

Fourth Quarter Highlights and Financial Results

Fiscal 2020

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

A leading provider of integrated human capital management (“HCM”) solutions for human resources (“HR”), payroll, benefits, and insurance services for small- to medium-sized businesses.

- Integrated, cloud-based HCM platform
- Leading-edge technology solutions coupled with flexible service options
- Leader in comprehensive HR outsourcing solutions
- >670,000 clients⁽¹⁾
- Strong financial position
- Market capitalization of >\$25B⁽²⁾

(1) As of May 31, 2020

(2) As of June 26, 2020

Fourth Quarter Highlights

Fourth Quarter Financial Highlights

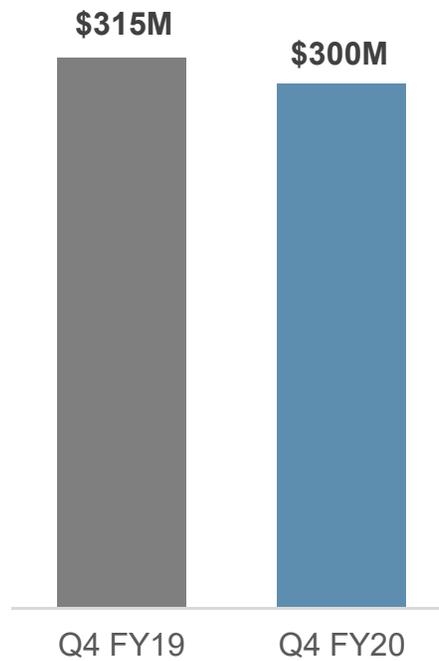
Total Revenues

↓ 7%



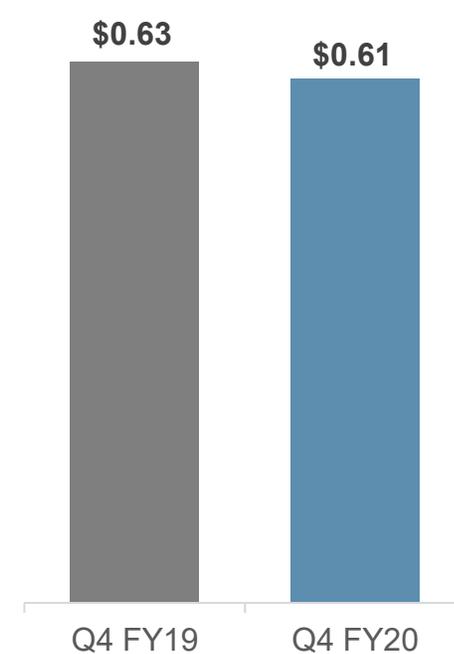
Operating Income

↓ 5%



Adjusted Diluted EPS⁽¹⁾

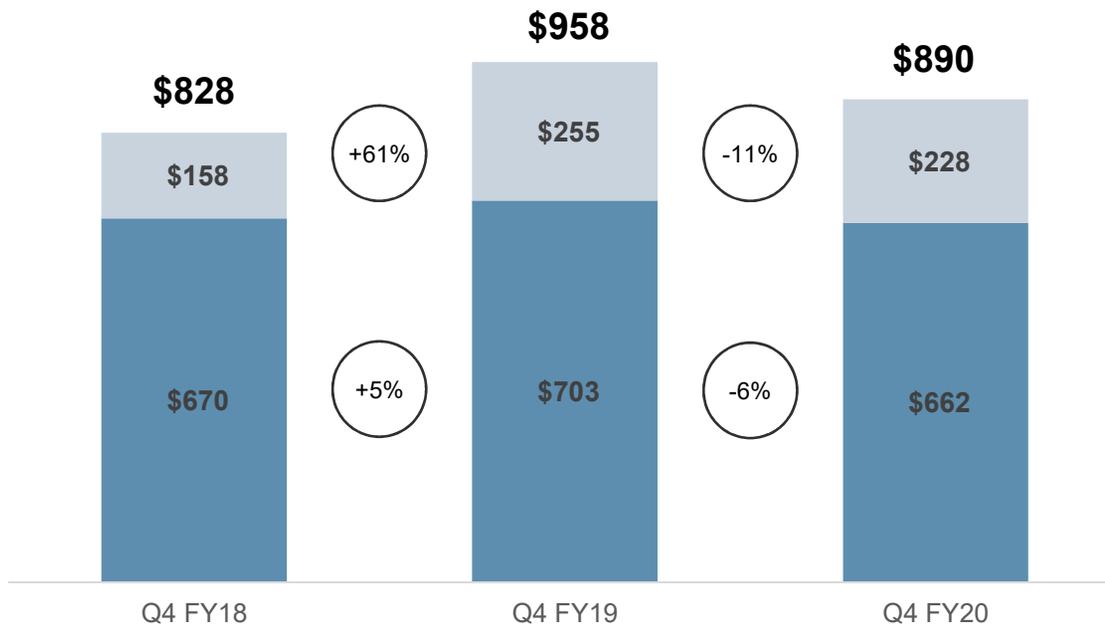
↓ 3%



(1) Adjusted Diluted Earnings per Share ("EPS") is not a U.S. generally accepted accounting principles ("GAAP") measure. Refer to slide 17 for a reconciliation to U.S. GAAP-based Diluted EPS.

Fourth Quarter Service Revenue

(In Millions)



Key Drivers

PEO⁽¹⁾ & Insurance Solutions

- Decline in PEO worksite employees and Health and Benefits applicants within existing base due to lockdowns and furloughs related to COVID-19
- Lower workers' compensation premiums due to lower wages and less high-risk class wages

Management Solutions

- Lower volumes throughout our HCM solutions suite as a result of fewer client employees being paid due to COVID-19
- Strong retention and stability of client base

