

October 1, 2024



Paychex, Inc. Reports Solid First Quarter Results

- **Sustained Growth in Revenue and Earnings**
- **Returned \$457 Million to Stockholders Through Dividends and Share Repurchases**
- **Launched Several New Digital Solutions Designed to Help Businesses Succeed**

ROCHESTER, N.Y.--(BUSINESS WIRE)-- [Paychex, Inc.](https://www.paychex.com) (the "Company," "Paychex," "we," "our," or "us") today reported results for the fiscal quarter ended August 31, 2024 (the "first quarter"). Results compared with the same period last year were as follows:

In millions, except per share amounts	For the three months ended		Change ⁽²⁾
	August 31,	August 31,	
	2024	2023	
Total revenue	\$ 1,318.5	\$ 1,286.0	3%
Operating income	\$ 546.7	\$ 536.3	2%
Diluted earnings per share	\$ 1.18	\$ 1.16	2%
Adjusted diluted earnings per share ⁽¹⁾	\$ 1.16	\$ 1.14	2%

(1) Adjusted diluted earnings per share is not a United States ("U.S.") generally accepted accounting principle ("GAAP") measure. Please refer to the "Non-GAAP Financial Measures" section on page 3 of this press release for a discussion of non-GAAP measures.

(2) Percentage changes are calculated based on unrounded numbers.

President and Chief Executive Officer, John Gibson commented, "We are off to a solid start in fiscal 2025 with 3% growth in total revenue during the first quarter. Excluding the impact of the expiration of the Employee Retention Tax Credit ("ERTC") program and one less payroll processing day, revenue growth was 7%. Despite these headwinds, we delivered earnings per share growth in the first quarter through strong expense discipline."

Mr. Gibson also noted, "Small and mid-sized businesses remain resilient as the U.S. labor market gradually returns to its pre-pandemic level and wage inflation continues to moderate. We continue to invest in our go to market capabilities and products to drive innovation to meet the realities of the post-pandemic marketplace. We are excited to announce the introduction of several new products: Paychex Flex[®] Engage, Paychex Flex Perks, and Paychex Recruiting Copilot. These digital and artificial intelligence ("AI") driven solutions are designed to help our clients attract, retain, and engage their most critical asset, their workforce, and will strengthen our ability to achieve our mission to help businesses succeed."

First Quarter Business Highlights

Total revenue increased to \$1.3 billion for the first quarter, growth of 3% over the prior year period. Highlights as compared with the corresponding prior year period are as follows:

- Management Solutions revenue increased 1% to \$961.7 million for the first quarter primarily impacted by the following factors:
 - Growth in the number of clients served across our suite of human capital management ("HCM") solutions and client worksite employees for Human Resources ("HR") Solutions;
 - Higher product penetration, including HR Solutions and Retirement; and
 - Lower revenue from ancillary services, primarily due to the expiration of our ERTC Service.
- Professional Employer Organization ("PEO") and Insurance Solutions revenue increased 7% to \$319.3 million for the first quarter primarily due to the following:
 - Growth in the number of average PEO worksite employees; and
 - Increase in PEO insurance revenues.
- Interest on funds held for clients increased 15% to \$37.5 million for the first quarter primarily due to higher average interest rates and average investment balances.

Total expenses increased 3% to \$771.8 million for the first quarter primarily due to the following:

- Increase in PEO direct insurance costs related to growth in average worksite employees and PEO insurance revenues; and
- Continued investment in technology, sales, and marketing.

Operating income grew 2% to \$546.7 million for the first quarter. Operating margin (operating income as a percentage of total revenue) was 41.5% for the first quarter compared to 41.7% for the prior year period. Operating income was impacted by the expiration of the ERTC program and one less payroll processing day as compared with the prior year quarter.

Other income, net decreased 19% to \$10.4 million for the first quarter primarily as a result of lower average investment balances on our corporate investments.

Our effective income tax rate was 23.3% for the first quarter compared to 23.7% for the prior year period. Both periods were impacted by the recognition of net discrete tax benefits related to employee stock-based compensation payments.

Diluted earnings per share increased 2% to \$1.18 per share and adjusted diluted earnings per share⁽¹⁾ increased 2% to \$1.16 for the first quarter.

(1) Adjusted diluted earnings per share is not a U.S. GAAP measure. Please refer to the "Non-GAAP Financial Measures" section on page 3 of this press release for a discussion of non-GAAP measures.

