention year-over-year
- HR outsourcing worksite employee retention remains at record levels
- Product penetration continues to increase across our suite of HCM solutions
- Sales pipelines for PEO and mid-market are strong and insurance enrollment in PEO is higher and in line with expectations

## 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 trusted 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 as a stable place for customers, employees, and investors in uncertain times. Balancing long-term investments with near-term cost discipline to navigate through uncertainty

## Returned \$489M of capital to shareholders including repurchase of 1.5M shares in Q2

(1) Adjusted diluted EPS is a non-GAAP financial measure. Refer to our second quarter fiscal 2024 press release for further discussion.

# 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

---

## Brandon Hall Group 2023 HCM Excellence Award

Paychex earned a silver Brandon Hall Group 2023 HCM Excellence Award for the Best Unique or Innovative Learning and Development Program for our HR Business Partner training program



## NelsonHall NEAT Leader 2023

Paychex was recognized as a “Leader” in Payroll Services for a 7<sup>th</sup> consecutive year



## Sapient Insights Voice of the Customer

Paychex was named as a top five vendor in six categories including Payroll, HR, Time and Attendance, Learning, and Performance

## PLANSPONSOR Magazine Recordkeeping Survey 2023 - Largest 401(k) Recordkeeper

Paychex was recognized, for the 13<sup>th</sup> consecutive year, as the top 401(k) Recordkeeper by number of plans

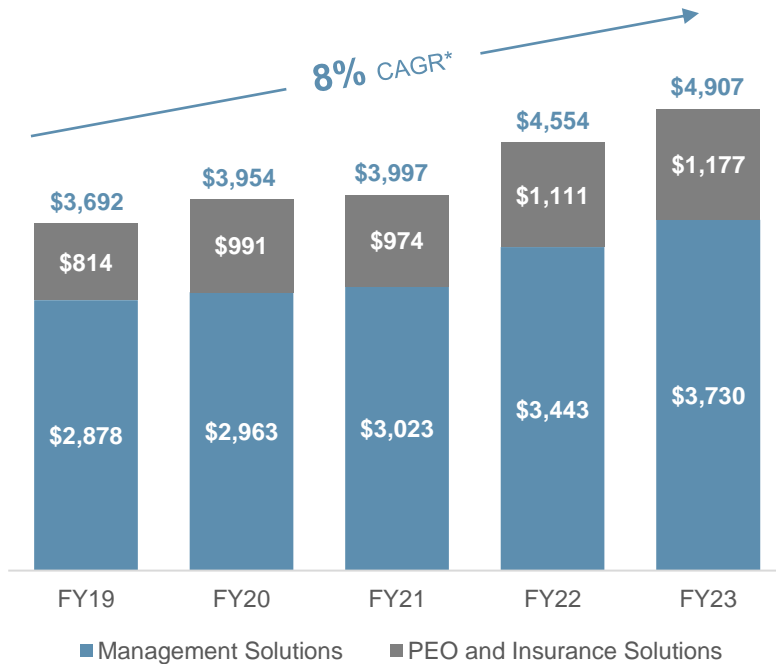


# Sustained Financial Performance

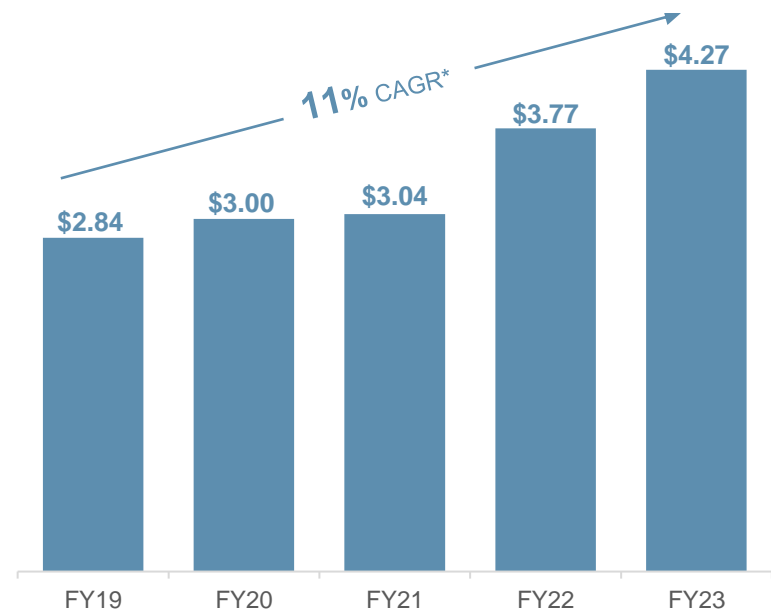
(in uncertain times)

(In Millions, Except Per Share Amounts)

## Total Service Revenue



## Adjusted Diluted EPS<sup>(1)</sup>



\* 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

	December 21, 2023 Year-over-Year Growth	September 27, 2023 Year-over-Year Growth	June 29, 2023 Year-over-Year Growth
Management Solutions Revenue	5% - 6%	5% - 6%	5% - 6%
PEO & Insurance Solutions Revenue	<b>7% - 9%</b>	6% - 9%	6% - 9%
Total Revenue	6% - 7%	6% - 7%	6% - 7%
Adjusted Diluted EPS <sup>(1)</sup>	<b>10% - 11%</b>	<b>9% - 11%</b>	9% - 10%
	Anticipated Result	Anticipated Result	Anticipated Result
Interest on Funds Held for Clients	\$140M - \$150M	<b>\$140M - \$150M</b>	\$135M - \$145M
Operating Income, as a Percent of Total Revenue	41% - 42%	41% - 42%	41% - 42%
Other Income, net	<b>\$35M - \$40M</b>	\$30M - \$35M	\$30M - \$35M
Effective Income Tax Rate	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 second quarter fiscal 2024 earnings press release.

