

# Third Quarter Highlights and Financial Results

Fiscal 2021

**PAYCHEX**<sup>®</sup>

HR | Payroll | Benefits | Insurance

# Forward Looking Statements

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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

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A leading provider of integrated human capital management (“HCM”) solutions for human resources (“HR”), payroll, benefits, and insurance solutions 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
- >680,000 clients<sup>(1)</sup>
- Strong financial position
- Market capitalization of >\$35B<sup>(2)</sup>

(1) As of May 31, 2020

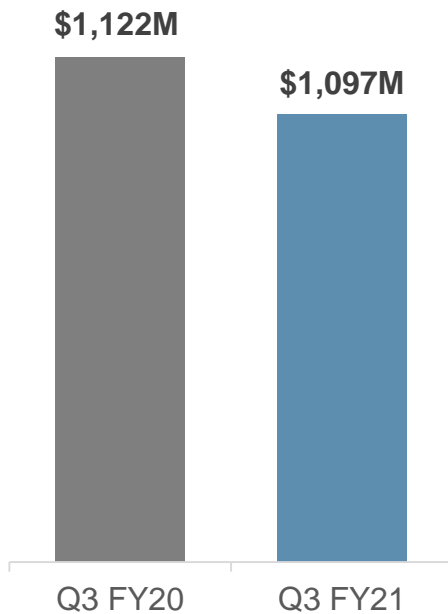
(2) As of March 31, 2021

# Third Quarter Highlights

# Third Quarter Financial Highlights

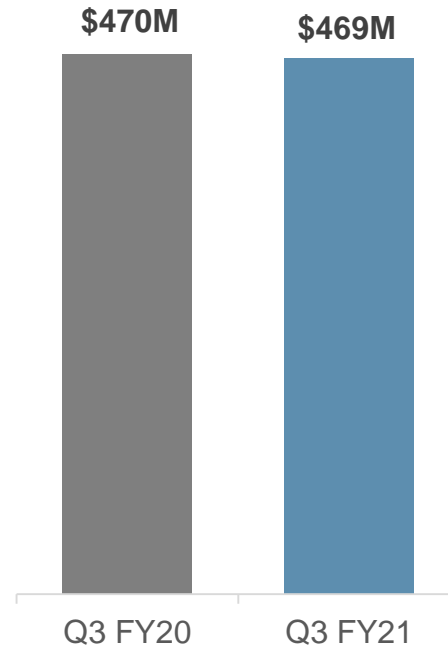
## Service Revenues

↓ 2%



## Adjusted Operating Income<sup>(1)</sup>

→ 0%



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

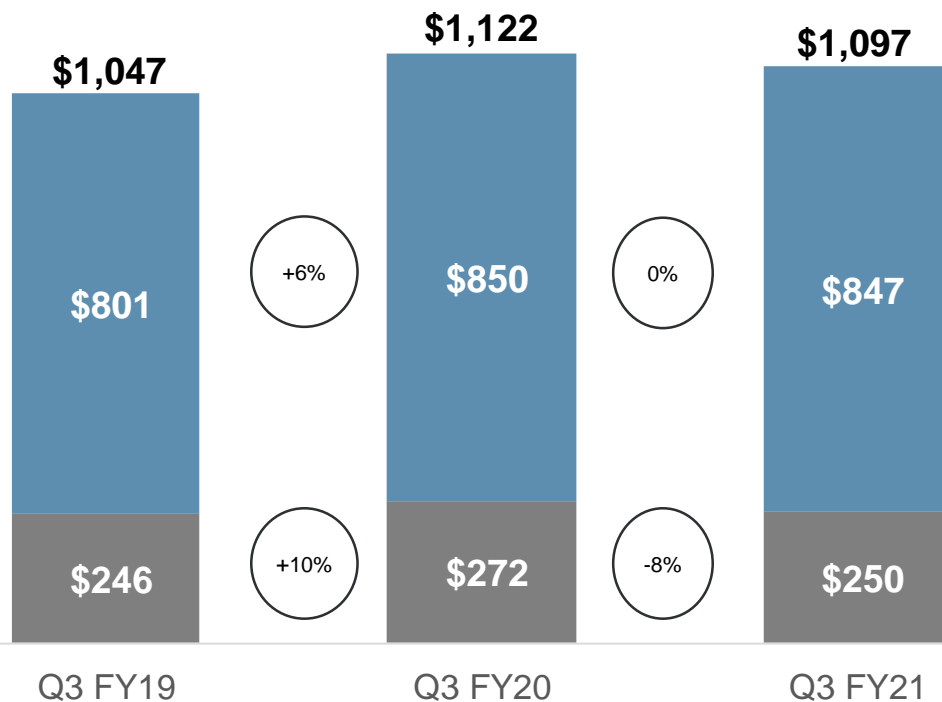
↓ 1%



(1) Adjusted Operating Income and Adjusted Diluted Earnings per Share ("EPS") are not U.S. generally accepted accounting principles ("GAAP") measures. Refer to slide 17 for a reconciliation to the corresponding GAAP measures.

# Third Quarter Service Revenue

(In Millions)



## Key Drivers

### Management Solutions

- Continued strong retention and client base growth
- Higher revenue per check
- Lower employee counts throughout our HCM suite due to COVID-19 which also impacted annual year-end revenues

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

- Decline in average PEO worksite employees due to COVID-19
- Pressure from state unemployment rates due to rising unemployment costs
- Lower workers' compensation premiums due to lower wages and softening of market rates

(1) Professional Employer Organization ("PEO")

# Third Quarter Business Highlights

- Positioned for growth with progress in key business metrics
  - Achieved record client retention and client satisfaction scores which drove increase in client base
  - Continued to see strong demand for HR outsourcing, particularly the ASO model
  - Experienced strength in sales in the low-end of the market with virtual and digital sales
  - Built momentum in sales with increases in leads, sales rep tenure, and win rates vs. competitors
- Provided clients and prospects critical information and guidance to help them navigate a complex regulatory environment
  - Responded in real time to changes in government regulations, building on Paycheck Protection Program (PPP) solutions; Paychex clients have secured \$60B in PPP loans to date