Financial Position and Liquidity

Our financial position and cash flow generation remained strong during the first three months of the fiscal year. As of August 31, 2024, we had:

- Cash, restricted cash, and total corporate investments of \$1.6 billion.
- Short-term and long-term borrowings, net of debt issuance costs, of \$817.6 million.
- Cash flow from operations was \$546.1 million for the first quarter.

Return to Stockholders During the First Quarter

- Paid cumulative dividends of \$0.98 per share totaling \$353.4 million.
- Repurchased 828,855 shares of our common stock for \$104.0 million.

Non-GAAP Financial Measures

\$ in millions	For the three months ended		Change
	August 31, 2024	August 31, 2023	
Net income	\$ 427.4	\$ 419.2	2%
Non-GAAP adjustments:			
Excess tax benefits related to employee stock-based compensation payments ⁽¹⁾	(6.2)	(4.1)	
Adjusted net income	<u>\$ 421.2</u>	<u>\$ 415.1</u>	1%
Diluted earnings per share ⁽²⁾	\$ 1.18	\$ 1.16	2%
Non-GAAP adjustments:			
Excess tax benefits related to employee stock-based compensation payments ⁽¹⁾	(0.02)	(0.01)	
Adjusted diluted earnings per share	<u>\$ 1.16</u>	<u>\$ 1.14</u>	2%
Net income	\$ 427.4	\$ 419.2	2%
Non-GAAP adjustments:			
Interest income, net	(10.3)	(12.1)	
Income taxes	129.7	129.9	
Depreciation and amortization expense	39.0	41.2	
Total non-GAAP adjustments	158.4	159.0	
EBITDA	<u>\$ 585.8</u>	<u>\$ 578.2</u>	1%

- (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) 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.

In addition to reporting net income and diluted earnings per share, which are U.S. GAAP measures, we present adjusted net income, adjusted diluted earnings per share, and earnings before interest, taxes, depreciation, and amortization ("EBITDA"), which are non-GAAP measures. We believe these additional measures are indicators of the performance of our core business operations period over period. Adjusted net income, adjusted diluted earnings per share, and EBITDA are not calculated through the application of U.S. GAAP and are not required forms of disclosure by the Securities and Exchange Commission ("SEC"). As such, they should not be considered a substitute for the U.S. GAAP measures of net income, and diluted earnings per share, and, therefore, they should not be used in isolation but in conjunction with the U.S. GAAP measures. The use of any non-GAAP measure may produce results that vary from the U.S. GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies.

Business Outlook

Our business outlook for the fiscal year ending May 31, 2025 ("fiscal 2025") incorporates current assumptions and market conditions. Changes in the macroeconomic environment could alter our guidance. With consideration of these impacts, we have updated our business outlook as follows:

- Interest on funds held for clients is now anticipated to be in the range of \$145 million to \$155 million.
- Other income, net is now anticipated to be in the range of \$30 million to \$35 million.
- Other aspects of our guidance for fiscal 2025 remain unchanged from what we provided previously.

Corporate Responsibility

As part of what it means to be Paychex, we are focusing our corporate responsibility efforts on actions we can take to create positive impact. To learn more about our latest initiatives, please visit <https://www.paychex.com/corporate/corporate-responsibility>. The information available on our website is not a part of, and is not incorporated into, this press release.

Quarterly Report on Form 10-Q ("Form 10-Q")

We anticipate filing our Form 10-Q for the first quarter within the next day, and it will be available at <https://investor.paychex.com>. This press release should be read in conjunction with the Form 10-Q and the related Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in that Form 10-Q.

Webcast Details

Interested parties may access the webcast of our Earnings Release Conference Call, scheduled for October 01, 2024, at 9:30 a.m. Eastern Time, at <https://investor.paychex.com>. The webcast will be archived for approximately 90 days. Our news releases, current financial

information, SEC filings, and investor presentations are also accessible at <https://investor.paychex.com>.

About Paychex

Paychex, Inc. (Nasdaq: PAYX) is an industry-leading HCM company delivering a full suite of technology and advisory services in human resources, employee benefit solutions, insurance, and payroll. The company serves over 745,000 customers in the U.S. and Europe and pays one out of every 12 American private sector employees. The more than 16,000 people at Paychex are committed to helping businesses succeed and building thriving communities where they work and live. To learn more, visit www.paychex.com.

Cautionary Note Regarding Forward-Looking Statements

Certain written statements in this press release may contain, and members of management may from time to time make or discuss statements which constitute, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by such words and phrases as "expect," "outlook," "will," "guidance," "projections," "anticipate," "believe," "could," "design," "may," "possible," "potential," "should" and other similar words or phrases. Forward-looking statements include, without limitation, all matters that are not historical facts. Examples of forward-looking statements include, among others, statements we make regarding operating performance, events, or developments that we expect or anticipate will occur in the future, including statements relating to our outlook, revenue growth, earnings, earnings-per-share growth, and similar projections.

