

Second Quarter Highlights and Financial Results

Fiscal 2022

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”) software for human resources (“HR”), payroll, benefits and insurance for small- to medium-sized businesses.

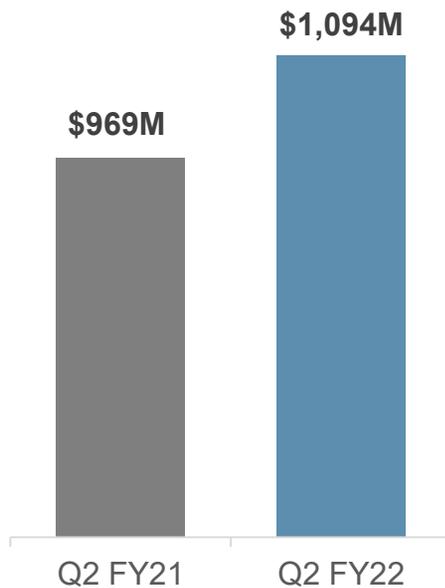
- Comprehensive technology-driven HCM software and solutions company
- Leading-edge technology platform backed by HR and compliance expertise
- Leader in comprehensive HR outsourcing solutions
- >710,000 clients⁽¹⁾
- Strong financial position
- Market capitalization of >\$44B⁽²⁾

