

Third 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.

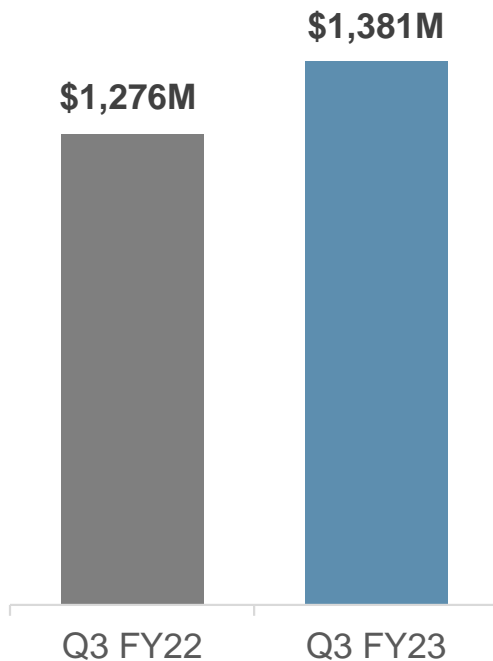
- Comprehensive technology-driven HCM solutions company
- Leading-edge technology platform backed by HR and compliance expertise
- Leader in comprehensive HR outsourcing solutions
- >730,000 clients⁽¹⁾
- Strong financial position
- Market capitalization of >\$39B⁽²⁾