(1) Professional Employer Organization ("PEO")

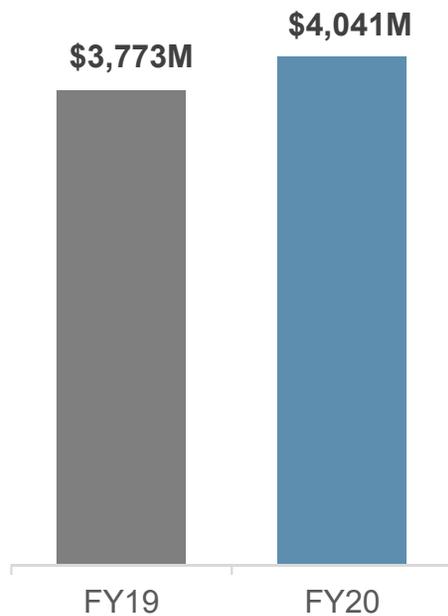
Fourth Quarter Highlights

- Rapidly and effectively implemented our Business Continuity Plan and responded to legislation resulting from COVID-19
 - Our first concern was the safety and security of our employees. We implemented travel restrictions and moved 95% of our workforce to work-from-home over a 5-6 day period
 - Utilized our large dedicated team of compliance experts to advocate for the interests of our clients with federal, state and local authorities
 - Created a COVID-19 Help Center to provide information and tools to help our clients and partners
 - Processed over 400,000 Paychex PPP reports to assist our clients with obtaining federal stimulus loans
- Monitored key business indicators, which continued to experience steady improvements across all key metrics since late-April
- Experienced solid growth in select areas of the business, such as retirement services and our DIY payroll offerings, and increased demand for our HR Outsourcing solutions
- Implemented cost control measures across the business
- Launched the HR industry's first real-time payments solution
- Returned \$223M to shareholders during the fourth quarter in the form of dividends

Full Year Fiscal 2020 Financial Highlights

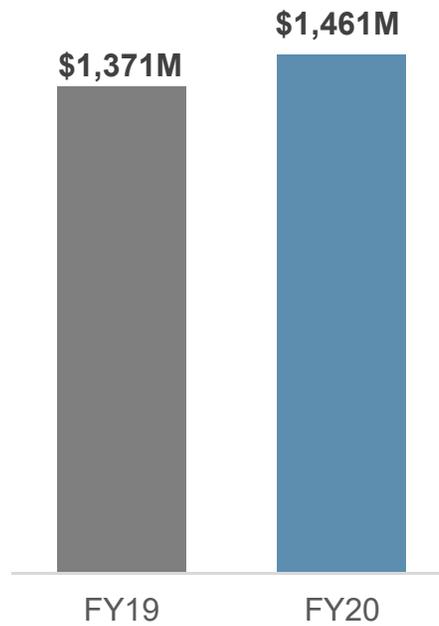
Total Revenues

↑ 7%



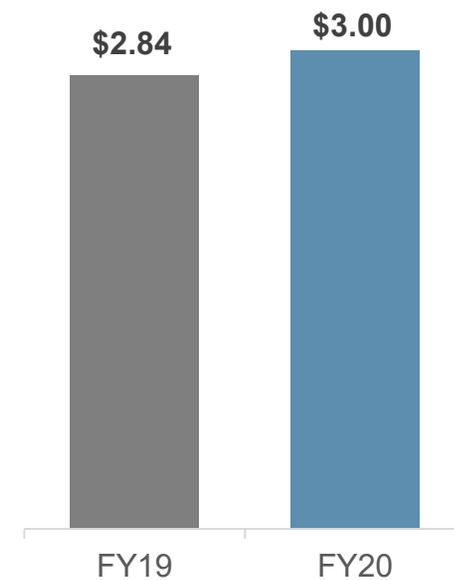
Operating Income

↑ 7%



Adjusted Diluted EPS⁽¹⁾

↑ 6%



(1) Adjusted Diluted EPS is not a GAAP measure. Refer to slide 17 for a reconciliation to GAAP-based Diluted EPS.

