

# Second Quarter Highlights and Financial Results

Fiscal 2021

***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”) 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<sup>(1)</sup>
- Strong financial position
- Market capitalization of >\$34B<sup>(2)</sup>

(1) As of May 31, 2020

(2) As of December 21, 2020

# Second Quarter Highlights

# Second Quarter Financial Highlights

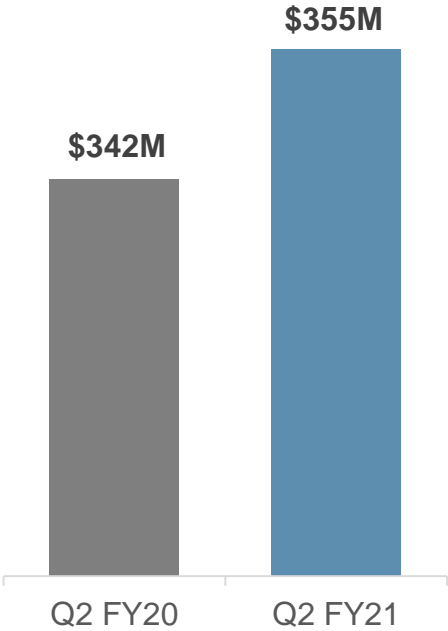
## Service Revenues

⇒ 0%



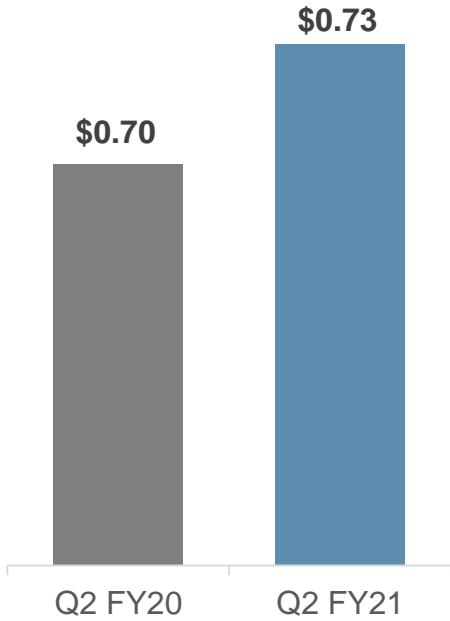
## Adjusted Operating Income<sup>(1)</sup>

↑ 4%



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

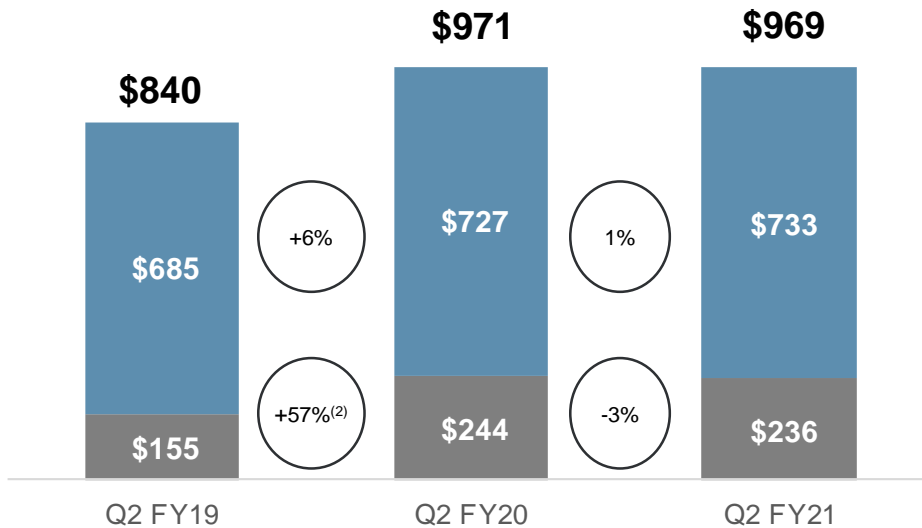
↑ 4%



(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.

# Second Quarter Service Revenue

(In Millions)



## Key Drivers

### Management Solutions

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

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

- Decline in average PEO worksite employees due to COVID-19
- Lower workers' compensation premiums due to lower wages and less higher-risk class wages

(1) Professional Employer Organization ("PEO")

(2) PEO & Insurance Solutions growth of 57% for the second quarter of fiscal 2020 was driven by the acquisition of Oasis in December 2018.

