

First Quarter Highlights and Financial Results

Fiscal 2021

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 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⁽¹⁾
- Strong financial position
- Market capitalization of >\$28B⁽²⁾

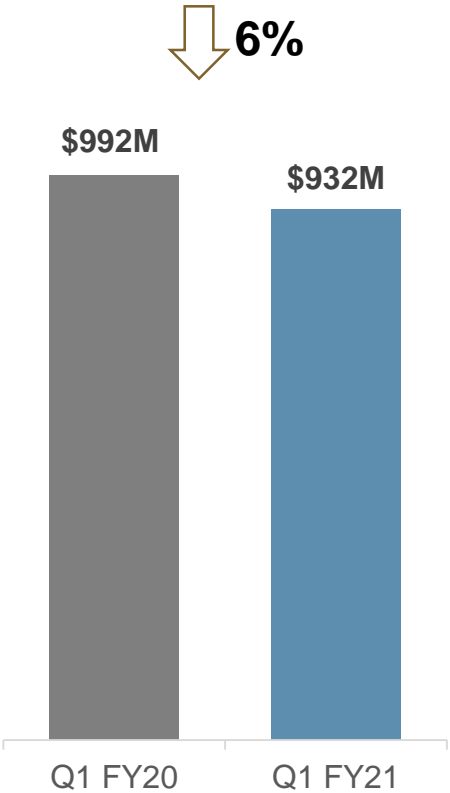
(1) As of May 31, 2020

(2) As of September 30, 2020

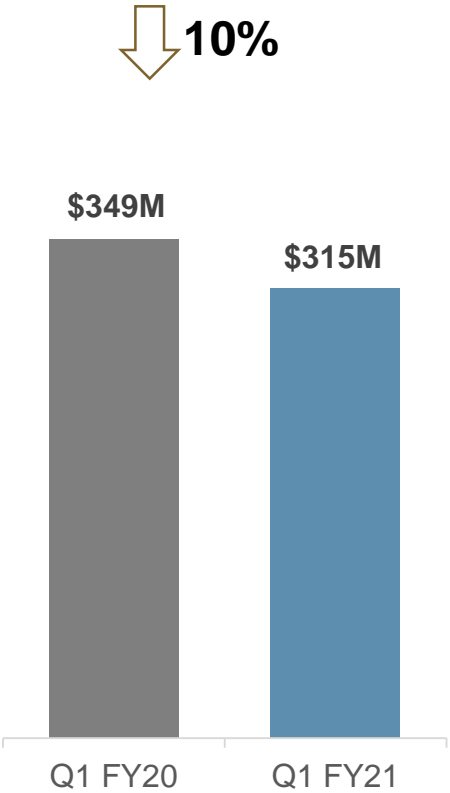
First Quarter Highlights

First Quarter Financial Highlights

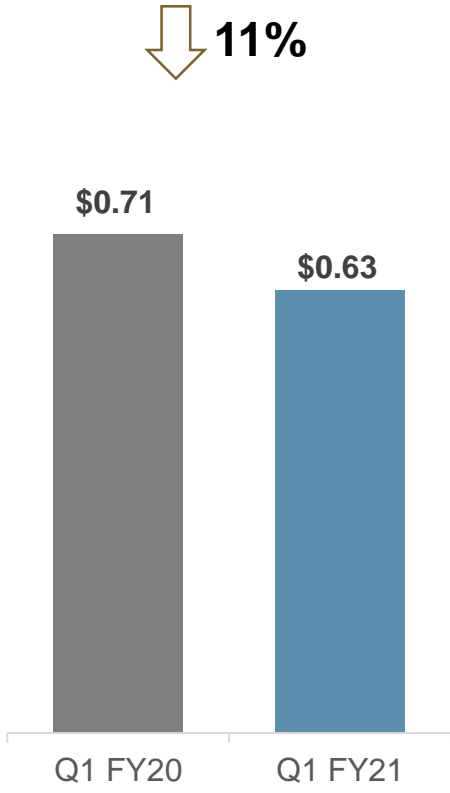
Total Revenues



Adjusted Operating Income⁽¹⁾



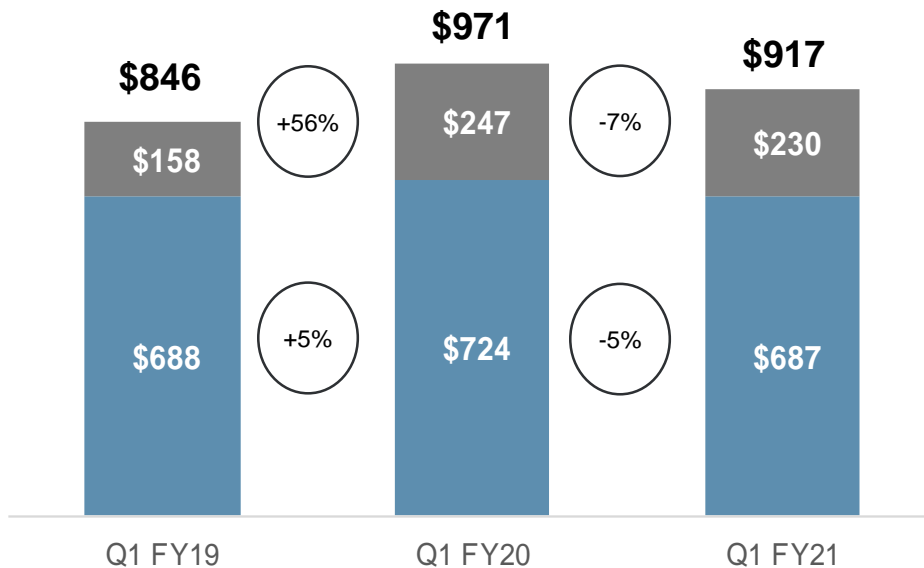
Adjusted Diluted EPS⁽¹⁾



(1) Adjusted Operating Income and Adjusted Diluted Earnings per Share (“EPS”) are not U.S. generally accepted accounting principles (“GAAP”) measures. Refer to slide 16 for a reconciliation to the corresponding GAAP measures.

First Quarter Service Revenue

(In Millions)



Key Drivers

PEO⁽¹⁾ & Insurance Solutions

- Decline in PEO worksite employees and Health and Benefits applicants within existing base due to COVID-19
- Lower workers' compensation premiums due to lower wages and less high-risk class wages

Management Solutions

- Lower employee counts throughout our HCM solutions suite due to COVID-19
- Continued strong retention and stability of client base

(1) Professional Employer Organization ("PEO")

First Quarter Business Highlights

- Continued to provide critical COVID-19 information and tools to our clients
 - Our COVID-19 Help Center website has seen almost 300K unique visits since April
 - COVID-related webinars are averaging 2,100 attendees with some webinars attracting more than 10,000 attendees
 - Furnished over 500K PPP reports for clients to date
 - Launched the first-to-market PPP Loan Forgiveness Estimator, including signature-ready application
 - Secured \$28B in PPP loans for clients to date
 - Introduced three new employee health and safety offerings including COVID leave-tracking, COVID screening, and health attestation support
- Better than expected sales performance, including strong growth in HR Solutions and small market sales, especially virtual and e-commerce