Second Quarter Highlights

Second Quarter Financial Highlights

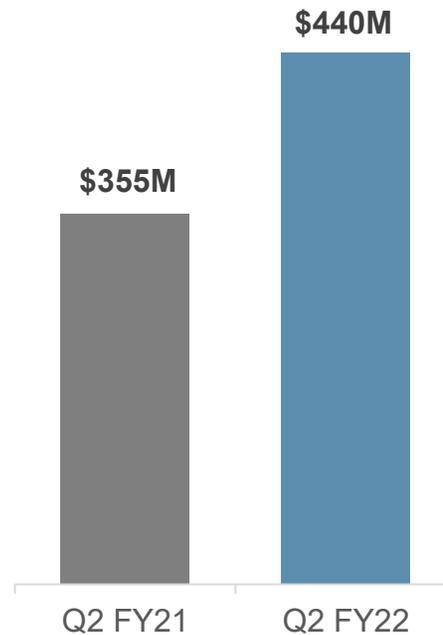
Service Revenues

↑ 13%



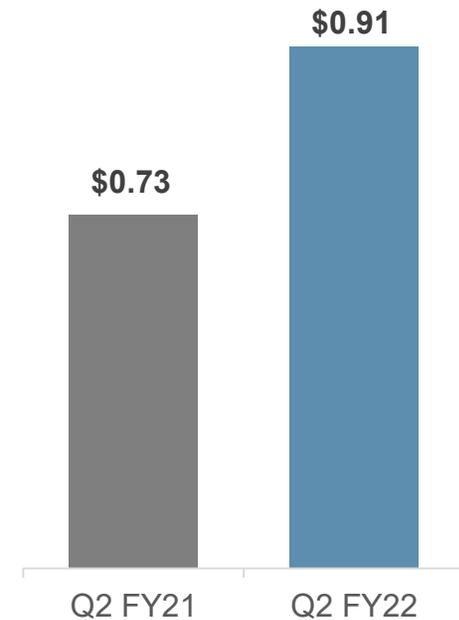
Adjusted Operating Income⁽¹⁾

↑ 24%



Adjusted Diluted EPS⁽¹⁾

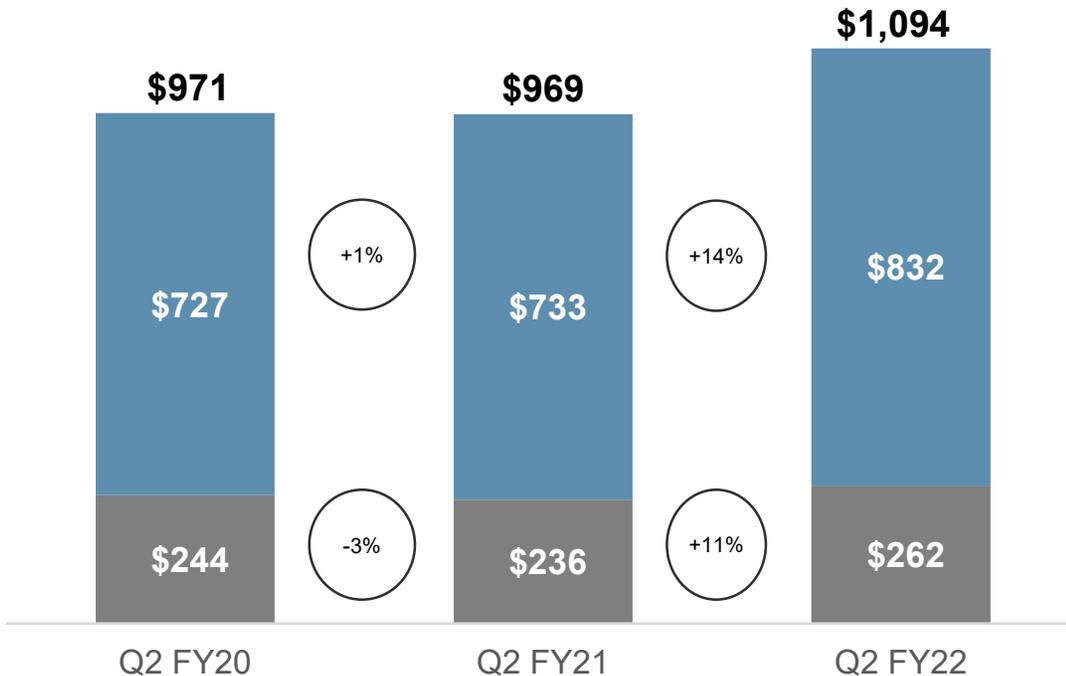
↑ 25%



(1) Adjusted operating income and adjusted diluted earnings per share ("EPS") are not U.S. generally accepted accounting principles ("GAAP") measures. Refer to slide 18 for a reconciliation to the corresponding GAAP measures.

Second Quarter Service Revenue

(In Millions)



Key Drivers

Management Solutions

- Client base growth driven by strong retention and sales performance
- Increase in the number of client employees throughout our HCM solutions suite
- Higher revenue per client due to price realization and increased product penetration

PEO⁽¹⁾ & Insurance Solutions

- Increase in average PEO worksite employees
- Higher state unemployment insurance revenues
- Increase in PEO health insurance revenues

(1) Professional Employer Organization ("PEO")

Second Quarter Business Highlights

Achieved double-digit revenue and earnings growth

- Continued momentum from the first quarter with positive trends across the business
- Strong internal execution driving growth with tailwind of positive macroeconomic trends
- Adjusted operating margins expanded 360 basis points to 39.7%

Strong client base growth across all lines of business

- Client retention remains above pre-pandemic levels and near last year's record level
- Record Q2 sales performance driven by digital sales, mid-market, HR outsourcing and retirement
- Double-digit growth in total HR Outsourcing worksite employees

Well-positioned for growth in fiscal 2022 and beyond

- Leading, SaaS HCM platform with comprehensive, integrated suite of solutions from hire to retire
- Digital investments in product development, service, sales and marketing
- Strong sales performance and momentum across all divisions

Paid \$238M of dividends to shareholders during the quarter

Recent Product & Technology Launches

Designed to simplify common HR and payroll challenges

Retention Insights

Utilizes predictive analytics to help businesses identify employees that may be more likely to consider leaving the organization.

Total Compensation Summary

A report that helps employers communicate the impact of their total pay and benefits packages for employees.

Paychex Employee Retention Tax Credit (ERTC) Service

A proactive service which helps businesses retroactively identify tax credits, based on wages already paid, and file amended returns to claim the credit.

Vaccination Management

Employees can confidentially upload proof of vaccination or COVID-19 test results. Employers have access to see which employees have supplied information, and the ability to send notifications to employees who still need to upload documentation.

Benefits Administration

Acquired a powerful state-of-the-art benefits administration software to help employers drive efficiencies in managing their employee benefits.

