

# First Quarter Highlights and Financial Results

Fiscal 2022

**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”) 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<sup>(1)</sup>
- Strong financial position
- Market capitalization of >\$38B<sup>(2)</sup>

(1) As of May 31, 2021

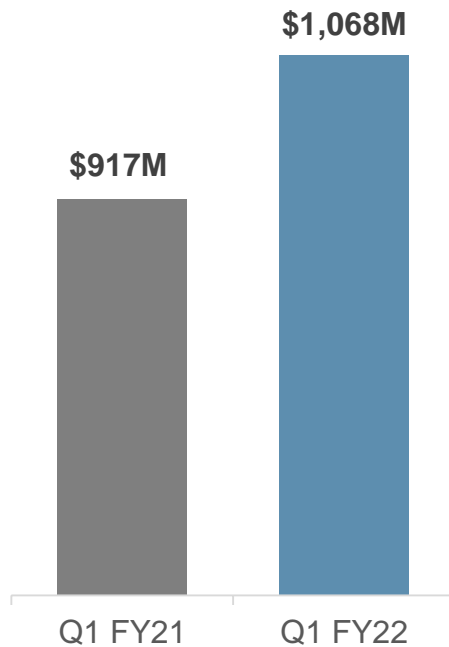
(2) As of September 29, 2021

# First Quarter Highlights

# First Quarter Financial Highlights

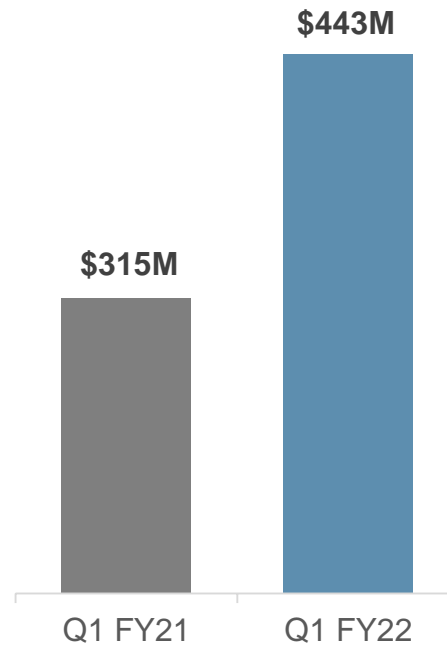
## Service Revenues

↑ 16%



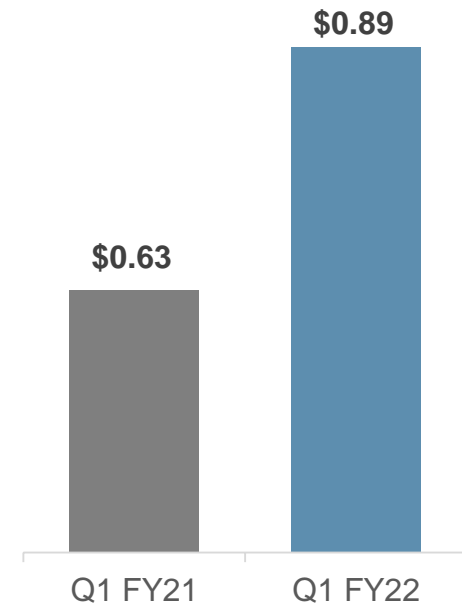
## Adjusted Operating Income<sup>(1)</sup>