# Second Quarter Business Highlights

- Client base increased with both sales growth and strong retention
  - Strong demand and growth in HR Solutions and momentum in small market sales, especially virtual and e-commerce
  - Continued record client retention and client satisfaction scores
- Invested in sales, product, and technology to drive future growth in the business
  - Introduced Paychex Flex enhancements to help our clients increase productivity, employee engagement, and ease of compliance
  - Launched the PEO Protection Plus Package, offering clients a way to manage risk of cyberattack and employment liability claims
  - Formed a strategic relationship with Fiserv, Inc. to integrate Paychex Flex into Clover® point-of-sale system
- Began to realize benefits from accelerated cost-savings initiatives, which reduced our physical brick and mortar footprint and optimized headcount; recognized \$32M year-to-date of one-time costs associated with these initiatives with the majority in the first quarter
- Continued to provide clients and prospects critical information and guidance to help them navigate a complex regulatory environment, with focus this quarter on PPP loan forgiveness, state and local specific regulations, and potential impacts on businesses from the 2020 Presidential Election
- Returned \$223M to shareholders during the second quarter in the form of dividends

# Recent Product & Technology Launches

## Designed to simplify common HR and payroll challenges

### Voice Command Device Integration

Workers can now access their HR info easily without logging in from a phone or desktop PC, by using an Apple Watch or Google Assistant.

### PEO Protection Plus Package

Reduces risks for business owners by offering insurance coverage related to cyberattacks and employee lawsuits. Paychex is the only provider offering both Cyber Liability and Employment Practices Liability Insurance coverage as part of our PEO solution, and by leveraging the group plan model of our PEO, the coverage is significantly more affordable to businesses.

### Peer Reviews

Paychex now offers a 360-degree performance management solution, including manager and self-review workflows. This gives leaders another channel for communicating feedback to their people on a continuous basis.

### Tax Lookup

Using employees' work and personal address information, the new Tax Lookup tool in Paychex Flex automatically suggests the applicable state, unemployment, and local taxes so employers can apply employee tax information quickly and accurately.

### EEO-1 Compliance

Now offered as part of the Compliance dashboard in Paychex Flex, business owners can easily capture, track, and prepare a report to assist with completing the Employment Data section of the EEO-1 Report. Employee self-service features optimize data collection necessary for reporting.

### Integration with Fiserv's Clover platform

The Paychex app on Clover provides small business owners with payroll and time and attendance solutions within a single application. The app delivers real-time punches from the Clover point-of-sale system to the Paychex Flex platform, arming merchants with sophisticated functionality like a real-time employee status board, absent notifications, and labor cost control through overtime management tools.

### Pooled Employer Plan (PEP)

The Paychex PEP is a retirement plan offering that includes reduced fiduciary liability for employers, simplified plan management, and reduced plan expenses when compared to single-employer retirement plan offerings.



# Product & Technology Horizon

Innovation to meet our customers' evolving business needs

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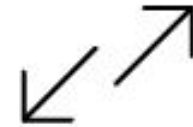


## Artificial Intelligence

(including Paychex Flex  
Intelligence Engine)



## Data Analytics



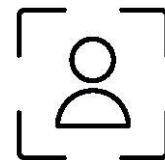
## Expanded Integrations (APIs)