Product & Technology Horizon

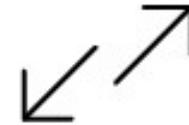
Innovation to meet our customers' evolving business needs



Artificial Intelligence
(including Paychex Flex
Intelligence Engine)



Data Analytics



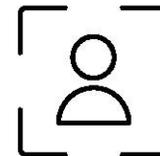
**Expanded
Integrations (APIs)**



**Wearable
Solutions**



**Voice
Recognition**



Personalization

Recent Awards and Recognition

Paychex honored for its innovative technology and solutions



Brandon Hall Group
HCM Excellence Award Silver
Excellence in Technology

Paychex won a silver award in the category of Best Advance in Business Strategy and Technology Innovation for Paychex Pre-Check



Brandon Hall Group
HCM Excellence Award Gold
Excellence in Technology

Paychex won a gold award in the category of Best Advance in HR or Workforce Management Technology for Small and Medium-Sized Businesses for its Paychex ERTC Service



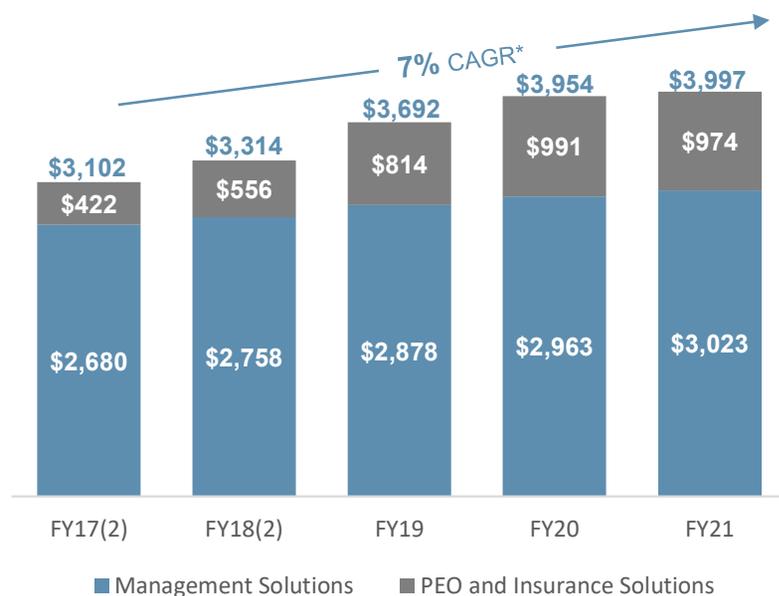
NelsonHall
NEAT Vendor Evaluation Report -
Human Capital Management

Paychex Flex was designated as a "Leader" in Human Capital Management after being evaluated on its ability to deliver immediate client benefits and meet clients' future requirements

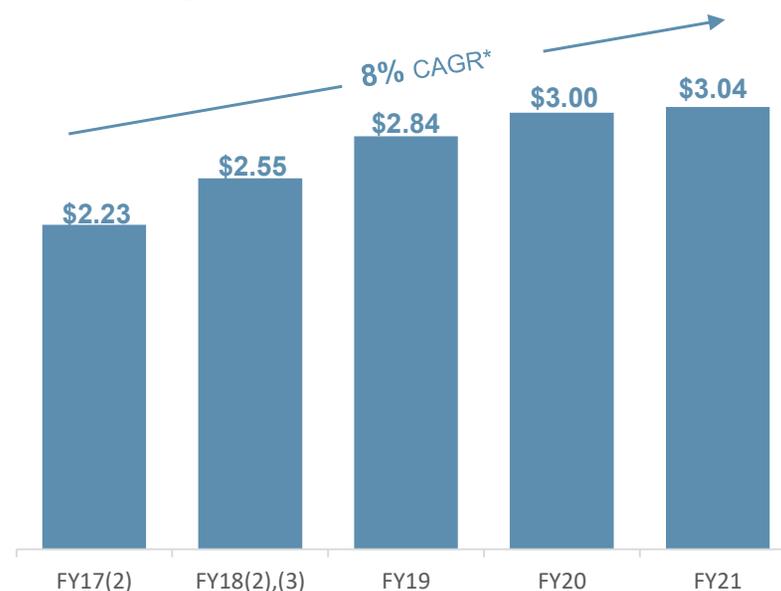
Sustained Financial Performance

(In Millions, Except Per Share Amounts)

Total Service Revenue



Adjusted Diluted EPS⁽¹⁾



* 4-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.
- (2) 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.
- (3) Adjusted 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 no net debt
- \$800M of private placement, fixed-rate long-term debt to fund Oasis acquisition
- Return on equity of 43%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>November 30, 2021</u>	<u>May 31, 2021</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,101.6	\$ 1,127.3
Total Debt, Net of Debt Issuance Costs ⁽¹⁾	\$ 806.4	\$ 804.7
Return on Equity	43%	38%
Fiscal Year-to-Date Period Ended:	<u>November 30, 2021</u>	<u>November 30, 2020</u>
Operating Cash Flow ⁽²⁾	\$ 555.4	\$ 430.7
Free Cash Flow	\$ 459.2	\$ 378.5
Dividends Paid	\$ 476.4	\$ 446.7
Dividend Coverage Ratio ⁽³⁾	1.0x	0.8x

(1) Does not include operating lease liabilities of \$114.8M and \$121.4M as of November 30, 2021 and May 31, 2021, respectively.

