

Second Quarter Highlights and Financial Results

Fiscal 2023

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 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
- >730,000 clients⁽¹⁾
- Strong financial position
- Market capitalization of >\$41B⁽²⁾

(1) As of May 31, 2022

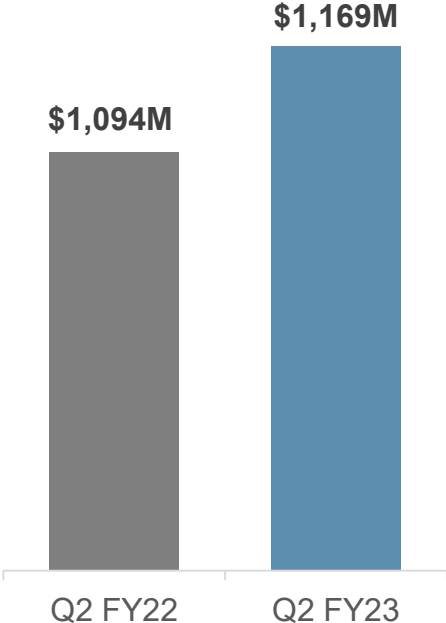
(2) As of December 21, 2022

Second Quarter Highlights

Second Quarter Financial Highlights

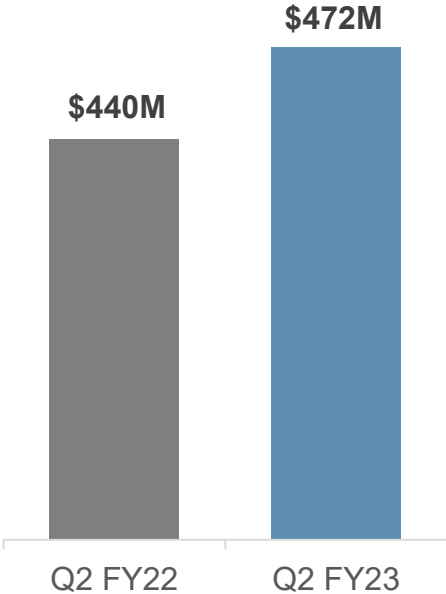
Service Revenues

↑ 7%



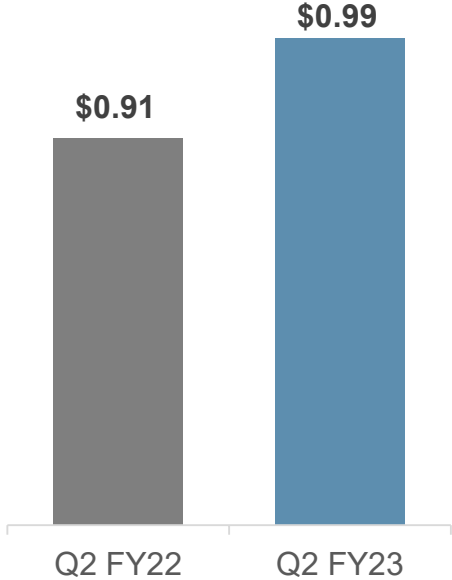
Operating Income

↑ 7%



Adjusted Diluted EPS⁽¹⁾

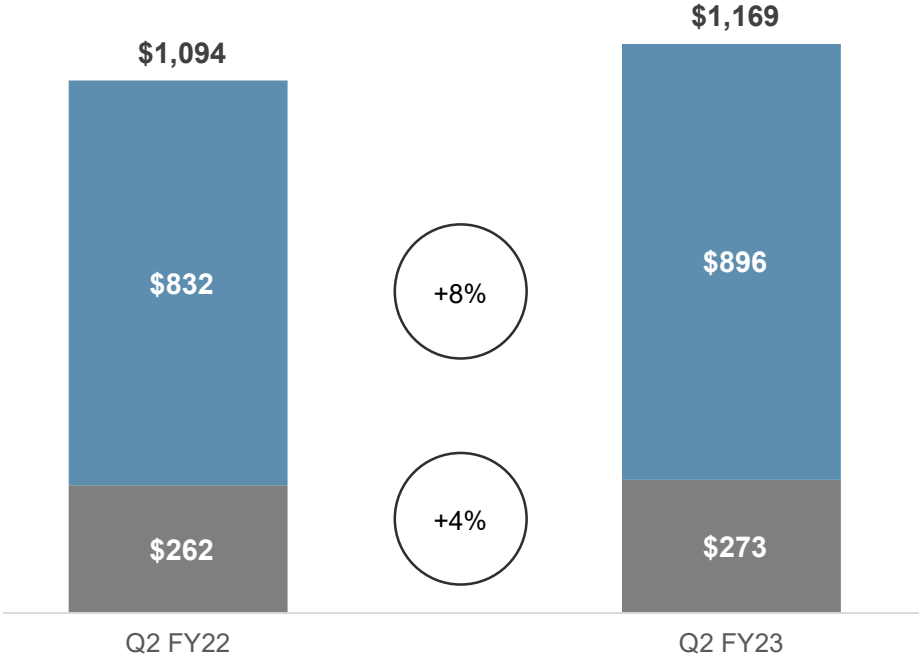
↑ 9%



(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 Service Revenue

(In Millions)