↑ 41%



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

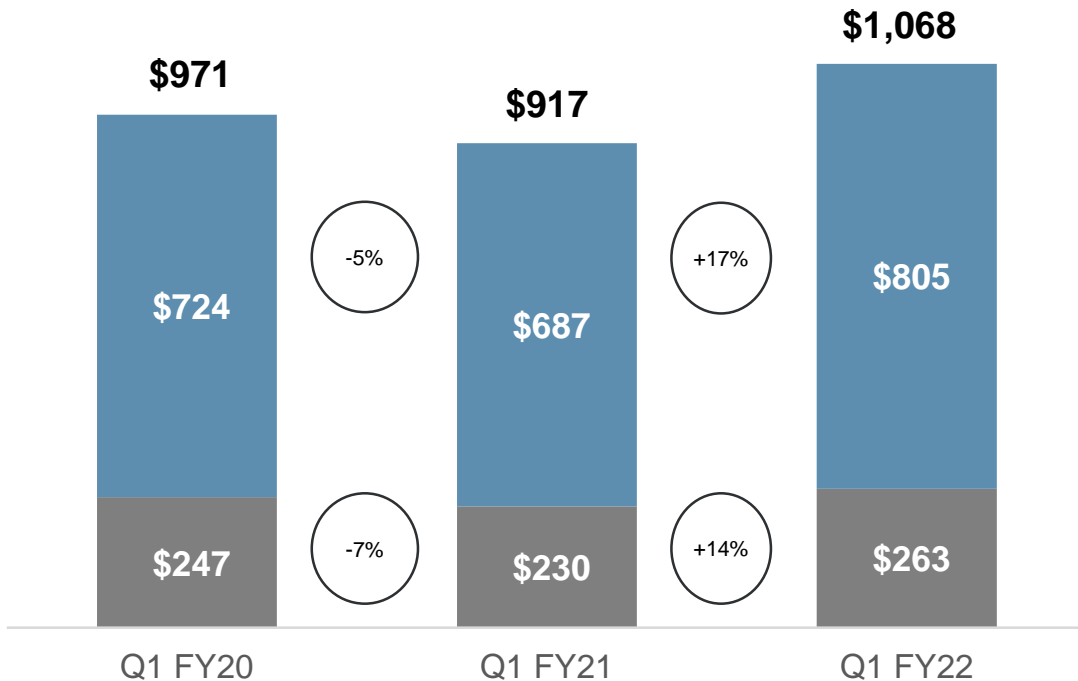
↑ 41%



(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.

# First 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 suite due to higher employment levels
- Higher revenue per client due to price realization and product penetration

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

- Increase in average PEO worksite employees
- Higher state unemployment insurance revenues
- Increase in wages and hours worked contributed to higher workers' compensation premiums within the Insurance Agency and the PEO

(1) Professional Employer Organization ("PEO")

# First Quarter Business Highlights

- **Achieved double-digit revenue and earnings growth**
  - Strong internal execution with continued momentum in sales, marketing, and client retention
  - Positive trends in the macroeconomic environment reflected in growth in checks per payroll and increases in HR outsourcing worksite employees within our existing client base
  - Adjusted operating margins expanded 710 basis points
- **Strong client base growth across almost all major product lines**
  - Client retention at near-record levels
  - Solid performance in digital sales, our mid-market, and HR outsourcing
  - Double-digit growth y/y in total HR Outsourcing (ASO + PEO) worksite employees
- **Well-positioned for growth in fiscal 2022 and beyond**
  - Modern HCM software platform with comprehensive, integrated suite of solutions from hire to retire
  - Digital investments in product development, service, sales, and marketing
  - Sales 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

### Paychex Pre-Check

A self-service solution that allows employees to review their paystubs and alert their employer of discrepancies before payday. Also, adds automation to payroll process for employers.

### Retention Insights

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

### Pay Benchmarking

A live report that lets clients view compensation details and performance ratings by position and compare to national averages provided by the Bureau of Labor Statistics.

### Talent Dashboard

Brings together retention insights, time off with balances, and performance ratings in one place. Allows employers to compare the performance rating and compensation of each job position to ensure they are rewarding employees appropriately and equitably.

### Time Off Management

A new automated time off tracking solution that provides customizable real-time views of time off balances through Paychex Flex.

### Amazon Alexa Integration

Paychex Flex now has Alexa voice integration, in addition to Google Assistant and Siri Shortcuts, making it the first HCM application to offer integration with all three of the major voice assistant platforms.

### Paychex Employee Retention Tax Credit (ERTC) Service

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



# Product & Technology Horizon

Innovation to meet our customers' evolving business needs

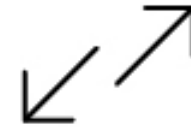
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**Artificial Intelligence**  
(including Paychex Flex  
Intelligence Engine)



**Data Analytics**



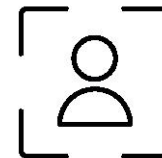
**Expanded  
Integrations (APIs)**



**Wearable  
Solutions**



**Voice  
Recognition**



**Personalization**

# Recent Awards and Recognition

Paychex is being honored for its innovative technology and product leadership

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HR Executive Magazine  
Top HR Product of the  
Year

Paychex Pre-Check was  
recognized in the Core HR  
category



Brandon Hall Group  
HCM Excellence Award  
Gold  
Excellence in Learning

Paychex won a gold award in the  
category of Best Use of a Blended  
Learning Program for its Human  
Resource Services Excellence  
Academy (HRSEA)