Recent/Upcoming Product Launches

Designed to simplify common HR and payroll challenges

Real Time Payments

Paychex customers can now pay their employees immediately, helping employers attract talent and employees access earned wages in a matter of seconds.

PPP Loan Forgiveness Estimator

This tool simplifies the application process for customers and provides them the accurate information they need to satisfy the new forgiveness requirements.

HR Connect

Innovative new service that enables employees to submit their questions, requests, and incidents directly to HR through an easy-to-use workflow. This simplifies the process for all involved, verifying that concerns receive the appropriate attention and matters are quickly and efficiently resolved.

Digital Solutions

We have launched several digital solutions aimed at supporting employers and employees in the new work environment. Some allow for e-signatures for direct deposit and Form W-4, while other enhancements simplify the process of adding new workers.

Data Analytics and Live Reports

New enhancements to the analytics tools in Paychex Flex that surface data intuitively, making it easier for customers to find actionable information without the need for additional searching or training. Examples include OSHA-related data and workers' compensation policy data, along with improved search features.

Product & Technology Horizon

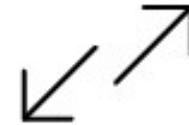
Innovation to meet our customers' evolving business needs



Artificial Intelligence
(including Paychex Flex
Intelligence Engine)



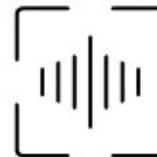
Data Analytics



**Expanded
Integrations (APIs)**



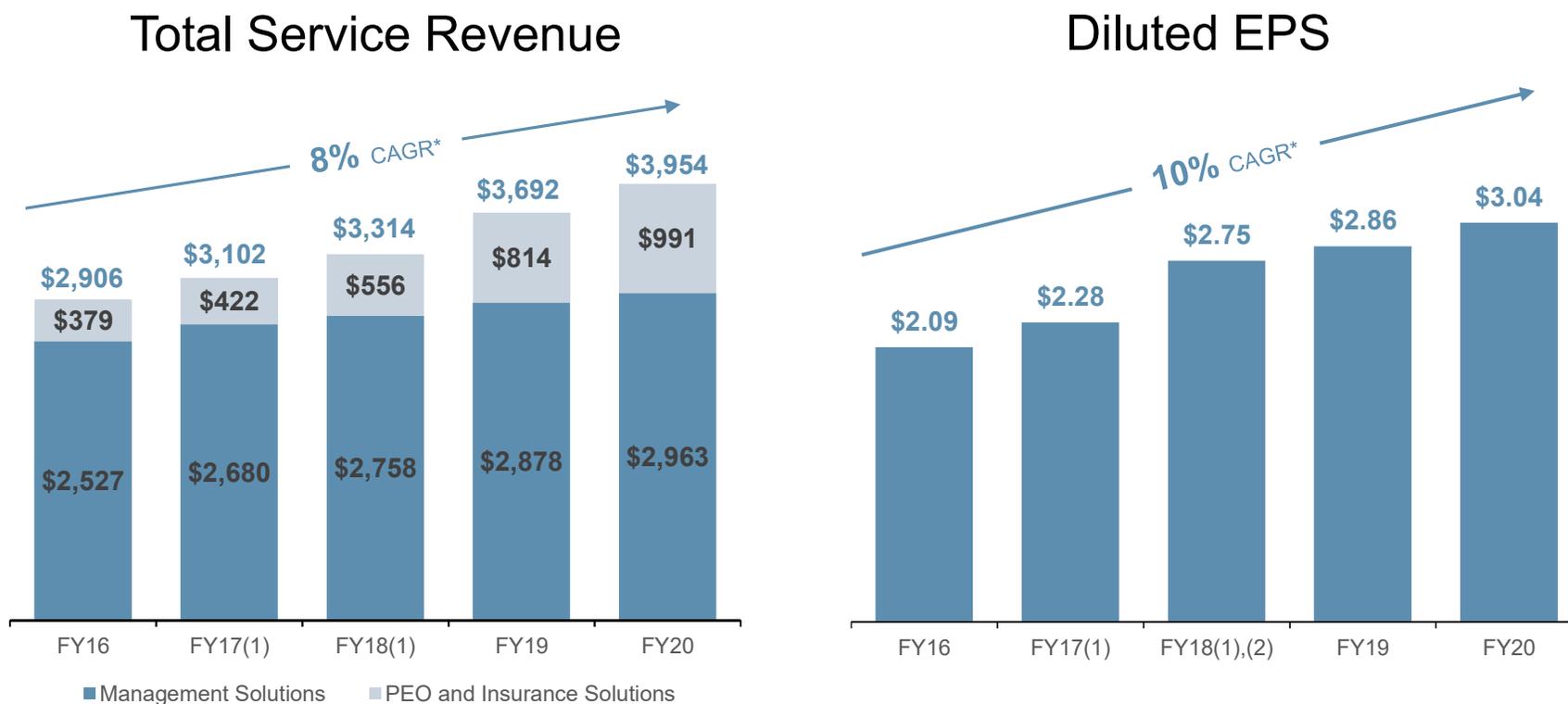
**Wearable
Solutions**



**Voice
Recognition**

Sustained Financial Performance

(In Millions, Except Per Share Amounts)



* 4-Year CAGR

- (1) Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" was adopted effective June 1, 2018. FY17 and FY18 results were adjusted to reflect a comparable presentation.
- (2) Diluted EPS growth for FY18 was impacted by the Tax Cuts and Jobs Act of 2017.

Balance Sheets and Cash Flows

(\$ in Millions)

- Strong liquidity position with minimal or no net debt
- \$800M of private placement, fixed-rate long-term debt to fund Oasis acquisition
- Return on equity remains robust at 41%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>May 31, 2020</u>	<u>May 31, 2019</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,013.7	\$ 779.9
