

Fourth 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
- >710,000 clients⁽¹⁾
- Strong financial position
- Market capitalization of >\$37B⁽²⁾

(1) As of May 31, 2021

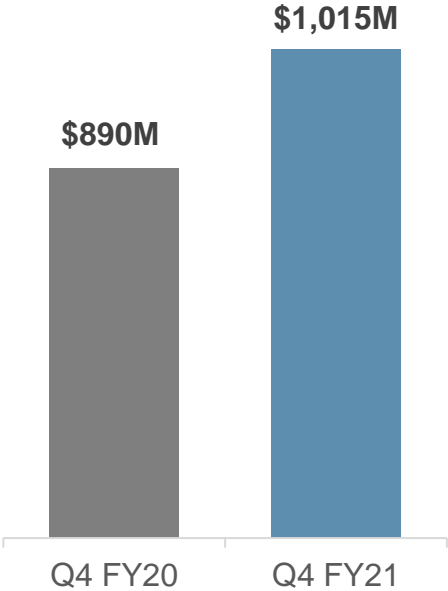
(2) As of June 24, 2021

Fourth Quarter Highlights

Fourth Quarter Financial Highlights

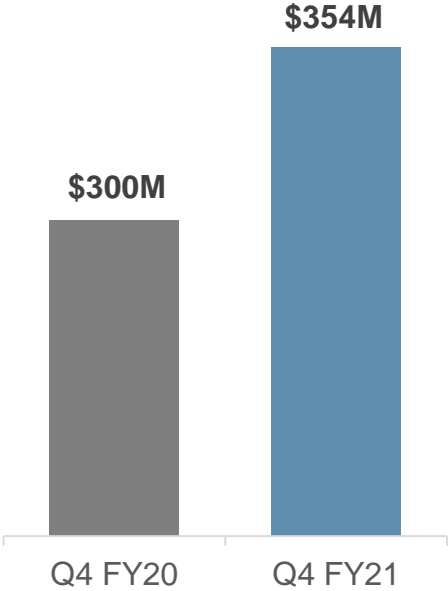
Service Revenues

↑ 14%



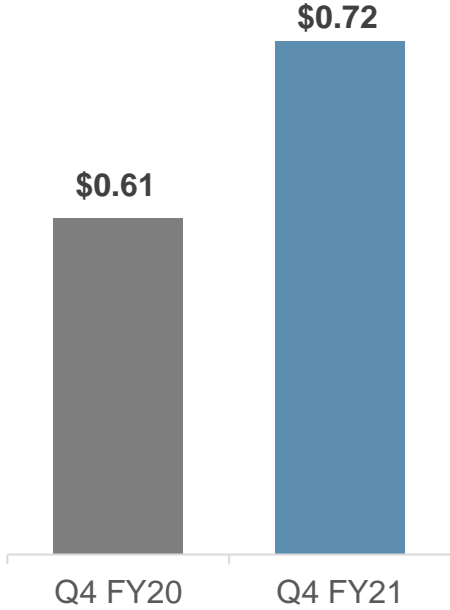
Adjusted Operating Income⁽¹⁾

↑ 18%



Adjusted Diluted EPS⁽¹⁾

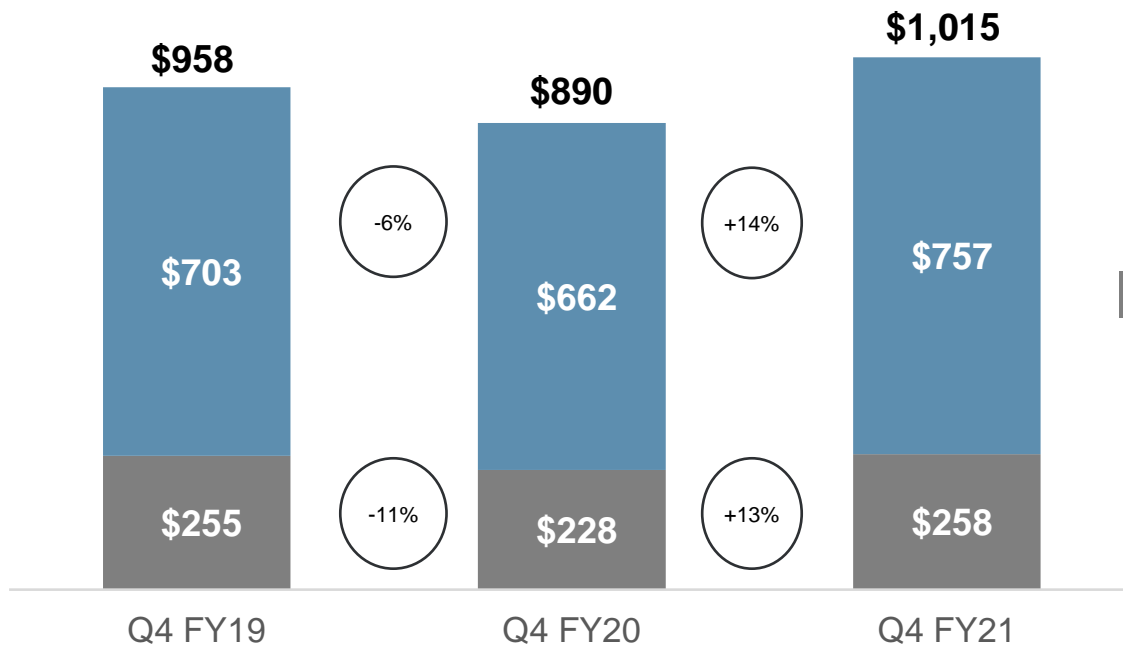
↑ 18%



(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.

Fourth Quarter Service Revenue

(In Millions)



Key Drivers

Management Solutions

- Continued strong retention and client base growth
- Increase in the number of client employees throughout our HCM suite as businesses reopen and employment levels increase

PEO⁽¹⁾ & Insurance Solutions

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

(1) Professional Employer Organization ("PEO")

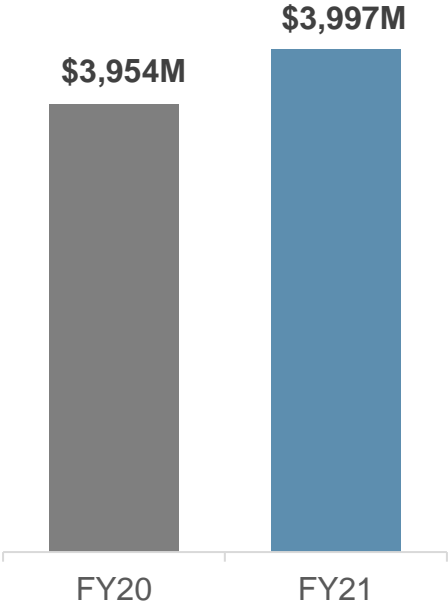
Fourth Quarter Business Highlights

- **Achieved double-digit revenue and earnings growth**
 - Solid growth in revenues across our main lines of business
 - Marked improvement in employment indicators during Q4 as the economy reopened
 - Adjusted operating margins expanded 160 basis points
- **Strong client base growth across almost all major product lines**
 - Record client retention of 85% of the beginning client base for the full fiscal year
 - Best ever Q4 period for new sales revenue
 - Payroll client base growth of 4% y/y
 - HR Solutions and PEO client worksite employee growth of 18% y/y
- **Well-positioned for growth in fiscal 2022 and beyond**
 - Momentum in sales across all divisions
 - Benefits from cost savings initiatives implemented in FY21
 - Continued investment in sales, marketing, digital technology and product development
- **Earned recognition from industry groups for our technology and service offerings**
 - **Lighthouse Research HR Tech Award** for the best small and medium business-focused solution in the Core HR/Workforce category
 - Ranked #1 among all solution providers in **Sapient Voice of the Customer** report in both user experience and client satisfaction scores
- **Raised the quarterly dividend 6% to \$0.66 a share**
- **Returned \$318M to shareholders during the quarter in the form of dividends and share repurchases**