*Largest 401(k) Recordkeeper by Number of Plans*  
**PAYCHEX**

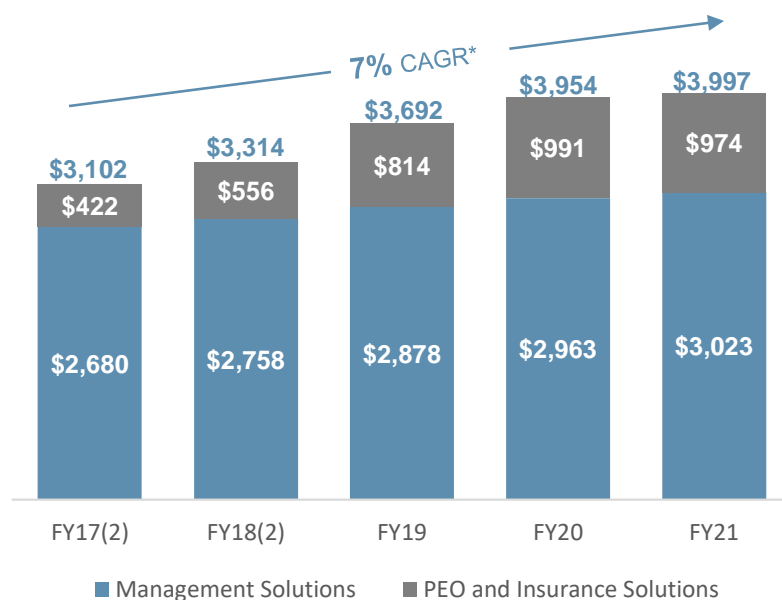
PLANSPONSOR Magazine  
Recordkeeping Survey 2021  
Largest 401(k) Recordkeeper

Paychex earned distinction as the largest  
401(k) recordkeeper by total number of  
401(k) plans for the 11<sup>th</sup> consecutive year

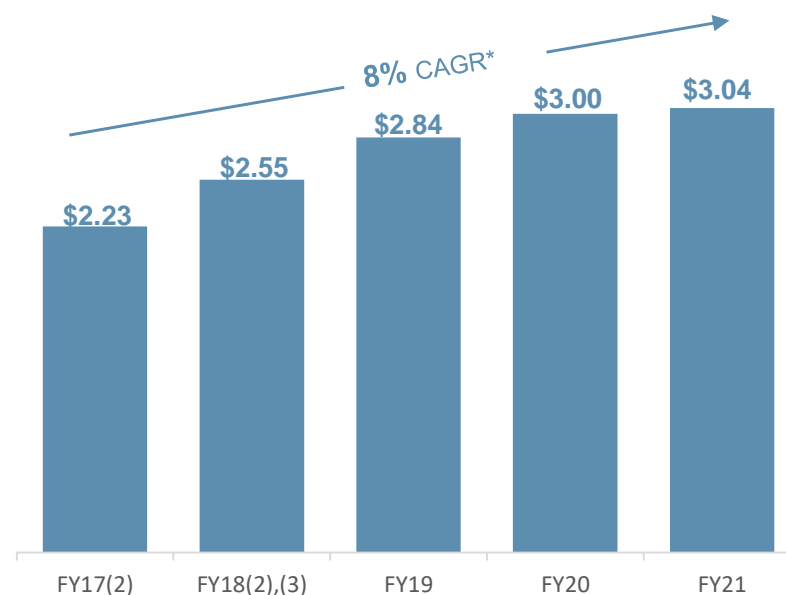
# Sustained Financial Performance

(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 42%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>August 31, 2021</u>	<u>May 31, 2021</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,232.3	\$ 1,127.3
Total Debt, Net of Debt Issuance Costs <sup>(1)</sup>	\$ 804.5	\$ 804.7
Return on Equity	42%	38%
Fiscal Year-to-Date Period Ended:	<u>August 31, 2021</u>	<u>August 31, 2020</u>
Operating Cash Flow <sup>(2)</sup>	\$ 385.6	\$ 215.0
Free Cash Flow	\$ 353.9	\$ 193.7
Dividends Paid	\$ 238.1	\$ 223.2
Dividend Coverage Ratio <sup>(3)</sup>	1.5x	0.9x

(1) Does not include operating lease liabilities of \$121.0M and \$121.4M as of August 31, 2021 and May 31, 2021, respectively.

(2) The increase in operating cash flow was driven by higher net income, as well as changes in operating assets and liabilities. The changes in operating assets and liabilities were primarily driven by changes in purchased receivables balances due to the timing of collections and by the timing and magnitude of income tax payments, partially offset by higher incentive compensation payments and net change in operating lease right-of-use assets and liabilities due to reduction in our geographic footprint.