Key Drivers

Management Solutions

- Increase in the number of client employees throughout our HCM solutions suite
- Higher revenue per client due to price realization and increased product penetration
- Expansion of HR ancillary services

PEO⁽¹⁾ & Insurance Solutions

- Increase in average PEO worksite employees
- Lower than expected health insurance attachment and soft Workers' Compensation market

(1) Professional Employer Organization ("PEO")

Second Quarter Business Highlights

Achieved solid Q2 revenue and earnings growth

- Solid revenue growth and operating margins in challenging environment for SMBs
- Strong internal execution and higher client employment levels drove growth
- Continued demand for HR technology and HR outsourcing solutions

Good internal results across sales and service

- Continued success with selling and retaining more of our comprehensive suite of solutions, from HCM technology to HR outsourcing, driving higher average revenue per client
- Record Q2 sales performance and solid revenue retention which remains above pre-pandemic levels
- Double-digit growth in total HR Outsourcing worksite employees – now serving over 2M employees
- Strong execution with our Employer Retention Tax Credit (ERTC) service

Positioned for growth in fiscal 2023 and beyond

- Increasing market demand for HR advisory, benefits and HR technology solutions
- Leading SaaS HCM platform with comprehensive, integrated suite of solutions from hire to retire
- Realizing benefits from continued investments in product development, advisory services, sales, and marketing
- Balancing long-term investments with near-term cost discipline to navigate through uncertainty
- Interest rate increases a tailwind for float income

Paid \$285M of dividends to shareholders during the quarter

Product & Technology Horizon

Innovation to meet our customers' evolving business needs

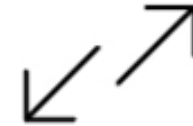


Artificial Intelligence

(including Paychex Flex
Intelligence Engine)



Data Analytics



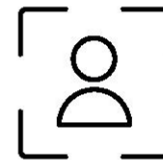
Expanded Integrations (APIs)



Wearable Solutions



Voice Recognition



Personalization

Recent Awards and Recognition

Paychex was honored for its innovative technology and customer satisfaction



Brandon Hall Group
Technology Excellence Award
Best Advance in AI for Business
Impact

Paychex Voice Assist was recognized by Brandon Hall Group with a gold award for Excellence in Technology in the Best Advance in AI for Business Impact category



Brandon Hall Group
Technology Excellence Award
Best Advance in HR Predictive
Analytics Technology

Paychex Retention Insights was recognized by Brandon Hall Group with a bronze award for Excellence in Technology in the Best Advance in HR Predictive Analytics Technology



IDC SaaS Award

Customer Satisfaction: Core HR

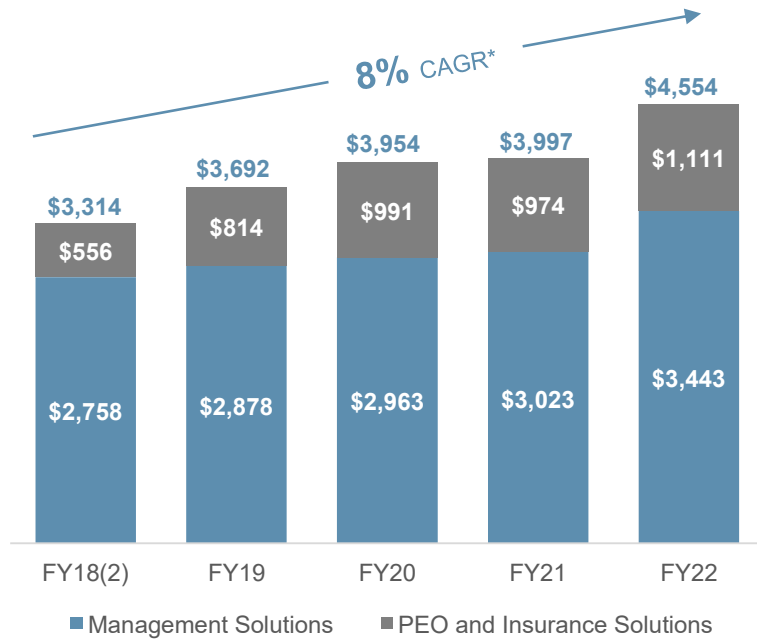
IDC 2022 SaaS Customer Service
Satisfaction Award for Core HR