- Continued record client retention and NPS scores
- Accelerated cost-savings initiatives across the business, including reducing our physical brick and mortar footprint and headcount optimization; recognized \$31M in one-time costs associated with these initiatives¹
- Returned \$252M to shareholders during the first quarter in the form of dividends and share repurchases

(1) The one-time costs are recognized within Selling, General & Administrative expenses on the consolidated income statement.

Recent/Upcoming Product Launches

Designed to simplify common HR and payroll challenges

Real Time Payments

Paychex customers can now pay their employees immediately, helping employers attract talent and allowing employees access to earned wages in a matter of seconds. Over 30K payments made and \$44M funded since May release.

PPP Loan Forgiveness Estimator

Paychex upgraded its tool, which automatically populates with a customer's payroll data, to generate signature ready copies of the forgiveness application.

COVID-19 Leave Tracking

Employees can request personal protective equipment (PPE), ask questions about company procedures related to COVID-19, and request leave to care for a family member or child attending school virtually.

COVID-19 Screening

Paychex has made a COVID-19 screening solution available through its Employment Screening Services product, giving employers a way to initiate employee COVID-19 screenings and track test results within a single platform. This helps employers to more effectively manage when individual employees can safely return to work.

Health Attestation Support

This automated solution enables employers to customize and digitally distribute a health attestation form to employees daily, securely store responses in real-time, and view advanced analytics for individuals or the entire workforce.

Product & Technology Horizon

Innovation to meet our customers' evolving business needs

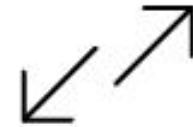


Artificial Intelligence

(including Paychex Flex
Intelligence Engine)



Data Analytics



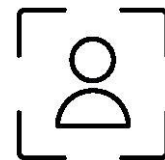
Expanded Integrations (APIs)