Full Year Fiscal 2021 Financial Highlights

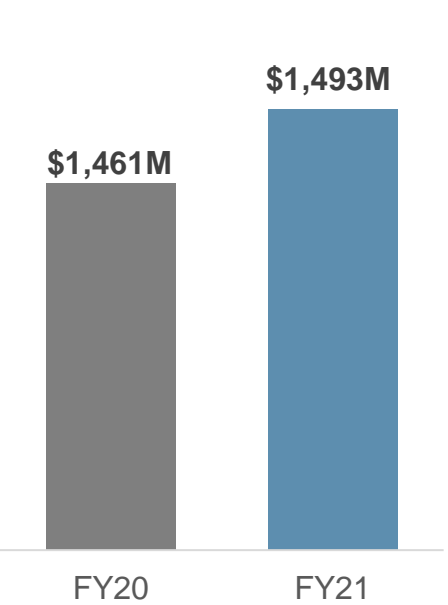
Service Revenues

↑ 1%



Adjusted Operating Income⁽¹⁾

↑ 2%



Adjusted Diluted EPS⁽¹⁾

↑ 1%



(1) Adjusted Operating Income and Adjusted Diluted EPS are not U.S. GAAP measures. Refer to slide 17 for a reconciliation to the corresponding GAAP measures.

Recent Product & Technology Launches

Designed to simplify common HR and payroll challenges

Onboarding Self-Service

Accelerates the speed-to-hire and lessens the administrative burden on businesses. This tool simplifies the experience and includes the ability to invite new hires to onboard and complete documentation digitally.

Labor Cost Hub

Provides clients with a holistic, real-time view of total payroll labor job costing and distribution to drive greater insights to manage their workforce. The Labor Cost Hub is the latest example in the Paychex's larger strategy to provide businesses the data insights they need to drive profitability.

Ongoing Stimulus Support

From the time the CARES Act passed in March 2020 through businesses currently seeking forgiveness for Paycheck Protection Program (PPP) loans, Paychex has continued to update its PPP solutions in near real-time. These ongoing upgrades include the ability for employers to easily navigate the complexities of the PPP and Employee Retention Tax Credit (ERTC) concurrently, a differentiator for the Paychex Flex solution. Quickly developing and deploying these updates in Paychex Flex has helped Paychex customers secure over \$65 billion in PPP loans and \$2.5 billion in ERTC and Paid Family Leave (PFL) credits combined.

Paychex Flex Intelligence Engine Updates

Paychex Flex's AI and machine-learning chatbot is now trained to successfully answer 340 questions, while also providing users access to our full help center inventory of over 800 instructional and educational materials. This past fiscal year our automated help solutions have serviced approximately 1.8 million client and employee users.

Product & Technology Horizon

Innovation to meet our customers' evolving business needs

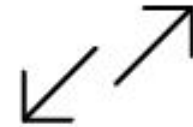


Artificial Intelligence

(including Paychex Flex
Intelligence Engine)



Data Analytics



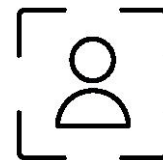
Expanded Integrations (APIs)