(2) The increase in operating cash flow was driven by higher net income, partially offset by fluctuations in working capital.

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

Fiscal 2022 Outlook

Fiscal Year 2022 Outlook

	June 25, 2021 Fiscal 2022 Outlook Year-over-Year Growth	September 30, 2021 Fiscal 2022 Outlook Year-over-Year Growth	December 22, 2021 Fiscal 2022 Outlook Year-over-Year Growth
Management Solutions Revenue	~7%	~8%	10% - 11%
PEO & Insurance Solutions Revenue	8% - 10%	8% - 10%	10% - 12%
Interest on Funds Held for Clients	Flat	Flat	Flat
Total Revenue	~7%	~8%	10% - 11%
Adjusted Diluted EPS ⁽²⁾	10% - 12%	12% - 14%	18% - 20%
	Anticipated Result	Anticipated Result	Anticipated Result
Adjusted Operating Income ⁽¹⁾ , as a Percent of Total Revenue	~38%	38% - 39%	39% - 40%
Adjusted EBITDA ⁽¹⁾ , as a Percent of Total Revenue	~42%	~43%	~44%
Other Expense, net	\$33M - \$37M	\$23M - \$26M	\$15M - \$18M
Effective Income Tax Rate	24% - 25%	24% - 25%	24% - 25%

(1) Adjusted diluted EPS, along with adjusted operating income and adjusted EBITDA and related margins, are non-GAAP measures, which exclude the impact of certain discrete tax items and one-time costs. Refer to slide 18 for a reconciliation to the corresponding GAAP measures for the second quarter.

Fiscal 2021 PEO and Insurance Solutions Revenue

Fiscal 2021 PEO and Insurance Solutions revenues for the third and fourth quarters of fiscal 2021 were impacted by the timing of notification of changes in state unemployment insurance rates. This creates comparability issues for the third and fourth quarters of fiscal 2022.

Based on reported results for fiscal 2021, we anticipate that the third quarter of fiscal 2022 will reflect a higher growth rate year-over-year than the fourth quarter. When normalizing the timing in fiscal 2021, the fiscal 2022 growth rates would be more aligned between the third and fourth quarters.

Adjusted PEO & Insurance FY21 Growth Rates

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
FY21 - As Reported	229.9	236.1	249.8	258.3	974.1
Adjustment	-	-	12.0	(12.0)	-
FY21 - Adjusted	229.9	236.1	261.8	246.3	974.1

Financial Results

Financial Results

For the Three and Six Months ended November 30, 2021

(In millions, except per share amounts)	Three Months Ended November 30, 2021	% Change	Six Months Ended November 30, 2021	% Change
Management Solutions	\$ 832.0	14%	\$ 1,637.5	15%
PEO and Insurance Solutions	262.4	11%	525.3	13%
Total Service Revenue	1,094.4	13%	2,162.8	15%
Interest on Funds Held for Clients	14.1	(5%)	28.6	(4%)
Total Revenue	\$ 1,108.5	13%	\$ 2,191.4	14%
Operating Income	\$ 440.3	24%	\$ 883.2	38%
Net Income	\$ 332.1	22%	\$ 665.7	38%
Diluted EPS	\$ 0.91	21%	\$ 1.83	37%
Non-GAAP Measures:⁽¹⁾				
Adjusted Operating Income	\$ 440.3	24%	\$ 883.2	32%
Adjusted EBITDA	\$ 495.1	21%	\$ 993.7	29%
Adjusted Net Income	\$ 329.8	25%	\$ 653.0	33%
Adjusted Diluted EPS	\$ 0.91	25%	\$ 1.80	32%

(1) Refer to a reconciliation of non-GAAP financial measures to the related GAAP financial measures on slide 18.

