



# Service Revenue Disaggregation

Service revenue restated for new categorization upon adoption of ASC Topic 606, "Revenue From Contracts with Customers."

**PAYCHEX**

Payroll | Benefits | HR | Insurance

# Revenue Disaggregation Disclosures

With adoption of Accounting Standards Codification Topic 606, “Revenue From Contracts With Customers” (ASC 606), we are changing our disclosures regarding components of our service revenue to more appropriately reflect how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors.

Previous Disclosures	Revised Disclosures
<p><b>Payroll service revenue</b></p> <ul style="list-style-type: none"> <li>• Revenues from payroll and payroll-related ancillary services</li> <li>• Included payroll processing, payroll tax administration services, employee payment services, and regulatory compliance services</li> </ul>	<p><b>Management Solutions revenue</b></p> <ul style="list-style-type: none"> <li>• Revenues from payroll, HR and employee benefit bundles and stand-alone services</li> <li>• Includes payroll services revenue, retirement services, and HR administration services revenue (including ASO)</li> </ul>
<p><b>Human Resource Services (HRS) revenue</b></p> <ul style="list-style-type: none"> <li>• HR and employee benefit services beyond payroll</li> <li>• Included retirement services, Paychex HR Services<sup>(1)</sup>, HR administration services, insurance services, and other HR services and products</li> </ul>	<p><b>PEO and Insurance Services Revenue</b></p> <ul style="list-style-type: none"> <li>• PEO revenue, including both PBS PEO and HR Outsourcing Holdings, Inc. (HROI), acquired in fiscal 2018</li> <li>• Insurance Services revenue including property and casualty insurance and health and benefits insurance</li> </ul>

<sup>(1)</sup> Paychex HR Services includes both our administrative services organization (ASO) and our professional employer organization (PEO)

# Revised Classification Better Reflects Current State of the Business

## Reasons for New Categories

- Management Solutions revenue more appropriately reflects how our business has evolved to the sale of more payroll and HR product bundles.
- PEO and Insurance Services have similar operational, risk, and economic characteristics. PEO revenue includes gross up of PEO insurances direct costs.

## Growth in Revenue Categories

- Growth rates for Management Solutions are higher than for Payroll Services due to greater attachment of HR services in various product bundles.
- PEO and Insurance Services are higher growth areas of the Company.
  - Strong demand for PEO in recent years with the Affordable Care Act and active regulatory environment.
  - Insurance Services has benefited from growth in applicants and higher commission rates on Workers' Compensation premiums.

# Revenue Disclosures – Annual Periods

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Year-over-Year % Change			
						FY15/FY14	FY16/FY15	FY17/FY16	FY18/FY17
<b>As Reported</b>									
Payroll	\$ 1,599.3	\$ 1,656.8	\$ 1,729.9	\$ 1,779.5	\$ 1,807.0	3.6%	4.4%	2.9%	1.5%
HRS	878.9	1,040.8	1,175.9	1,322.9	1,507.3	18.4%	13.0%	12.5%	13.9%
Total service revenue	<u>\$ 2,478.2</u>	<u>\$ 2,697.6</u>	<u>\$ 2,905.8</u>	<u>\$ 3,102.4</u>	<u>\$ 3,314.3</u>	8.9%	7.7%	6.8%	6.8%
<b>As Restated</b>									
HR Management Solutions	\$ 2,232.8	\$ 2,371.2	\$ 2,526.7	\$ 2,680.7	\$ 2,758.5	6.2%	6.6%	6.1%	2.9%
PEO and Insurance Services	245.5	326.4	379.1	421.7	555.8	33.0%	16.1%	11.2%	31.8%
Total service revenue	<u>\$ 2,478.2</u>	<u>\$ 2,697.6</u>	<u>\$ 2,905.8</u>	<u>\$ 3,102.4</u>	<u>\$ 3,314.3</u>	8.9%	7.7%	6.8%	6.8%

Note: Fiscal 2017 and Fiscal 2018 have been restated upon adoption of ASC 606.

- PEO and Insurance Services revenues for FY18 include impact of acquisition of HR Outsourcing Holdings, Inc. (HROI) in August 2017.
- Fiscal 2015 growth in PEO and Insurance Services reflected benefit from introduction of the minimum premium insurance offering in January 2014.

# Revenue Disclosures – Quarterly Periods

	Fiscal 2017					Fiscal 2018					FY18 vs. FY17 % Growth				
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year
<b>As Reported</b>															
Payroll	\$ 427.4	\$ 416.5	\$ 516.8	\$ 418.8	\$ 1,779.5	\$ 433.4	\$ 420.8	\$ 524.8	\$ 428.0	\$ 1,807.0	1.4%	1.0%	1.5%	2.2%	1.5%
HRS	323.3	319.3	336.4	343.8	1,322.9	345.8	368.2	393.3	400.0	1,507.3	7.0%	15.3%	16.9%	16.3%	13.9%
Total Service Revenue	<u>\$ 750.7</u>	<u>\$ 735.9</u>	<u>\$ 853.2</u>	<u>\$ 762.6</u>	<u>\$ 3,102.4</u>	<u>\$ 779.2</u>	<u>\$ 789.0</u>	<u>\$ 918.1</u>	<u>\$ 828.0</u>	<u>\$ 3,314.3</u>	3.8%	7.2%	7.6%	8.6%	6.8%
<b>As Restated</b>															
HR Management Solutions	\$ 650.4	\$ 636.3	\$ 744.1	\$ 650.0	\$ 2,680.7	\$ 665.9	\$ 653.5	\$ 768.8	\$ 670.2	\$ 2,758.5	2.4%	2.7%	3.3%	3.1%	2.9%
PEO and Insurance Services	100.4	99.6	109.1	112.6	421.7	113.3	135.5	149.2	157.8	555.8	12.9%	36.1%	36.7%	40.2%	31.8%
Total Service Revenue	<u>\$ 750.7</u>	<u>\$ 735.9</u>	<u>\$ 853.2</u>	<u>\$ 762.6</u>	<u>\$ 3,102.4</u>	<u>\$ 779.2</u>	<u>\$ 789.0</u>	<u>\$ 918.1</u>	<u>\$ 828.0</u>	<u>\$ 3,314.3</u>	3.8%	7.2%	7.6%	8.6%	6.8%

Note: Fiscal 2017 and Fiscal 2018 have been restated upon adoption of ASC 606.

- PEO and Insurance Services revenues (previously within HRS revenues) reflect acquisition of HROI near end of Q1 fiscal 2018.

Thank You!