Wearable Solutions



Voice Recognition

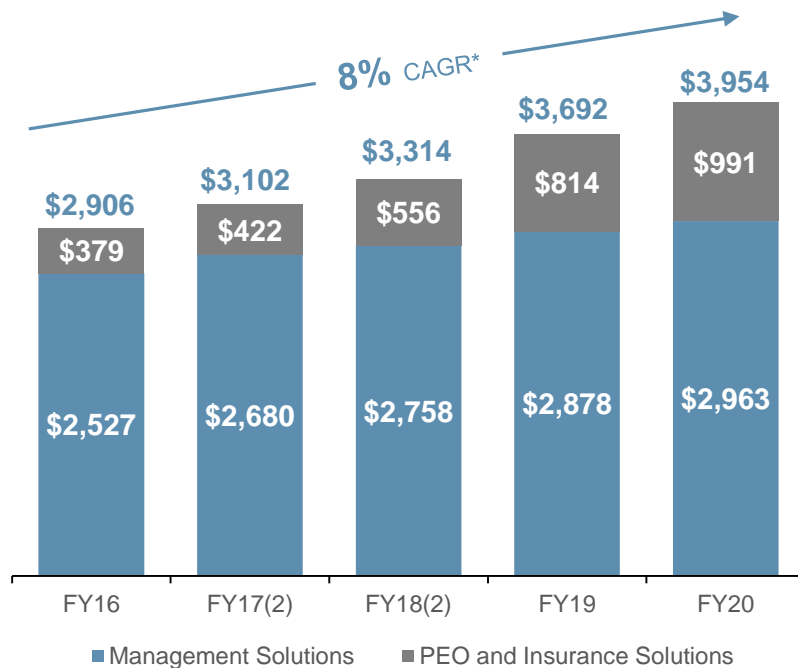


Personalization

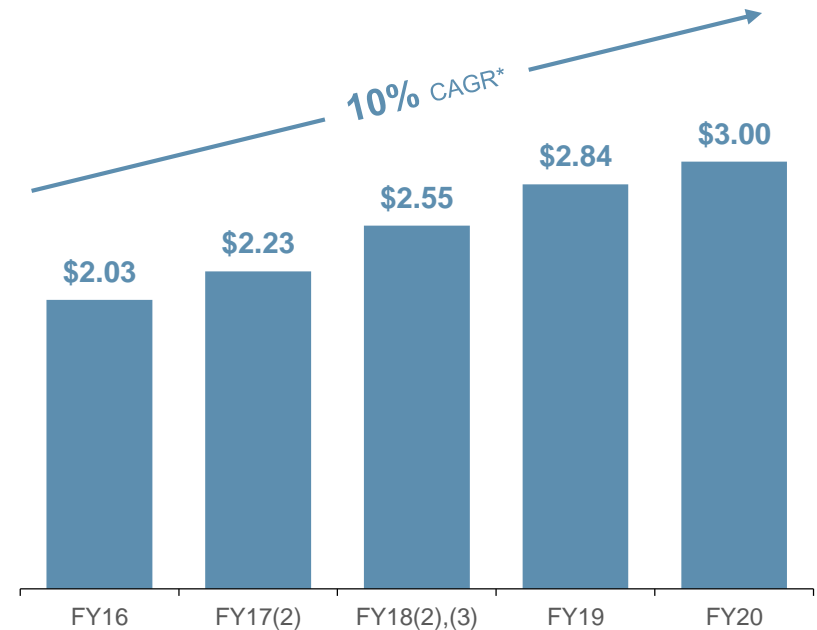
Sustained Financial Performance

(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 items and one-time costs. Refer to slide 16 for a reconciliation to the corresponding GAAP measure.
- (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 minimal or no net debt
- \$800M of private placement, fixed-rate long-term debt to fund Oasis acquisition
- Return on equity remains robust at 39%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>August 31, 2020</u>	<u>May 31, 2020</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 952.1	\$ 1,013.7
Total Debt, Net of Debt Issuance Costs ⁽¹⁾	\$ 803.0	\$ 801.9
Return on Equity	39%	41%
Fiscal Year-to-Date Period Ended:	<u>August 31, 2020</u>	<u>August 31, 2019</u>
Operating Cash Flow	\$ 215.0	\$ 294.8
Dividends Paid	\$ 223.2	\$ 222.0
Dividend Coverage Ratio ⁽²⁾	0.9x	1.2x

(1) Does not include operating lease liabilities of \$133.4M and \$134.1M as of August 31, 2020 and May 31, 2020, respectively

(2) Dividend Coverage Ratio is calculated based on free cash flow of \$193.7M and \$266.7M for the three months ended August 31, 2020 and August 31, 2019, respectively.