Wearable Solutions



Voice Recognition

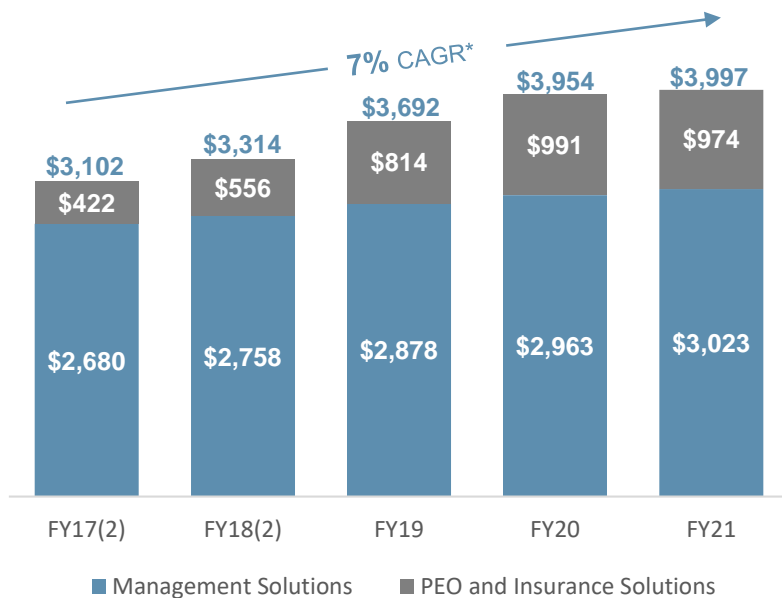


Personalization

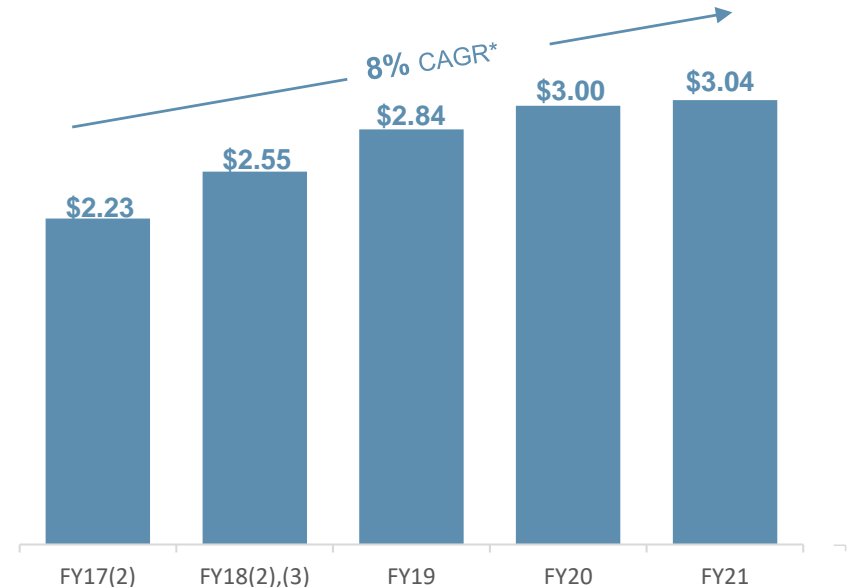
Sustained Financial Performance

(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 and one-time items. Refer to our fourth quarter earnings release 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 38%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>May 31, 2021</u>	<u>May 31, 2020</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,127.3	\$ 1,013.7
Total Debt, Net of Debt Issuance Costs ⁽¹⁾	\$ 804.7	\$ 801.9
Return on Equity	38%	41%
Fiscal Year-to-Date Period Ended:	<u>May 31, 2021</u>	<u>May 31, 2020</u>
Operating Cash Flow ⁽²⁾	\$ 1,260.3	\$ 1,440.9
Free Cash Flow	\$ 1,117.5	\$ 1,298.0
Dividends Paid	\$ 908.7	\$ 889.4
Dividend Coverage Ratio ⁽³⁾	1.2x	1.5x

(1) Does not include operating lease liabilities of \$121.4M and \$134.1M as of May 31, 2021 and May 31, 2020, respectively.

(2) The decrease in operating cash flows was driven by 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 as dividends paid divided by free cash flow.

Fiscal 2022 Outlook

Fiscal Year 2022 Outlook⁽¹⁾

	Year-over-Year Growth
Management Solutions Revenue	~7%
PEO & Insurance Solutions Revenue	8% - 10%
Interest on Funds Held for Clients	Flat
Total Revenue	~7%
Adjusted Diluted EPS ⁽²⁾	10% - 12%

	Anticipated Result
Adjusted Operating Income ⁽²⁾ , as a Percent of Total Revenue	~38%
Adjusted EBITDA ⁽²⁾ , as a Percent of Total Revenue	~42%
Other Expense, net	\$33M - \$37M
Effective Income Tax Rate	24% - 25%

(1) Current outlook represents anticipated impacts resulting from COVID-19 based on assumptions as of today.

(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 fourth quarter and full year periods.