Third Quarter Highlights

Third Quarter Financial Highlights

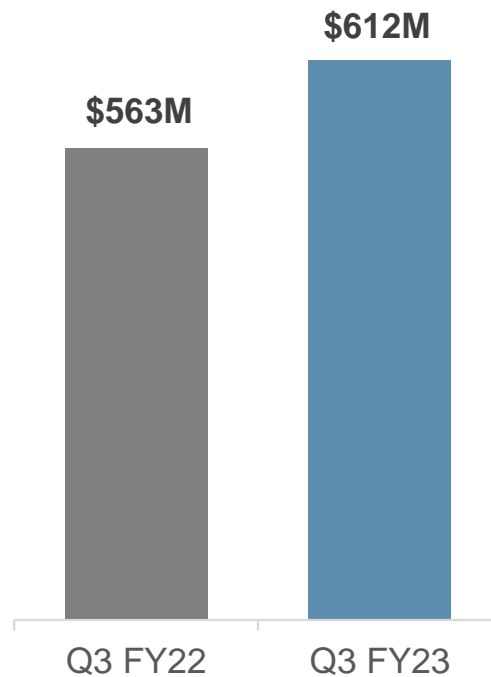
Total Revenues

↑ 8%



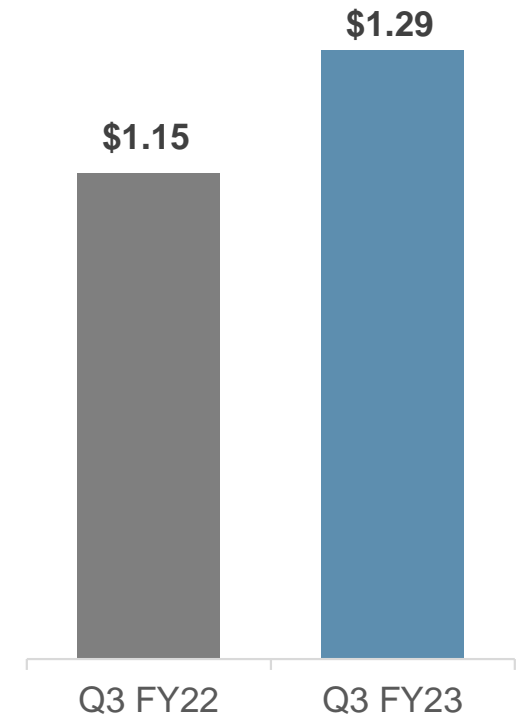
Operating Income

↑ 9%



Adjusted Diluted EPS⁽¹⁾

↑ 12%

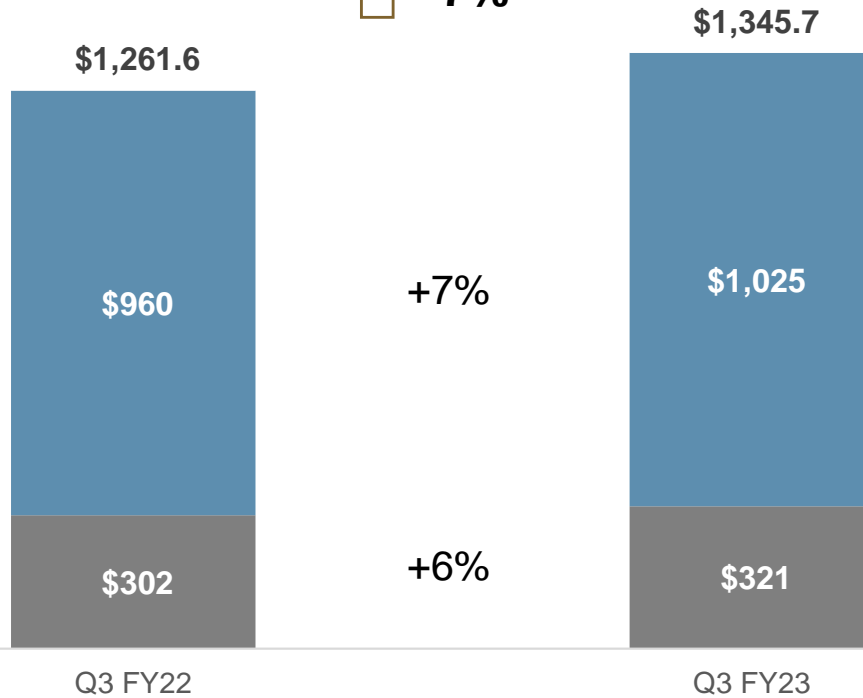


(1) Adjusted diluted earnings per share ("EPS") is not a U.S. generally accepted accounting principles ("GAAP") measure. Refer to slide 16 for a reconciliation to the corresponding GAAP measure.

Third Quarter Service Revenue

Service Revenue

↑ 7%



(In Millions)

Key Drivers

Management Solutions

- Increase in the number of clients and 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 and average wages per employee
- Higher state unemployment insurance revenues
- Lower health insurance enrollment and soft Workers' Compensation market

(1) Professional Employer Organization ("PEO")

Third Quarter Business Highlights

Achieved solid Q3 revenue and earnings growth

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

Strong results across sales and service

- Successful selling season and calendar year-end with strong sales volumes and retention for the quarter
- Increased product penetration, particularly in HR outsourcing, time and attendance, and retirement, along with pricing realization driving higher revenue per client
- Continued growth in total HR Outsourcing worksite employees – serving over 2M employees
- Strong demand for 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
- 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
- Interest rate increases a tailwind for float income

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

Product & Technology Horizon

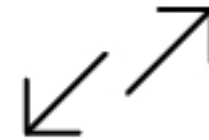
Innovation to meet our customers' evolving business needs



Artificial Intelligence
(including Paychex Flex
Intelligence Engine)



Data Analytics



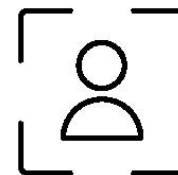
**Expanded
Integrations (APIs)**



**Wearable
Solutions**



**Voice
Recognition**



Personalization

Recent Awards and Recognition

Paychex was honored for its innovative technology and customer satisfaction



FORTUNE® Magazine 2023 World's Most Admired Companies

Paychex was named to the list of the World's Most Admired Companies recognizing its corporate reputation and outstanding financial performance



Ethisphere World's Most Ethical Companies

Paychex recognized for the 15th time, and the 12th consecutive year



FORTUNE® Magazine 2023 America's Most Innovative Companies

Paychex was recognized for the exceptional commitment to innovation shown in the company's products, process, and culture

Additional Awards:



2023 WINNER

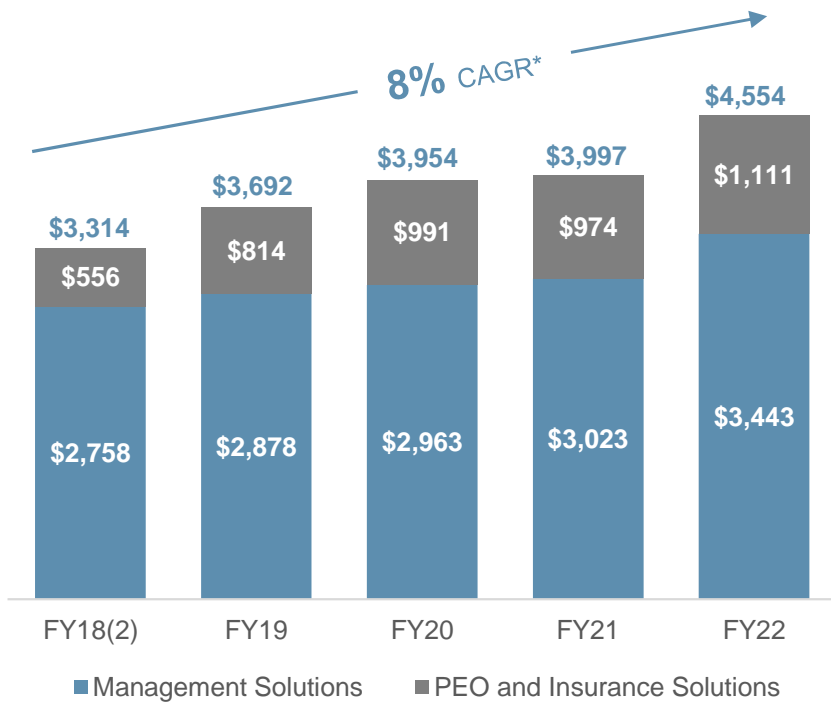


Sustained Financial Performance

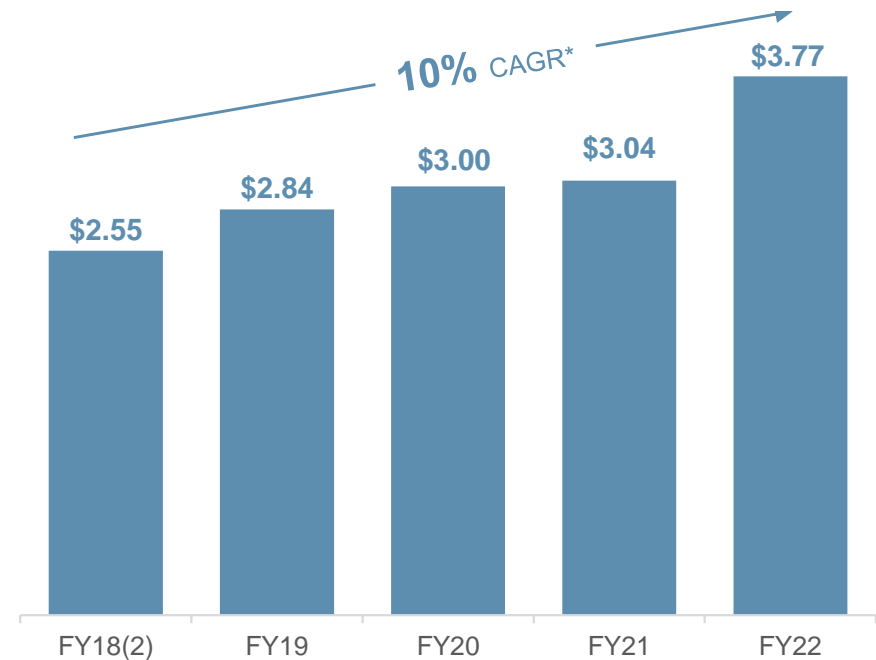
(in uncertain times)

(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

	March 29, 2023 Year-over-Year Growth	December 22, 2022 Year-over-Year Growth	September 28, 2022 Year-over-Year Growth	June 29, 2022 Year-over-Year Growth
Management Solutions Revenue	~8%	7% - 8%	5% - 7%	5% - 7%
PEO & Insurance Solutions Revenue	5% - 7%	5% - 7%	8% - 10%	8% - 10%
Total Revenue	~8%	~8%	7% - 8%	7% - 8%
Adjusted Diluted EPS ⁽¹⁾	13% - 14%	12% - 14%	11% - 12%	9% - 10%
	Anticipated Result	Anticipated Result	Anticipated Result	Anticipated Result
Interest on Funds Held for Clients	\$100M - \$105M	\$100M - \$110M	\$85M - \$95M	\$85M - \$95M
Operating Income, as a Percent of Total Revenue	40% - 41%	40% - 41%	40% - 41%	40% - 41%
EBITDA, as a Percent of Total Revenue ⁽¹⁾	~44%	~44%	~44%	~44%
Other Income/(Expense), Net	\$10M - \$15M	\$5M - \$10M	(\$10M) - (\$5M)	(\$10M) - (\$5M)
Effective Income Tax Rate	24% - 25%	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 third quarter of fiscal 2023.