Paychex was recognized as a leading SaaS vendor within the Core HR segment based upon its high score in over 30 customer satisfaction metrics in the IDC Survey

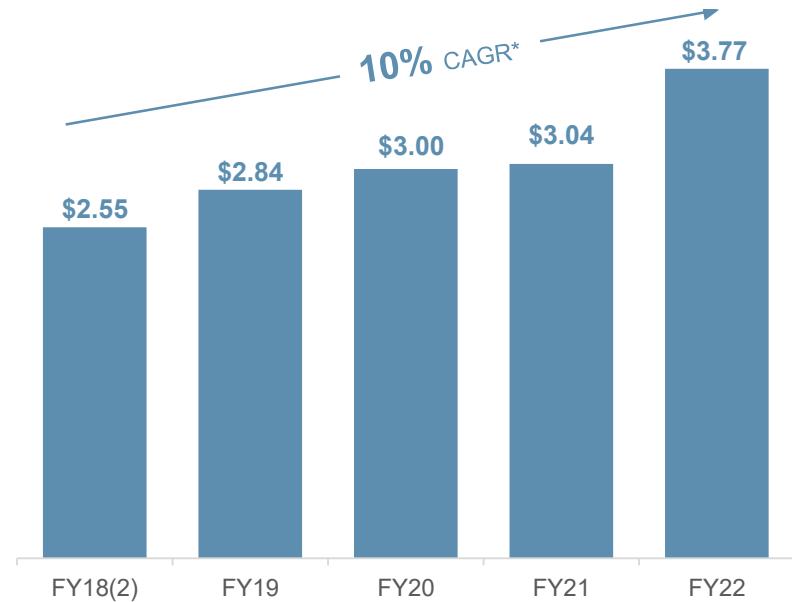
Sustained Financial Performance

(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. FY18 results were adjusted to reflect a comparable presentation.

Fiscal 2023 Outlook

Fiscal Year 2023 Outlook

| | December 22, 2021 Year-over-Year Growth | September 28, 2022 Year-over-Year Growth | June 29, 2022 Year-over-Year Growth |
|------------------------------------------------------|--------------------------------------------|---------------------------------------------|----------------------------------------|
| Management Solutions Revenue | 7% - 8% | 5% - 7% | 5% - 7% |
| PEO & Insurance Solutions Revenue | 5% - 7% | 8% - 10% | 8% - 10% |
| Total Revenue | ~8% | 7% - 8% | 7% - 8% |
| Adjusted Diluted EPS ⁽¹⁾ | 12% - 14% | 11% - 12% | 9% - 10% |
| | Anticipated Result | Anticipated Result | Anticipated Result |
| Interest on Funds Held for Clients | \$100M - \$110M | \$85M - \$95M | \$85M - \$95M |
| Operating Income, as a Percent of Total Revenue | 40% - 41% | 40% - 41% | 40% - 41% |
| EBITDA, as a Percent of Total Revenue ⁽¹⁾ | ~44% | ~44% | ~44% |
| Other Income/(Expense), Net | \$5M - \$10M | (\$10M) - (\$5M) | (\$10M) - (\$5M) |
| Effective Income Tax Rate | 24% - 25% | 24% - 25% | 24% - 25% |

(1) Adjusted diluted EPS and EBITDA are non-GAAP measures. Refer to slide 16 for a reconciliation to the corresponding GAAP measures for the second quarter of fiscal 2023.

Financial Results

Financial Results

For the Three and Six Months ended November 30, 2022

| (In millions, except per share amounts) | Three Months Ended November 30, 2022 | % Change | Six Months Ended November 30, 2022 | % Change |
|-----------------------------------------|-------------------------------------------------|---------------------|-----------------------------------------------|---------------------|
| Management Solutions | \$ 895.3 | 8% | \$ 1,800.8 | 10% |
| PEO and Insurance Solutions | \$ 273.3 | 4% | 556.1 | 6% |
| Total Service Revenue | \$ 1,168.6 | 7% | \$ 2,356.9 | 9% |
| Interest on Funds Held for Clients | \$ 21.7 | 54% | 39.6 | 39% |
| Total Revenue | \$ 1,190.3 | 7% | \$ 2,396.5 | 9% |
| Operating Income | \$ 472.3 | 7% | \$ 967.9 | 10% |
| Net Income | \$ 360.3 | 8% | \$ 739.5 | 11% |
| Diluted EPS | \$ 0.99 | 9% | \$ 2.04 | 11% |
| Non-GAAP Measures:⁽¹⁾ | | | | |
| EBITDA | \$ 518.6 | 5% | \$ 1,058.3 | 7% |
| Adjusted Net Income | \$ 359.4 | 9% | \$ 731.3 | 12% |
| Adjusted Diluted EPS | \$ 0.99 | 9% | \$ 2.02 | 12% |