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 known and unknown uncertainties, risks, changes in circumstances, and other factors that are difficult to predict, many of which are outside our control. Our actual performance and outcomes, including without limitation, our actual results and financial condition, may differ materially from those indicated in or suggested by the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to keep pace with changes in technology or provide timely enhancements to our solutions and support;
- software defects, undetected errors, and development delays for our solutions;
- the possibility of cyberattacks, security vulnerabilities or Internet disruptions, including data security and privacy leaks, and data loss and business interruptions;
- the possibility of failure of our business continuity plan during a catastrophic event;
- the failure of third-party service providers to perform their functions;
- the possibility that we may be exposed to additional risks related to our co-employment relationship with our PEO business;
- changes in health insurance and workers' compensation insurance rates and underlying claim trends;

- risks related to acquisitions and the integration of the businesses we acquire;
- our clients' failure to reimburse us for payments made by us on their behalf;
- the effect of changes in government regulations mandating the amount of tax withheld or the timing of remittances;
- our failure to comply with covenants in our debt agreements;
- changes in governmental regulations, laws, and policies;
- our ability to comply with U.S. and foreign laws and regulations;
- our compliance with data privacy and artificial intelligence laws and regulations;
- our failure to protect our intellectual property rights;
- potential outcomes related to pending or future litigation matters;
- the impact of macroeconomic factors on the U.S. and global economy, and in particular on our small- and medium-sized business clients;
- volatility in the political and economic environment, including inflation and interest rate changes;
- our ability to attract and retain qualified people; and
- the possible effects of negative publicity on our reputation and the value of our brand.

Any of these factors, as well as such other factors as discussed in our SEC filings, could cause our actual results to differ materially from our anticipated results. The information provided in this document is based upon the facts and circumstances known as of the date of this press release, and any forward-looking statements made by us in this document speak only as of the date on which they are made. Except as required by law, we undertake no obligation to update these forward-looking statements after the date of issuance of this press release to reflect events or circumstances after such date, or to reflect the occurrence of unanticipated events.

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In millions, except per share amounts)

	For the three months ended		
	August 31, 2024	August 31, 2023	Change⁽²⁾
Revenue:			
Management Solutions	\$ 961.7	\$ 955.5	1%
PEO and Insurance Solutions	319.3	297.8	7%
Total service revenue	1,281.0	1,253.3	2%
Interest on funds held for clients ⁽¹⁾	37.5	32.7	15%
Total revenue	1,318.5	1,286.0	3%
Expenses:			
Cost of service revenue	380.0	360.2	5%
Selling, general and administrative expenses	391.8	389.5	1%
Total expenses	771.8	749.7	3%

Operating income	546.7	536.3	2%
Other income, net ⁽¹⁾	10.4	12.8	(19)%
Income before income taxes	557.1	549.1	1%
Income taxes	129.7	129.9	—%
Net income	\$ 427.4	\$ 419.2	2%
Basic earnings per share	\$ 1.19	\$ 1.16	3%
Diluted earnings per share	\$ 1.18	\$ 1.16	2%
Weighted-average common shares outstanding	360.1	360.8	
Weighted-average common shares outstanding, assuming dilution	361.9	362.8	

(1) Further information on interest on funds held for clients and other income, net, and the short- and long-term effects of changing interest rates can be found in our filings with the SEC, including our Quarterly Reports on Form 10-Q and our Annual Report on Form 10-K, as applicable, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and subheadings "Results of Operations" and "Market Risk Factors." These filings are accessible at <https://investor.paychex.com>.

(2) Percentage changes are calculated based on unrounded numbers.

PAYCHEX, INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In millions, except per share amounts)

	August 31, 2024	May 31, 2024
ASSETS		
Cash and cash equivalents	\$ 1,459.6	\$ 1,468.9
Restricted cash	54.9	47.8
Corporate investments	38.4	33.9
Interest receivable	22.9	23.3
Accounts receivable, net of allowance for credit losses	1,126.2	1,059.6
PEO unbilled receivables, net of advance collections	553.8	542.4
Prepaid income taxes	—	47.5
Prepaid expenses and other current assets	342.4	321.9
Current assets before funds held for clients	3,598.2	3,545.3
Funds held for clients	3,763.2	3,706.2
Total current assets	7,361.4	7,251.5
Long-term corporate investments	—	3.7
Property and equipment, net of accumulated depreciation	417.4	411.7
Operating lease right-of-use assets, net of accumulated amortization	49.5	46.9
Intangible assets, net of accumulated amortization	187.7	194.5