Total Debt, Net of Debt Issuance Costs ⁽¹⁾	\$ 801.9	\$ 796.4
Return on Equity	41%	42%
Fiscal Year-to-Date Period Ended:	<u>May 31, 2020</u>	<u>May 31, 2019</u>
Operating Cash Flow	\$ 1,440.9	\$ 1,271.5
Dividends Paid	\$ 889.4	\$ 826.8
Dividend Coverage Ratio ⁽²⁾	1.5x	1.1x

(1) Does not include operating lease liabilities of \$134.1M and \$19.0M for the periods ending May 31, 2020 and May 31, 2019, respectively

(2) Dividend Coverage Ratio is calculated based on free cash flow of \$1,298.0M and \$946.5M for the twelve months ended May 31, 2020 and May 31, 2019, respectively.

Fiscal 2021 Outlook

Fiscal Year 2021 Outlook⁽¹⁾

	<u>Year-over-Year Growth</u>
Management Solutions Revenue	(4%) - (1%)
PEO & Insurance Solutions Revenue	(7%) - (2%)
Total Revenue	(5%) - (2%)
Adjusted Diluted EPS ⁽²⁾	(10%) - (6%)
	 <u>Anticipated Result</u>
Interest on Funds Held for Clients	\$55M - \$65M
Adjusted Operating Income ⁽²⁾ , as a Percent of Total Revenue	34% - 35%
Adjusted EBITDA ⁽²⁾ , as a Percent of Total Revenue	39% - 40%
Depreciation & Amortization Expense	\$195M - \$205M
Other Expense, net	\$30M - \$35M
Effective Income Tax Rate	24.5% - 25.0%

- We expect approximately \$40M of one-time costs in Q1 FY21 related to various expense savings initiatives that are excluded from Adjusted Operating Income, Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.
- First Half FY21 expectations: Management Solutions revenue down mid-to upper-single digits; PEO and Insurance Solutions revenue down high-single to low-double-digits; and Adjusted Operating Margin of approximately 32%. Second Half FY21 expectations: Management Solutions and PEO Insurance Solutions growth in the low-single digits and Adjusted Operating Margin of approximately 37%.

(1) Current outlook represents anticipated impacts resulting from COVID-19 based on assumptions as of today. This is a rapidly evolving situation and future developments could result in significant changes to these estimates.

(2) Adjusted Diluted EPS, adjusted operating income, Adjusted EBITDA and related margins are non-GAAP measures. Adjusted Diluted EPS excludes certain discrete tax items for the fiscal 2020 period as shown on slide 17. EBITDA for fiscal 2020 is reconciled as well on slide 17. In addition, fiscal 2021 excludes ~\$40M of one-time costs from non-GAAP measures.