Non-GAAP Financial Measures

For the Three and Six Months ended November 30, 2021

	Three Months Ended		% Change	Six Months Ended		% Change
	November 30,			November 30,		
	2021 ⁽¹⁾	2020		2021	2020 ⁽¹⁾	
Operating Income	\$ 440.3	\$ 354.3	24%	\$ 883.2	\$ 638.3	38%
Non-GAAP Adjustments:						
Cost-Saving Initiatives ⁽²⁾	-	1.0		-	32.2	
Total Non-GAAP Adjustments	-	1.0		-	32.2	
Adjusted Operating Income⁽³⁾	\$ 440.3	\$ 355.3	24%	\$ 883.2	\$ 670.5	32%
Net Income	\$ 332.1	\$ 272.4	22%	\$ 665.7	\$ 484.0	38%
Non-GAAP Adjustments:						
Employee Stock-Based Compensation Payments	(2.3)	(8.5)		(12.7)	(15.5)	
Cost-Saving Initiatives ⁽²⁾	-	0.9		-	24.3	
Total Non-GAAP Adjustments	(2.3)	(7.6)		(12.7)	8.8	
Adjusted Net Income⁽³⁾	\$ 329.8	\$ 264.8	25%	\$ 653.0	\$ 492.8	33%
Diluted EPS	\$ 0.91	\$ 0.75	21%	\$ 1.83	\$ 1.34	37%
Non-GAAP Adjustments:						
Employee Stock-Based Compensation Payments	(0.01)	(0.02)		(0.03)	(0.04)	
Cost-Saving Initiatives ⁽²⁾	-	-		-	0.07	
Total Non-GAAP Adjustments	(0.01)	(0.02)		(0.03)	0.02	
Adjusted Diluted EPS⁽³⁾	\$ 0.91	\$ 0.73	25%	\$ 1.80	\$ 1.36	32%
Net Income	\$ 332.1	\$ 272.4	22%	\$ 665.7	\$ 484.0	38%
Non-GAAP Adjustments:						
Interest Expense, Net	8.9	8.5		17.9	16.9	
Income Taxes	105.5	77.2		215.8	141.7	
Depreciation and Amortization Expense	48.6	48.6		94.3	98.2	
Total Non-GAAP Adjustments	163.0	134.3		328.0	256.8	
EBITDA	495.1	406.7	22%	993.7	740.8	34%
Cost-Saving Initiatives ⁽²⁾	-	1.0		-	32.2	
Adjusted EBITDA⁽³⁾	\$ 495.1	\$ 407.7	21%	\$ 993.7	\$ 773.0	29%

(1) The calculation of the impact of non-GAAP adjustments on diluted EPS is performed on each line independently. The table may not add down by +/- \$0.01 due to rounding.

(2) One-time costs and corresponding tax benefit recognized during fiscal 2021 related to the acceleration of cost-saving initiatives, including the long-term strategy to reduce our geographic footprint and headcount optimization. These events are not expected to recur.

(3) Adjusted operating income, adjusted net income, adjusted diluted EPS, and adjusted EBITDA are non-GAAP financial measures. Refer to our Quarterly Report on Form 10-Q for further discussion.

Investment Portfolio Results

(\$ in millions)	Three Months Ended November 30,			Six Months Ended November 30,		
	2021	2020	% Change	2021	2020	% Change
Average Investment Balances:						
Funds Held For Clients	\$ 3,917.5	\$ 3,581.4	9%	\$ 3,907.5	\$ 3,544.3	10%
Corporate Cash Equivalents and Investments	\$ 1,182.8	\$ 964.9	23%	\$ 1,189.9	\$ 993.6	20%
Average Rate of Return Earned:						
Funds Held For Clients	1.4%	1.6%		1.5%	1.6%	
Corporate Cash Equivalents and Investments	0.1%	0.2%		0.1%	0.2%	
Realized Gains, Net	\$ -	\$ 0.4		\$ 0.1	\$ 0.7	
<u>End of Period:</u>	<u>November 30, 2021</u>			<u>May 31, 2021</u>		
Unrealized Gain, Net	\$35.7			\$79.3		

- The Federal Funds rate remains near zero, pressuring average rates of return earned during both periods.
- Rising market interest rates resulted in a decrease to the net unrealized gain position of our longer-term investment portfolio.
- Average invested balances for funds held for clients increased due primarily to increased employment levels and wage inflation.

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The Power of Simplicity