(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 46%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

| | <u>November 30, 2022</u> | <u>May 31, 2022</u> |
|-------------------------------------------------------|--------------------------|--------------------------|
| Cash, Restricted Cash, & Total Corporate Investments | \$ 1,334.2 | \$ 1,304.7 |
| Total Debt, Net of Debt Issuance Costs ⁽¹⁾ | \$ 808.0 | \$ 806.4 |
| Return on Equity | 46% | 45% |
| Fiscal Year-to-Date Period Ended: | <u>November 30, 2022</u> | <u>November 30, 2021</u> |
| Operating Cash Flow | \$ 685.9 | \$ 555.4 |
| Free Cash Flow | \$ 611.4 | \$ 459.2 |
| Dividends Paid | \$ 569.3 | \$ 476.4 |
| Dividend Coverage Ratio ⁽²⁾ | 1.1x | 1.0x |

(1) Does not include operating lease liabilities of \$88.6M and \$99.9M as of November 30, 2022, and May 31, 2022, respectively.

(2) 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, 2022

(In millions, except per share amounts)

| | Three Months Ended | | % | Six Months Ended | | % |
|-----------------------------------------------------------------------------------------|--------------------|-----------------|-----------|-------------------|-----------------|------------|
| | November 30, | | | November 30, | | |
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| Net Income | \$ 360.3 | \$ 332.1 | 8% | \$ 739.5 | \$ 665.7 | 11% |
| Non-GAAP Adjustments: | | | | | | |
| Excess Tax Benefit Related to Employee Stock-Based Compensation Payments ⁽¹⁾ | (0.9) | (2.3) | | (8.2) | (12.7) | |
| Adjusted Net Income⁽²⁾ | \$ 359.4 | \$ 329.8 | 9% | \$ 731.3 | \$ 653.0 | 12% |
| Diluted EPS | \$ 0.99 | \$ 0.91 | 9% | \$ 2.04 | \$ 1.83 | 11% |
| Non-GAAP Adjustments: | | | | | | |
| Excess Tax Benefit Related to Employee Stock-Based Compensation Payments ⁽¹⁾ | - | (0.01) | | (0.02) | (0.03) | |
| Adjusted Diluted EPS^(2,3) | \$ 0.99 | \$ 0.91 | 9% | \$ 2.02 | \$ 1.80 | 12% |
| Net Income | \$ 360.3 | \$ 332.1 | 8% | \$ 739.5 | \$ 665.7 | 11% |
| Non-GAAP Adjustments: | | | | | | |
| Interest Expense, Net | (0.9) | 8.9 | | 2.8 | 17.9 | |
| Income Taxes | 114.9 | 105.5 | | 227.7 | 215.8 | |
| Depreciation and Amortization Expense | 44.3 | 48.6 | | 88.3 | 94.3 | |
| Total Non-GAAP Adjustments | 158.3 | 163.0 | | 318.8 | 328.0 | |
| EBITDA⁽²⁾ | \$ 518.6 | \$ 495.1 | 5% | \$ 1,058.3 | \$ 993.7 | 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 Quarterly Report on Form 10-Q for further discussion.

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

Investment Portfolio Results

| (\$ in millions) | Three Months Ended November 30, | | | Six Months Ended November 30, | | |
|--------------------------------------------|------------------------------------|------------|-------------|----------------------------------|------------|-------------|
| | 2022 | 2021 | % Change | 2022 | 2021 | % Change |
| Average Investment Balances: | | | | | | |
| Funds Held For Clients | \$ 4,012.7 | \$ 3,917.5 | 2% | \$ 4,065.4 | \$ 3,907.5 | 4% |
| Corporate Cash Equivalents and Investments | \$ 1,349.3 | \$ 1,182.8 | 14% | \$ 1,363.0 | \$ 1,189.9 | 15% |
| Average Rate of Return Earned: | | | | | | |
| Funds Held For Clients | 2.2% | 1.4% | | 1.9% | 1.5% | |
| Corporate Cash Equivalents and Investments | 3.0% | 0.1% | | 2.3% | 0.1% | |
| Realized Gains, Net | \$ (0.0) | \$ 0.0 | | \$ 0.1 | \$ 0.1 | |
| <u>End of Period:</u> | November 30, 2022 | | | May 31, 2022 | | |
| Unrealized Loss, Net | \$217.8 | | | \$136.3 | | |

- 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 primarily due to wage inflation and increased employment levels.

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HR | Payroll | Benefits | Insurance

The Power of Simplicity