Financial Results

Financial Results

For the Three and Twelve Months ended May 31, 2020

(In millions, except per share amounts)	<u>Three Months Ended</u> <u>May 31, 2020</u>	<u>%</u> <u>Change</u>	<u>Twelve Months Ended</u> <u>May 31, 2020</u>	<u>%</u> <u>Change</u>
Management Solutions	661.8	(6%)	2,963.0	3%
PEO and Insurance Solutions	228.0	(11%)	990.6	22%
Total Service Revenue	889.8	(7%)	3,953.6	7%
Interest on Funds Held for Clients	25.3	14%	86.9	8%
Total Revenue	915.1	(7%)	4,040.5	7%
Operating Income	\$ 299.6	(5%)	\$ 1,460.5	7%
Net Income	\$ 220.7	(4%)	\$ 1,098.1	6%
Diluted EPS	\$ 0.61	(5%)	\$ 3.04	6%
Non-GAAP Measures: ⁽¹⁾				
Adjusted Net Income	\$ 220.6	(3%)	\$ 1,083.2	5%
Adjusted Diluted EPS	\$ 0.61	(3%)	\$ 3.00	6%
EBITDA	\$ 351.0	(5%)	\$ 1,673.3	8%

(1) Refer to a reconciliation of non-GAAP financial measures to the related GAAP financial measures on slide 17.

Non-GAAP Financial Measures

(In millions, except per share amounts)

	Three Months Ended		% Change	Twelve Months Ended		% Change
	May 31, 2020	May 31, 2019		May 31, 2020	May 31, 2019	
Net Income	\$ 220.7	\$ 230.4	(4%)	\$ 1,098.1	\$ 1,034.4	6%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.1)	(2.3)		(14.9)	(8.3)	
Revaluation of Net Deferred Tax Liabilities	-	-		-	1.7	
Total Non-GAAP Adjustments	(0.1)	(2.3)		(14.9)	(6.6)	
Adjusted Net Income⁽¹⁾	\$ 220.6	\$ 228.1	(3%)	\$ 1,083.2	\$ 1,027.8	5%
Diluted EPS	\$ 0.61	\$ 0.64	(5%)	\$ 3.04	\$ 2.86	6%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	-	(0.01)		(0.04)	(0.02)	
Revaluation of Net Deferred Tax Liabilities	-	-		-	-	
Total Non-GAAP Adjustments	-	(0.01)		(0.04)	(0.02)	
Adjusted Diluted EPS⁽¹⁾	\$ 0.61	\$ 0.63	(3%)	\$ 3.00	\$ 2.84	6%
Net Income	\$ 220.7	\$ 230.4	(4%)	\$ 1,098.1	\$ 1,034.4	6%
Non-GAAP Adjustments:						
Interest Expense, Net	7.7	5.0		26.5	4.3	
Income Taxes	70.9	80.1		339.0	333.6	
Depreciation and Amortization Expense	51.7	55.8		209.7	181.5	
Total Non-GAAP Adjustments	130.3	140.9		575.2	519.4	
EBITDA⁽¹⁾	\$ 351.0	\$ 371.3	(5%)	\$ 1,673.3	\$ 1,553.8	8%

(1) Adjusted net income, adjusted diluted earnings per share, and EBITDA are non-GAAP financial measures. Refer to our fourth quarter fiscal 2020 press release for further discussion.

Investment Portfolio Results

(\$ in millions)	Three Months Ended			Twelve Months Ended		
	May 31, 2020	May 31, 2019	% Change	May 31, 2020	May 31, 2019	% Change
Average Investment Balances:						
Funds Held For Clients	\$ 3,800.1	\$ 4,149.8	(8%)	\$ 3,931.3	\$ 3,969.7	(1%)
Corporate Cash Equivalents and Investments	\$ 994.1	\$ 902.4	10%	\$ 870.7	\$ 848.4	3%
Average Rate of Return Earned:						
Funds Held For Clients	1.7%	2.1%		1.9%	2.0%	
Corporate Cash Equivalents and Investments	0.6%	1.9%		1.4%	1.6%	
Realized Gains, Net	\$ 8.9	\$ 0.1		\$ 11.3	\$ -	
<u>End of Period:</u>				<u>May 31, 2020</u>	<u>May 31, 2019</u>	
Unrealized Gain, Net				\$ 100.0	\$ 19.7	

- The Federal Funds rate decreased 225 basis points during fiscal 2020.
- Declining yields on longer-term investments increased the net unrealized gain position of the portfolio.
- Average invested balances for funds held for clients decreased 1% due to a lower number of paid employees in our base.

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The Power of Simplicity