  - Helped clients claim a total of \$1.5B in Paid Leave and Employee Retention Tax Credits to date; Paychex was the first HR solutions company to help clients navigate the Employee Retention Tax Credit without impacting PPP loan forgiveness
  - Continued to provide thought leadership to the business community through on-demand webinars, events, and white papers; COVID-19 Help Center viewed nearly 500K times to date
- Realized benefits from accelerated cost-savings initiatives, which reduced physical brick and mortar footprint and optimized headcount; recognized \$32M year-to-date of one-time costs associated with these initiatives with the majority in the first quarter
- Returned \$271M to shareholders during the third quarter in the form of dividends and share repurchases

# Recent Product & Technology Launches

Designed to simplify common HR and payroll challenges

## Pooled Employer Plan (PEP)

In response to the SECURE Act, pooled employer plans reduce fiduciary liability for employers, simplify retirement plan management, and reduce plan expenses when compared to single-employer retirement plan offerings.

## Integration with Fiserv's Clover platform

Streamlines payroll and time and attendance management for business owners using the popular Clover platform from Fiserv. With Paychex Flex available in the Clover App Market, business owners can more efficiently manage the essential tasks of payroll, staffing, time tracking, and scheduling all within a single application to help save time, increase accuracy, and reduce cost.

## Diversity and Equal Pay Live Report

Builds on a recently released EEO-1 compliance solution and gives administrators the ability to analyze their pay and diversity data via a simple, customizable report. With improved access to this critical data, businesses are better positioned to uncover opportunities to create a more diverse and equitable workforce, while also meeting compliance requirements.

## General Ledger Live Report

Dynamically expands visibility of general ledger data – such as debits, credits, and account types – and provides options to customize, drill-down, and segment report information.

## Enhanced Live Report Functionality

Expands the existing thresholds feature in Live Reports to help customers more effectively monitor how key business metrics are performing against benchmarks and goals. Based on historical data, Paychex Flex will suggest appropriate thresholds to help administrators stay on track in critical areas like overtime hours, daily headcount, and payroll labor costs.