Financial Results

Financial Results

For the Three and Twelve Months ended May 31, 2021

(In millions, except per share amounts)	<u>Three Months Ended May 31, 2021</u>	<u>% Change</u>	<u>Twelve Months Ended May 31, 2021</u>	<u>% Change</u>
Management Solutions	\$ 756.4	14%	\$ 3,023.4	2%
PEO and Insurance Solutions	258.3	13%	974.1	(2%)
Total Service Revenue	1,014.7	14%	3,997.5	1%
Interest on Funds Held for Clients	14.5	(43%)	59.3	(32%)
Total Revenue	\$ 1,029.2	12%	\$ 4,056.8	–%
Operating Income	\$ 353.8	18%	\$ 1,460.7	–%
Net Income	\$ 263.0	19%	\$ 1,097.5	–%
Diluted EPS	\$ 0.73	20%	\$ 3.03	–%
Non-GAAP Measures:⁽¹⁾				
Adjusted Operating Income	\$ 353.8	18%	\$ 1,492.9	2%
Adjusted EBITDA	\$ 401.4	14%	\$ 1,691.9	1%
Adjusted Net Income	\$ 260.8	18%	\$ 1,102.4	2%
Adjusted Diluted EPS	\$ 0.72	18%	\$ 3.04	1%

(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 Twelve Months ended May 31, 2021

(In millions, except per share amounts)

	Three Months Ended			Twelve Months Ended		
	May 31,		% Change	May 31,		% Change
	2021	2020		2021 ⁽¹⁾	2020	
Operating Income	\$ 353.8	\$ 299.6	18%	\$ 1,460.7	\$ 1,460.5	–%
Non-GAAP Adjustments:						
Cost-Saving Initiatives ⁽²⁾	-	-		32.2	-	
Total Non-GAAP Adjustments	-	-		32.2	-	
Adjusted Operating Income⁽³⁾	\$ 353.8	\$ 299.6	18%	\$ 1,492.9	\$ 1,460.5	2%
Net Income	\$ 263.0	\$ 220.7	19%	\$ 1,097.5	\$ 1,098.1	–%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(2.2)	(0.1)		(19.4)	(14.9)	
Cost-Saving Initiatives ⁽²⁾	-	-		24.3	-	
Total Non-GAAP Adjustments	(2.2)	(0.1)		4.9	(14.9)	
Adjusted Net Income⁽³⁾	\$ 260.8	\$ 220.6	18%	\$ 1,102.4	\$ 1,083.2	2%
Diluted EPS	\$ 0.73	\$ 0.61	20%	\$ 3.03	\$ 3.04	–%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.01)	-		(0.05)	(0.04)	
Cost-Saving Initiatives ⁽²⁾	-	-		0.07	-	
Total Non-GAAP Adjustments	(0.01)	-		0.01	(0.04)	
Adjusted Diluted EPS⁽³⁾	\$ 0.72	\$ 0.61	18%	\$ 3.04	\$ 3.00	1%
Net Income	\$ 263.0	\$ 220.7	19%	\$ 1,097.5	\$ 1,098.1	–%
Non-GAAP Adjustments:						
Interest Expense, Net	8.1	7.7		33.5	26.5	
Income Taxes	82.9	70.9		336.7	339.0	
Depreciation and Amortization Expense	47.4	51.7		192.0	209.7	
Total Non-GAAP Adjustments	138.4	130.3		562.2	575.2	
EBITDA	401.4	351.0	14%	1,659.7	1,673.3	(1%)
Cost-Saving Initiatives ⁽²⁾	-	-		32.2	-	
Adjusted EBITDA⁽³⁾	\$ 401.4	\$ 351.0	14%	\$ 1,691.9	\$ 1,673.3	1%

(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 fourth quarter fiscal 2021 press release for further discussion.

Investment Portfolio Results

(\$ in millions)	Three Months Ended			Twelve Months Ended		
	May 31,		%	May 31,		%
	2021	2020	Change	2021	2020	Change
Average Investment Balances:						
Funds Held For Clients	\$4,219.5	\$3,800.1	11%	\$3,941.9	\$3,931.3	–%
Corporate Cash Equivalents and Investments	\$1,124.1	\$ 994.1	13%	\$1,043.3	\$ 870.7	20%
Average Rate of Return Earned:						
Funds Held For Clients	1.4%	1.7%		1.5%	1.9%	
Corporate Cash Equivalents and Investments	0.3%	0.6%		0.2%	1.4%	
Realized Gains, Net	\$ 0.2	\$ 8.9		\$ 1.2	\$ 11.3	
<u>End of Period:</u>	<u>May 31, 2021</u>			<u>May 31, 2020</u>		
Unrealized Gain, Net	\$79.3			\$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 increased due primarily to increased employment levels and wage inflation.

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The Power of Simplicity