Goodwill	1,884.9	1,882.7
Long-term deferred costs	471.0	477.1
Other long-term assets	117.2	115.0
Total assets	\$ 10,489.1	\$ 10,383.1

LIABILITIES

Accounts payable	\$ 80.9	\$ 104.3
Accrued corporate compensation and related items	120.8	135.0
Accrued worksite employee compensation and related items	677.2	662.4
Short-term borrowings	18.9	18.7
Accrued income taxes	73.5	—
Deferred revenue	50.3	50.2
Other current liabilities	478.7	469.8
Current liabilities before client fund obligations	1,500.3	1,440.4
Client fund obligations	3,843.6	3,868.7
Total current liabilities	5,343.9	5,309.1
Accrued income taxes	108.6	102.6
Deferred income taxes	95.1	86.0
Long-term borrowings, net of debt issuance costs	798.7	798.6
Operating lease liabilities	49.4	49.0
Other long-term liabilities	243.0	236.8
Total liabilities	6,638.7	6,582.1

STOCKHOLDERS' EQUITY

Common stock, \$0.01 par value; Authorized: 600.0 shares; Issued and outstanding: 359.9 shares as of August 31, 2024 and 360.1 shares as of May 31, 2024	3.6	3.6
Additional paid-in capital	1,761.7	1,729.5
Retained earnings	2,165.4	2,213.0
Accumulated other comprehensive loss	(80.3)	(145.1)
Total stockholders' equity	3,850.4	3,801.0
Total liabilities and stockholders' equity	\$ 10,489.1	\$ 10,383.1

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

For the three months ended	
August 31, 2024	August 31, 2023 ⁽¹⁾

OPERATING ACTIVITIES

Net income	\$ 427.4	\$ 419.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39.0	41.2
Amortization of premiums and discounts on available-for-sale ("AFS") securities, net	(2.8)	(1.4)
Amortization of deferred contract costs	58.5	57.2
Stock-based compensation costs	16.5	16.0
Benefit from deferred income taxes	(11.0)	(3.2)
Provision for credit losses	7.5	4.3
Net realized (gains)/losses on sales of AFS securities	(0.0)	0.0
Changes in operating assets and liabilities:		
Interest receivable	0.4	1.0
Accounts receivable and PEO unbilled receivables, net	(36.4)	72.4
Prepaid expenses and other current assets	26.3	38.1
Accounts payable and other current liabilities	65.6	104.4
Deferred costs	(51.6)	(62.2)
Net change in other long-term assets and liabilities	8.4	6.6
Net change in operating lease right-of-use assets and liabilities	(1.7)	(0.6)
Net cash provided by operating activities	546.1	693.0

INVESTING ACTIVITIES

Purchases of AFS securities	(1,029.7)	(1,923.5)
Proceeds from sales and maturities of AFS securities	1,013.0	2,200.7
Net purchases of short-term accounts receivable	(45.1)	(37.2)
Purchases of property and equipment	(35.6)	(38.7)
Acquisition of businesses, net of cash acquired	—	(208.0)
Purchases of other assets, net	(12.6)	(6.5)
Net cash used in investing activities	(110.0)	(13.2)

FINANCING ACTIVITIES

Net change in client fund obligations	(25.1)	1,383.5
Net change in short-term borrowings	—	3.8
Dividends paid	(353.4)	(321.9)
Repurchases of common shares	(104.0)	—
Activity related to equity-based plans	(2.5)	4.0
Net cash (used in)/provided by financing activities	(485.0)	1,069.4
Net change in cash, restricted cash, and equivalents	(48.9)	1,749.2
Cash, restricted cash, and equivalents, beginning of period	1,897.0	2,134.9
Cash, restricted cash, and equivalents, end of period	\$ 1,848.1	\$ 3,884.1

Reconciliation of cash, restricted cash, and equivalents

Cash and cash equivalents	\$ 1,459.6	\$ 1,645.9
Restricted cash	54.9	49.8
Restricted cash and restricted cash equivalents included in funds held for clients	333.6	2,188.4
Total cash, restricted cash, and equivalents	\$ 1,848.1	\$ 3,884.1

- (1) The consolidated statement of cash flows for the three months ended August 31, 2023 includes a revision to previously reported amounts related to the presentation of the cash flows associated with the short-term receivables purchased from the Company's clients under non-recourse arrangements. The revision increased net cash provided by operating activities and decreased net cash provided by investing activities by \$37.2 million each.

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