# Financial Results

# Financial Results

For the Three and Six Months ended November 30, 2023

(In millions, except per share amounts)	Three Months Ended November 30, 2023	% Change	Six Months Ended November 30, 2023	% Change
Management Solutions	\$ 930.7	4%	\$ 1,886.2	5%
PEO and Insurance Solutions	\$ 295.7	8%	\$ 593.5	7%
<b>Total Service Revenue</b>	<b>\$ 1,226.4</b>	<b>5%</b>	<b>\$ 2,479.7</b>	<b>5%</b>
Interest on Funds Held for Clients	\$ 31.5	44%	64.2	62%
<b>Total Revenue</b>	<b>\$ 1,257.9</b>	<b>6%</b>	<b>\$ 2,543.9</b>	<b>6%</b>
Operating Income	\$ 506.2	7%	\$ 1,042.5	8%
Net Income	\$ 392.7	9%	\$ 811.9	10%
Diluted EPS	\$ 1.08	9%	\$ 2.24	10%
<b>Non-GAAP Measures:<sup>(1)</sup></b>				
EBITDA	\$ 551.0	6%	\$ 1,129.2	7%
Adjusted Net Income	\$ 391.6	9%	\$ 806.7	10%
Adjusted Diluted EPS	\$ 1.08	9%	\$ 2.23	10%

(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 to fund Oasis acquisition
- Return on equity of 47%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

(In millions)	<u>November 30, 2023</u>	<u>May 31, 2023</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,447.0	\$ 1,649.0
Total Debt, Net of Debt Issuance Costs <sup>(1)</sup>	\$ 812.0	\$ 808.4
Return on Equity	47%	48%
Fiscal Year-to-Date Period Ended:	<u>November 30, 2023</u>	<u>November 30, 2022</u>
Operating Cash Flow <sup>(2)</sup>	\$ 1,004.3	\$ 719.7
Free Cash Flow <sup>(2)</sup>	\$ 696.1	\$ 645.2
Dividends Paid	\$ 642.1	\$ 569.3
Dividend Coverage Ratio <sup>(3)</sup>	1.1x	1.1x

(1) Does not include operating lease liabilities of \$73.9M and \$77.6M as of November 30, 2023 and May 31, 2023, respectively

(2) The consolidated statement of cash flows for the six months ended November 30, 2022 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 increased net cash provided by operating activities and decreased net cash provided by investing activities by \$33.8 million each. Free cash flow for the six months ended November 30, 2022 was also revised upwards by \$33.8 million.

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

# Non-GAAP Financial Measures

For the Three and Six Months ended November 30, 2023

(In millions, except per share amounts)

(In millions, except per share amounts)						
	Three Months Ended				Six Months Ended	
	November 30,		%	November 30,		%
	2023	2022	Change	2023	2022	Change
Net Income	\$ 392.7	\$ 360.3	9%	\$ 811.9	\$ 739.5	10%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments <sup>(1)</sup>	(1.1)	(0.9)		(5.2)	(8.2)	
Adjusted Net Income <sup>(2)</sup>	\$ 391.6	\$ 359.4	9%	\$ 806.7	\$ 731.3	10%
Diluted EPS	\$ 1.08	\$ 0.99	9%	\$ 2.24	\$ 2.04	10%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments <sup>(1)</sup>	-	-		(0.01)	(0.02)	
Adjusted Diluted EPS <sup>(2)</sup>	\$ 1.08	\$ 0.99	9%	\$ 2.23	\$ 2.02	10%
Net Income	\$ 392.7	\$ 360.3	9%	\$ 811.9	\$ 739.5	10%
Non-GAAP Adjustments:						
Interest (Income)/Expense, Net	(11.8)	(0.9)		(23.9)	2.8	
Income Taxes	125.2	114.9		255.1	227.7	
Depreciation and Amortization Expense	44.9	44.3		86.1	88.3	
Total Non-GAAP Adjustments	158.3	158.3		317.3	318.8	
EBITDA <sup>(2)</sup>	\$ 551.0	\$ 518.6	6%	\$ 1,129.2	\$ 1,058.3	7%

(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 second quarter fiscal 2024 press release for further discussion.

# Investment Portfolio Results

(\$ in millions)	Three Months Ended November 30,			Six Months Ended November 30,		
	2023	2022	% Change	2023	2022	% Change
<b>Average Investment Balances:</b>						
Funds Held For Clients	\$ 4,036.3	\$ 4,012.7	1%	\$ 4,096.6	\$ 4,065.4	1%
Corporate Cash Equivalents and Investments	\$ 1,540.3	\$ 1,349.3	14%	\$ 1,623.5	\$ 1,363.0	19%
<b>Average Rate of Return Earned:</b>						
Funds Held For Clients	3.1%	2.2%		3.1%	1.9%	
Corporate Cash Equivalents and Investments	5.3%	3.0%		5.1%	2.3%	
<b>Realized Gain/(Loss), Net</b>	\$ -	\$ -		\$ -	\$ 0.1	
<u>End of Period:</u>	<u>November 30, 2023</u>			<u>May 31, 2023</u>		
<b>Unrealized Loss, Net</b>	\$187.2			\$175.3		

- Rising market interest rates caused the unrealized loss on our longer-term investment portfolio to increase.
- Average invested balances for funds held for clients increased for the three-month period primarily due to wage inflation.



HR | Payroll | Benefits | Insurance

**The Power of Simplicity**