Fiscal 2021 Outlook

Fiscal Year 2021 Outlook⁽¹⁾

	Original Guidance Year-over-Year Growth	Revised Guidance Year-over-Year Growth
Management Solutions Revenue	(4%) - (1%)	(3%) - (1%)
PEO & Insurance Solutions Revenue	(7%) - (2%)	(5%) - (2%)
Total Revenue	(5%) - (2%)	(4%) - (2%)
Adjusted Diluted EPS ⁽²⁾	(10%) - (6%)	(8%) - (6%)
	Anticipated Result	Anticipated Result
Interest on Funds Held for Clients	\$55M - \$65M	\$55M - \$65M
Adjusted Operating Income ⁽²⁾ , as a Percent of Total Revenue	34% - 35%	~35%
Adjusted EBITDA ⁽²⁾ , as a Percent of Total Revenue	39% - 40%	~40%
Other Expense, net	\$30M - \$35M	\$30M - \$35M
Effective Income Tax Rate	24.5% - 25.0%	24.0% - 25.0%

(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, Adjusted Operating Income, 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 16 for a reconciliation to the corresponding GAAP measures.

Financial Results

Financial Results

For the Three Months ended August 31, 2020

(In millions, except per share amounts)	<u>Three Months Ended August 31, 2020</u>	<u>% Change</u>
Management Solutions	\$ 687.4	(5%)
PEO and Insurance Solutions	229.9	(7%)
Total Service Revenue	917.3	(6%)
Interest on Funds Held for Clients	14.9	(28%)
Total Revenue	\$ 932.2	(6%)
Operating Income	\$ 284.0	(19%)
Net Income	\$ 211.6	(20%)
Diluted EPS	\$ 0.59	(19%)
Non-GAAP Measures:⁽¹⁾		
Adjusted Operating Income	\$ 315.2	(10%)
Adjusted EBITDA	\$ 365.3	(9%)
Adjusted Net Income	\$ 228.0	(11%)
Adjusted Diluted EPS	\$ 0.63	(11%)

(1) Refer to a reconciliation of non-GAAP financial measures to the related GAAP financial measures on slide 16.

Non-GAAP Financial Measures

For the Three Months ended August 31, 2020

(In millions, except per share amounts)

	Three Months Ended		% Change
	August 31, 2020 ⁽¹⁾	August 31, 2019	
Operating Income	\$ 284.0	\$ 349.1	(19%)
Non-GAAP Adjustments:			
Cost-saving Initiatives ⁽²⁾	31.2	-	
Total Non-GAAP Adjustments	31.2	-	
Adjusted Operating Income⁽³⁾	\$ 315.2	\$ 349.1	(10%)
Net Income	\$ 211.6	\$ 264.2	(20%)
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(7.0)	(6.6)	
Cost-saving Initiatives ⁽²⁾	23.4	-	
Total Non-GAAP Adjustments	16.4	(6.6)	
Adjusted Net Income⁽³⁾	\$ 228.0	\$ 257.6	(11%)
Diluted EPS	\$ 0.59	\$ 0.73	(19%)
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.02)	(0.02)	
Cost-saving Initiatives ⁽²⁾	0.06	-	
Total Non-GAAP Adjustments	0.05	(0.02)	
Adjusted Diluted EPS⁽³⁾	\$ 0.63	\$ 0.71	(11%)
Net Income	\$ 211.6	\$ 264.2	(20%)
Non-GAAP Adjustments:			
Interest Expense, Net	8.4	5.8	
Income Taxes	64.5	80.1	
Depreciation and Amortization Expense	49.6	52.9	
Total Non-GAAP Adjustments	122.5	138.8	
EBITDA	334.1	403.0	(17%)
Cost-saving Initiatives ⁽²⁾	31.2	-	
Adjusted EBITDA⁽³⁾	\$ 365.3	\$ 403.0	(9%)

(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 the first quarter 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. One-time costs are recognized in selling, general and administrative expenses on the consolidated income statement.

(3) Adjusted Net Income, Adjusted Diluted EPS, Adjusted Operating Income, 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)

- The Federal Funds rate decreased 225 basis points during fiscal 2020
- Declining market interest rates resulted in an increase in the net unrealized gain position of our longer-term investment portfolio
- Average invested balances for funds held for clients decreased 6% during Q1 due to lower client fund collections and changes in client base mix, offset by wage inflation and timing of collections and remittances

	Three Months Ended		% Change
	August 31, 2020	August 31, 2019	
(\$ in millions)			
Average Investment Balances:			
Funds Held For Clients	\$ 3,507.2	\$ 3,744.6	(6%)
Corporate Cash Equivalents and Investments	\$ 1,022.2	\$ 862.0	19%
Average Rate of Return Earned:			
Funds Held For Clients	1.7%	2.1%	
Corporate Cash Equivalents and Investments	0.2%	1.8%	
Realized Gains, Net	\$ 0.3	\$ 0.9	
<u>End of Period:</u>			
Unrealized Gain, Net	\$ 116.9	\$ 100.0	

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The Power of Simplicity