# Product & Technology Horizon

Innovation to meet our customers' evolving business needs

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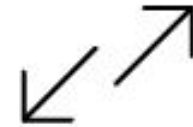


## Artificial Intelligence

(including Paychex Flex  
Intelligence Engine)



## Data Analytics



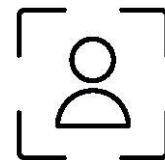
## Expanded Integrations (APIs)



## Wearable Solutions



## Voice Recognition



## Personalization

# Recent Awards and Recognition

Paychex is being honored for its innovative technology and corporate culture

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Training Magazine  
World's Top 100 Training Companies

#7 on the list of top training organizations in the world. Honored for the 20<sup>th</sup> consecutive year



Ethisphere  
World's Most Ethical Companies

Paychex recognized for the 13<sup>th</sup> time, and the 10<sup>th</sup> consecutive year



Stevie Award® for Most Valuable COVID-19 Response by a Business Development Team

Paychex was recognized for the fifth consecutive year, this time for the Company's rapid response to the COVID-19 pandemic



FORTUNE® Magazine 2021 Worlds' Most Admired Companies

Paychex was named to the list of the World's Most Admired Companies due to its outstanding financial performance and leadership in key areas of importance in today's business environment



Business Intelligence Group  
2021 BIG Innovation Award

Paychex was recognized by the Business Intelligence Group as a leader in Real Time Payments



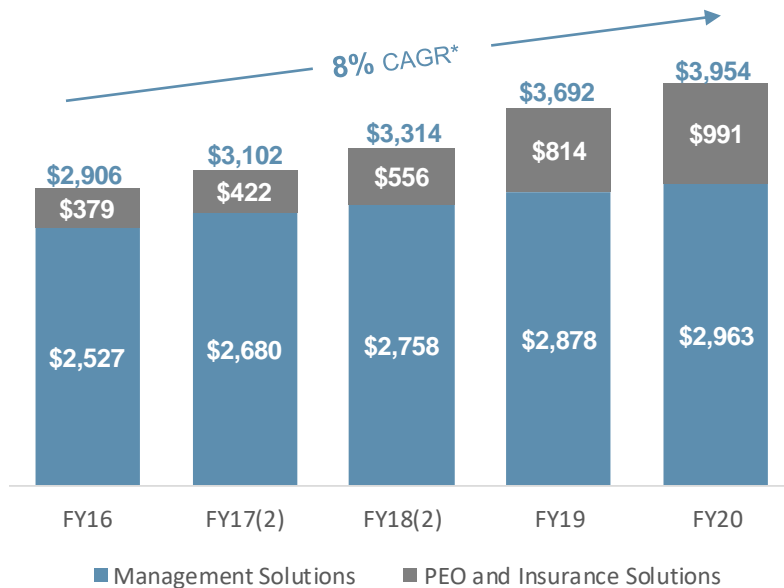
Sapient Insights Group HR  
Systems Survey

Paychex ranked #1 in Payroll Voice of the Customer Report. Paychex Flex topped all payroll providers in both user experience and vendor satisfaction scores in the special edition VOC report

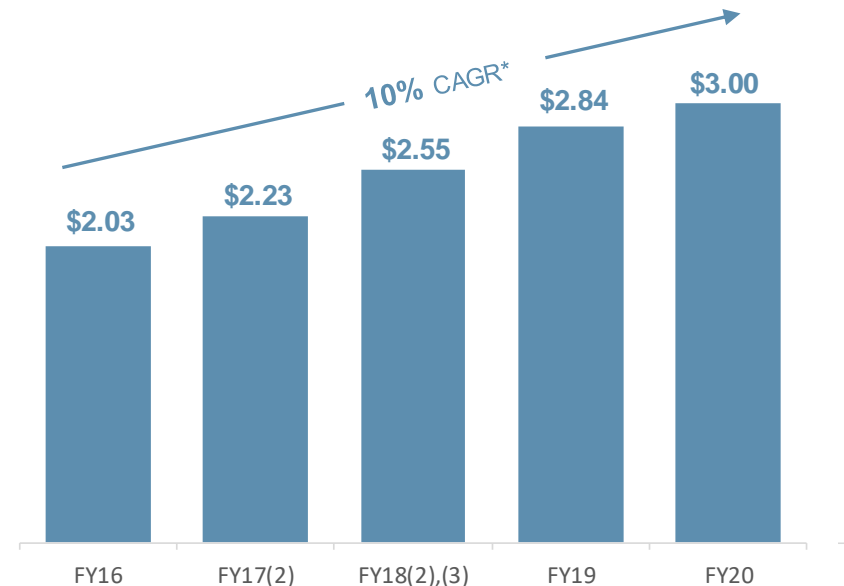
# Sustained Financial Performance

(In Millions, Except Per Share Amounts)