(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
Management Solutions Revenue	~7%	~8%
PEO & Insurance Solutions Revenue	8% - 10%	8% - 10%
Interest on Funds Held for Clients	Flat	Flat
Total Revenue	~7%	~8%
Adjusted Diluted EPS <sup>(2)</sup>	10% - 12%	12% - 14%
	<b>Anticipated Result</b>	<b>Anticipated Result</b>
Adjusted Operating Income <sup>(1)</sup> , as a Percent of Total Revenue	~38%	38% - 39%
Adjusted EBITDA <sup>(1)</sup> , as a Percent of Total Revenue	~42%	~43%
Depreciation & Amortization Expense	\$210M - \$220M	\$210M - \$220M
Other Expense, net	\$33M - \$37M	\$23M - \$26M
Effective Income Tax Rate	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 17 for a reconciliation to the corresponding GAAP measures for the first quarter.

# Financial Results

# Financial Results

For the Three Months ended August 31, 2021

(In millions, except per share amounts)	<b>Three Months Ended August 31, 2021</b>	<b>% Change</b>
Management Solutions	\$ 805.5	17%
PEO and Insurance Solutions	262.9	14%
<b>Total Service Revenue</b>	<b>1,068.4</b>	<b>16%</b>
Interest on Funds Held for Clients	14.5	(3%)
<b>Total Revenue</b>	<b>\$ 1,082.9</b>	<b>16%</b>
Operating Income	\$ 442.9	56%
Net Income	\$ 333.6	58%
Diluted EPS	\$ 0.92	56%
<b>Non-GAAP Measures:<sup>(1)</sup></b>		
Adjusted Operating Income	\$ 442.9	41%
Adjusted EBITDA	\$ 498.6	36%
Adjusted Net Income	\$ 323.2	42%
Adjusted Diluted EPS	\$ 0.89	41%

(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 Months ended August 31, 2021

	Three Months Ended		% Change
	August 31,		
	2021	2020 <sup>(1)</sup>	
<b>Operating Income</b>	<b>\$ 442.9</b>	<b>\$ 284.0</b>	<b>56%</b>
Non-GAAP Adjustments:			
Cost-Saving Initiatives <sup>(2)</sup>	-	31.2	
Total Non-GAAP Adjustments	-	31.2	
<b>Adjusted Operating Income<sup>(3)</sup></b>	<b>\$ 442.9</b>	<b>\$ 315.2</b>	<b>41%</b>
<b>Net Income</b>	<b>\$ 333.6</b>	<b>\$ 211.6</b>	<b>58%</b>
Non-GAAP Adjustments:			
Employee Stock-Based Compensation Payments	(10.4)	(7.0)	
Cost-Saving Initiatives <sup>(2)</sup>	-	23.4	
Total Non-GAAP Adjustments	(10.4)	16.4	
<b>Adjusted Net Income<sup>(3)</sup></b>	<b>\$ 323.2</b>	<b>\$ 228.0</b>	<b>42%</b>
<b>Diluted EPS</b>	<b>\$ 0.92</b>	<b>\$ 0.59</b>	<b>56%</b>
Non-GAAP Adjustments:			
Employee Stock-Based Compensation Payments	(0.03)	(0.02)	
Cost-Saving Initiatives <sup>(2)</sup>	-	0.06	
Total Non-GAAP Adjustments	(0.03)	0.05	
<b>Adjusted Diluted EPS<sup>(3)</sup></b>	<b>\$ 0.89</b>	<b>\$ 0.63</b>	<b>41%</b>
<b>Net Income</b>	<b>\$ 333.6</b>	<b>\$ 211.6</b>	<b>58%</b>
Non-GAAP Adjustments:			
Interest Expense, Net	9.0	8.4	
Income Taxes	110.3	64.5	
Depreciation and Amortization Expense	45.7	49.6	
Total Non-GAAP Adjustments	165.0	122.5	
EBITDA	498.6	334.1	49%
Cost-Saving Initiatives <sup>(2)</sup>	-	31.2	
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>\$ 498.6</b>	<b>\$ 365.3</b>	<b>36%</b>

(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 August 31,		% Change
	2021	2020	
<b>Average Investment Balances:</b>			
Funds Held For Clients	\$ 3,897.5	\$ 3,507.2	11%
Corporate Cash Equivalents and Investments	\$ 1,197.1	\$ 1,022.2	17%
<b>Average Rate of Return Earned:</b>			
Funds Held For Clients	1.5%	1.7%	
Corporate Cash Equivalents and Investments	0.1%	0.2%	
<b>Realized Gains, Net</b>	\$ 0.1	\$ 0.3	
<u>End of Period:</u>	<u>August 31, 2021</u>	<u>May 31, 2021</u>	
<b>Unrealized Gain, Net</b>	\$78.7	\$79.3	

- The Federal Funds rate remains near zero, pressuring average rates of return earned during both periods.
- Market interest rates remained range bound during the period, resulting in little change 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.

**PAYCHEX<sup>®</sup>**

HR | Payroll | Benefits | Insurance

**The Power of Simplicity**