Financial Results

Financial Results

For the Three and Nine Months ended February 28, 2023

(In millions, except per share amounts)	Three Months Ended	%	Nine Months Ended	%
	<u>February 28, 2023</u>	<u>Change</u>	<u>February 28, 2023</u>	<u>Change</u>
Management Solutions	\$ 1,024.5	7%	\$ 2,825.3	9%
PEO and Insurance Solutions	\$ 321.2	6%	\$ 877.3	6%
Total Service Revenue	\$ 1,345.7	7%	\$ 3,702.6	8%
Interest on Funds Held for Clients	\$ 35.3	144%	74.9	74%
Total Revenue	\$ 1,381.0	8%	\$ 3,777.5	9%
Operating Income	\$ 611.9	9%	\$ 1,579.8	9%
Net Income	\$ 467.4	9%	\$ 1,206.9	10%
Diluted EPS	\$ 1.29	8%	\$ 3.33	10%
Non-GAAP Measures:⁽¹⁾				
EBITDA	\$ 655.8	7%	\$ 1,714.1	7%
Adjusted Net Income	\$ 466.7	11%	\$ 1,198.0	12%
Adjusted Diluted EPS	\$ 1.29	12%	\$ 3.31	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 47%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>February 28, 2023</u>	<u>May 31, 2022</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,617.4	\$ 1,304.7
Total Debt, Net of Debt Issuance Costs ⁽¹⁾	\$ 808.3	\$ 806.4
Return on Equity	47%	45%
Fiscal Year-to-Date Period Ended:	<u>February 28, 2023</u>	<u>February 28, 2022</u>
Operating Cash Flow	\$ 1,290.1	\$ 1,168.3
Free Cash Flow	\$ 1,177.2	\$ 1,033.8
Dividends Paid	\$ 854.1	\$ 714.9
Dividend Coverage Ratio ⁽²⁾	1.4x	1.4x

(1) Does not include operating lease liabilities of \$83.7M and \$99.9M as of February 28, 2023, 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 Nine Months ended February 28, 2023

(In millions, except per share amounts)

	Three Months Ended		% Change	Nine Months Ended		% Change
	February 28,			February 28,		
	2023	2022		2023	2022	
Net Income	\$ 467.4	\$ 430.7	9%	\$ 1,206.9	\$ 1,096.4	10%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments ⁽¹⁾	(0.7)	(5.2)		(8.9)	(17.9)	
Tax Benefit Derived from Research and Development Costs ⁽²⁾	-	(6.1)		-	(6.1)	
Total Non-GAAP Adjustments	(0.7)	(11.3)		(8.9)	(24.0)	
Adjusted Net Income⁽³⁾	\$ 466.7	\$ 419.4	11%	\$ 1,198.0	\$ 1,072.4	12%
Diluted EPS	\$ 1.29	\$ 1.19	8%	\$ 3.33	\$ 3.02	10%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments ⁽¹⁾	-	(0.01)		(0.02)	(0.05)	
Tax Benefit Derived from Research and Development Costs ⁽²⁾	-	(0.02)		-	(0.02)	
Total Non-GAAP Adjustments	-	(0.03)		(0.02)	(0.07)	
Adjusted Diluted EPS^(3,4)	\$ 1.29	\$ 1.15	12%	\$ 3.31	\$ 2.95	12%
Net Income	\$ 467.4	\$ 430.7	9%	\$ 1,206.9	\$ 1,096.4	10%
Non-GAAP Adjustments:						
Interest (Income)/Expense, Net	(5.8)	8.5		(3.0)	26.4	
Income Taxes	150.0	123.6		377.7	339.4	
Depreciation and Amortization Expense	44.2	48.4		132.5	142.7	
Total Non-GAAP Adjustments	188.4	180.5		507.2	508.5	
EBITDA⁽³⁾	\$ 655.8	\$ 611.2	7%	\$ 1,714.1	\$ 1,604.9	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) Non-recurring tax benefit derived from prior years' research and development costs incurred in the production of customer-facing software.

(3) 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.

(4) 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 February 28,			Nine Months Ended February 28,		
	2023	2022	% Change	2023	2022	% Change
Average Investment Balances:						
Funds Held For Clients	\$ 4,935.7	\$ 5,046.0	-2%	\$ 4,355.5	\$ 4,287.0	2%
Corporate Cash Equivalents and Investments	\$ 1,508.0	\$ 1,341.6	12%	\$ 1,411.3	\$ 1,240.5	14%
Average Rate of Return Earned:						
Funds Held For Clients	2.9%	1.1%		2.3%	1.3%	
Corporate Cash Equivalents and Investments	3.9%	0.2%		2.9%	0.1%	
Realized Gains, Net	\$ 0.0	\$ 0.0		\$ 0.1	\$ 0.1	
<u>End of Period:</u>	February 28, 2023			May 31, 2022		
Unrealized Loss, Net	\$230.5			\$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 decreased primarily due to client mix and lower bonus collections.

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The Power of Simplicity