## Total Service Revenue



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



\* 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 37%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>February 28, 2021</u>	<u>May 31, 2020</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,080.9	\$ 1,013.7
Total Debt, Net of Debt Issuance Costs <sup>(1)</sup>	\$ 804.2	\$ 801.9
Return on Equity	37%	41%
Fiscal Year-to-Date Period Ended:	<u>February 28, 2021</u>	<u>February 29, 2020</u>
Operating Cash Flow <sup>(2)</sup>	\$ 870.6	\$ 1,052.7
Dividends Paid	\$ 670.5	\$ 666.8
Dividend Coverage Ratio <sup>(3)</sup>	1.1x	1.4x
FCF	764.4	946.3

(1) Does not include operating lease liabilities of \$122.1M and \$134.1M as of February 28, 2021 and May 31, 2020, respectively.

(2) The decrease in operating cash flows was driven by lower net income and changes in operating assets and liabilities. The changes in operating assets and liabilities were primarily driven by an increase in purchased receivables balances due to client's continued recovery from the COVID-19 pandemic and growth in our business, offset by an increase in worksite employee payroll-related liabilities.

(3) Dividend Coverage Ratio is calculated based on free cash flow of \$764.4M and \$946.3M for the nine months ended February 28, 2021 and February 29, 2020, respectively.

# Fiscal 2021 Outlook

# Fiscal Year 2021 Outlook<sup>(1)</sup>

	Previous Guidance Year-over-Year Growth	Revised Guidance Year-over-Year Growth
Management Solutions Revenue	(1%) - 1%	0% - 2%
PEO & Insurance Solutions Revenue	(5%) - (2%)	(5%) - (2%)
Total Service Revenue	n/a	(1%) - 1%
Total Revenue	(3%) - 0%	(2%) - 0%
Adjusted Diluted EPS <sup>(2)</sup>	(4%) - (1%)	(2%) - 0%

	Anticipated Result	Anticipated Result
Interest on Funds Held for Clients	\$55M - \$65M	\$55M - \$65M
Adjusted Operating Income <sup>(2)</sup> , as a Percent of Total Revenue	~36%	36% - 37%
Adjusted EBITDA <sup>(2)</sup> , as a Percent of Total Revenue	~41%	41% - 42%
Other Expense, net	\$25M - \$30M	\$25M - \$30M
Effective Income Tax Rate	~24%	23% - 24%

(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, 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 17 for a reconciliation to the corresponding GAAP measures for the third quarter and year-to-date periods.

# Financial Results

# Financial Results

For the Three and Nine Months ended February 28, 2021

(In millions, except per share amounts)	<b>Three Months Ended February 28, 2021</b>	<b>% Change</b>	<b>Nine Months Ended February 28, 2021</b>	<b>% Change</b>
Management Solutions	\$ 846.8	(0%)	\$ 2,267.0	(1%)
PEO and Insurance Solutions	249.8	(8%)	715.8	(6%)
<b>Total Service Revenue</b>	<b>1,096.6</b>	<b>(2%)</b>	<b>2,982.8</b>	<b>(3%)</b>
Interest on Funds Held for Clients	15.1	(29%)	44.8	(27%)
<b>Total Revenue</b>	<b>\$ 1,111.7</b>	<b>(3%)</b>	<b>\$ 3,027.6</b>	<b>(3%)</b>
Operating Income	\$ 468.6	(0%)	\$ 1,106.9	(5%)
Net Income	\$ 350.5	(1%)	\$ 834.5	(5%)
Diluted EPS	\$ 0.97	(1%)	\$ 2.31	(5%)
<b>Non-GAAP Measures:<sup>(1)</sup></b>				
Adjusted Operating Income	\$ 468.6	(0%)	\$ 1,139.1	(2%)
Adjusted EBITDA	\$ 517.5	(1%)	\$ 1,290.5	(2%)
Adjusted Net Income	\$ 348.8	(1%)	\$ 841.6	(2%)
Adjusted Diluted EPS	\$ 0.96	(1%)	\$ 2.32	(3%)

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



# Non-GAAP Financial Measures

For the Three and Nine Months ended February 28, 2021 and February 29, 2020

(In millions, except per share amounts)

	Three Months Ended			Nine Months Ended		
	February 28, 2021 <sup>(1)</sup>	February 29, 2020	% Change	February 28, 2021 <sup>(1)</sup>	February 29, 2020	% Change
<b>Operating Income</b>	\$ 468.6	\$ 470.1	(0%)	\$ 1,106.9	\$ 1,160.9	(5%)
Non-GAAP Adjustments:						
Cost-Saving Initiatives <sup>(2)</sup>	-	-		32.2	-	
Total Non-GAAP Adjustments	-	-		32.2	-	
<b>Adjusted Operating Income<sup>(3)</sup></b>	<u>\$ 468.6</u>	<u>\$ 470.1</u>	(0%)	<u>\$ 1,139.1</u>	<u>\$ 1,160.9</u>	(2%)
<b>Net Income</b>	\$ 350.5	\$ 354.5	(1%)	\$ 834.5	\$ 877.4	(5%)
Non-GAAP Adjustments:						
Employee Stock-Based Compensation Payments	(1.7)	(3.3)		(17.2)	(14.8)	
Cost-Saving Initiatives <sup>(2)</sup>	-	-		24.3	-	
Total Non-GAAP Adjustments	(1.7)	(3.3)		7.1	(14.8)	
<b>Adjusted Net Income<sup>(3)</sup></b>	<u>\$ 348.8</u>	<u>\$ 351.2</u>	(1%)	<u>\$ 841.6</u>	<u>\$ 862.6</u>	(2%)
<b>Diluted EPS</b>	\$ 0.97	\$ 0.98	(1%)	\$ 2.31	\$ 2.43	(5%)
Non-GAAP Adjustments:						
Employee Stock-Based Compensation Payments	-	(0.01)		(0.05)	(0.04)	
Cost-Saving Initiatives <sup>(2)</sup>	-	-		0.07	-	
Total Non-GAAP Adjustments	-	(0.01)		0.02	(0.04)	
<b>Adjusted Diluted EPS<sup>(3)</sup></b>	<u>\$ 0.96</u>	<u>\$ 0.97</u>	(1%)	<u>\$ 2.32</u>	<u>\$ 2.39</u>	(3%)
<b>Net Income</b>	\$ 350.5	\$ 354.5	(1%)	\$ 834.5	\$ 877.4	(5%)
Non-GAAP Adjustments:						
Interest Expense, Net	8.5	6.2		25.4	18.8	
Income Taxes	112.1	109.7		253.8	268.1	
Depreciation and Amortization Expense	46.4	50.1		144.6	158.0	
Total Non-GAAP Adjustments	167.0	166.0		423.8	444.9	
EBITDA	517.5	520.5	(1%)	1,258.3	1,322.3	(5%)
Cost-Saving Initiatives <sup>(2)</sup>	-	-		32.2	-	
<b>Adjusted EBITDA<sup>(3)</sup></b>	<u>\$ 517.5</u>	<u>\$ 520.5</u>	(1%)	<u>\$ 1,290.5</u>	<u>\$ 1,322.3</u>	(2%)

(1) 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.

(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			Nine Months Ended		
	February 28, 2021	February 29, 2020	% Change	February 28, 2021	February 29, 2020	% Change
<b>Average Investment Balances:</b>						
Funds Held For Clients	\$ 4,459.6	\$ 4,454.3	0%	\$ 3,849.5	\$ 3,975.0	(3%)
Corporate Cash Equivalents and Investments	\$ 1,062.0	\$ 837.9	27%	\$ 1,016.3	\$ 829.5	23%
<b>Earned:</b>						
Funds Held For Clients	1.3%	1.9%		1.5%	2.0%	
Corporate Cash Equivalents and Investments	0.1%	1.5%		0.2%	1.7%	
<b>Realized Gains, Net</b>	\$ 0.3	\$ 0.6		\$ 1.0	\$ 2.4	
<b>End of Period:</b>	<b>February 28, 2021</b>			<b>May 31, 2020</b>		
<b>Unrealized Gain, Net</b>	\$82.1			\$100.0		

- The Federal Funds rate decreased 225 basis points during fiscal 2020 pressuring average rates of return earned during FY21.
- Rising market interest rates resulted in a decrease in the net unrealized gain position of our longer-term investment portfolio.
- Average invested balances for funds held for clients was flat during the third quarter as lower client fund collections and state unemployment insurance rate changes were offset by the timing of collections and remittances and wage inflation.

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**The Power of Simplicity**