## Wearable Solutions



## Voice Recognition

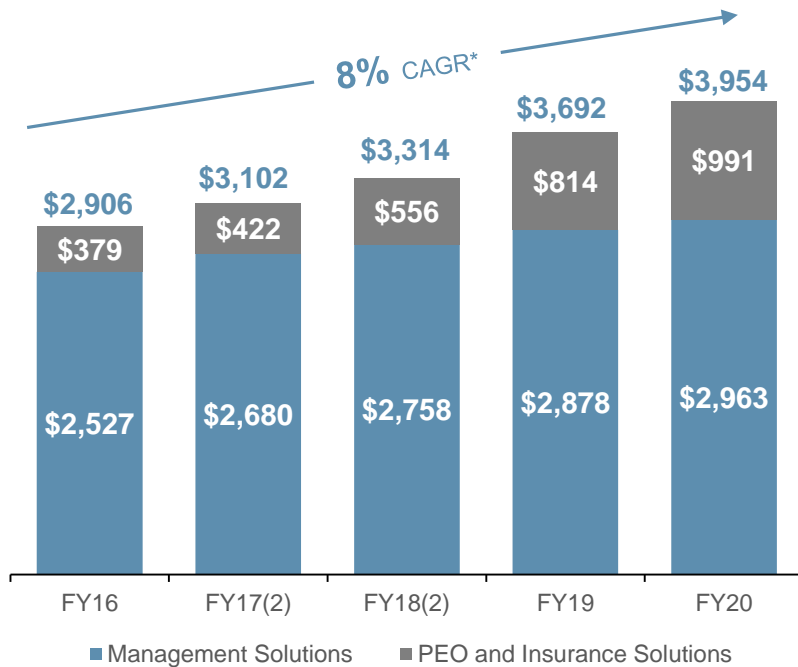


## Personalization

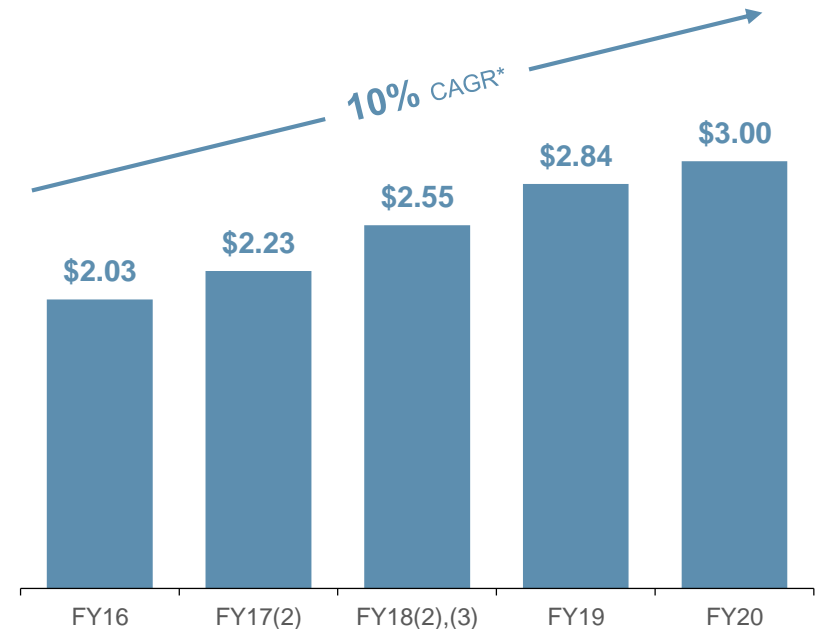
# Sustained Financial Performance

(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 items and one-time costs. 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 remains robust at 38%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

	<u>November 30, 2020</u>	<u>May 31, 2020</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 963.4	\$ 1,013.7
Total Debt, Net of Debt Issuance Costs <sup>(1)</sup>	\$ 803.9	\$ 801.9
Return on Equity	38%	41%
Fiscal Year-to-Date Period Ended:	<u>November 30, 2020</u>	<u>November 30, 2019</u>
Operating Cash Flow	\$ 430.7	\$ 564.6
Dividends Paid	\$ 446.7	\$ 444.3
Dividend Coverage Ratio <sup>(2)</sup>	0.8x	1.1x

(1) Does not include operating lease liabilities of \$124.7M and \$134.1M as of November 30, 2020 and May 31, 2020, respectively

(2) Dividend Coverage Ratio is calculated based on free cash flow of \$378.5M and \$500.5M for the six months ended November 30, 2020 and November 30, 2019, respectively.

# Fiscal 2021 Outlook

# Fiscal Year 2021 Outlook<sup>(1)</sup>

	Previous Guidance Year-over-Year Growth	Revised Guidance Year-over-Year Growth
Management Solutions Revenue	(3%) - (1%)	(1%) - 1%
PEO & Insurance Solutions Revenue	(5%) - (2%)	(5%) - (2%)
Total Revenue	(4%) - (2%)	(3%) - 0%
Adjusted Diluted EPS <sup>(2)</sup>	(8%) - (6%)	(4%) - (1%)
	Anticipated Result	Anticipated Result
Interest on Funds Held for Clients	\$55M - \$65M	\$55M - \$65M
Adjusted Operating Income <sup>(2)</sup> , as a Percent of Total Revenue	~35%	~36%
Adjusted EBITDA <sup>(2)</sup> , as a Percent of Total Revenue	~40%	~41%
Other Expense, net	\$30M - \$35M	\$25M - \$30M
Effective Income Tax Rate	24.0% - 25.0%	~24%

(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, 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 16 for a reconciliation to the corresponding GAAP measures for the second quarter and year-to-date periods.

# Financial Results

# Financial Results

For the Three and Six Months ended November 30, 2020

(In millions, except per share amounts)	<u>Three Months Ended November 30, 2020</u>	<u>% Change</u>	<u>Six Months Ended November 30, 2020</u>	<u>% Change</u>
Management Solutions	\$ 732.8	1%	\$ 1,420.2	(2%)
PEO and Insurance Solutions	236.1	(3%)	466.0	(5%)
<b>Total Service Revenue</b>	<b>968.9</b>	<b>(0%)</b>	<b>1,886.2</b>	<b>(3%)</b>
Interest on Funds Held for Clients	14.8	(25%)	29.7	(27%)
<b>Total Revenue</b>	<b>\$ 983.7</b>	<b>(1%)</b>	<b>\$ 1,915.9</b>	<b>(3%)</b>
Operating Income	\$ 354.3	4%	\$ 638.3	(8%)
Net Income	\$ 272.4	5%	\$ 484.0	(7%)
Diluted EPS	\$ 0.75	4%	\$ 1.34	(8%)
<b>Non-GAAP Measures:<sup>(1)</sup></b>				
Adjusted Operating Income	\$ 355.3	4%	\$ 670.5	(3%)
Adjusted EBITDA	\$ 407.7	2%	\$ 773.0	(4%)
Adjusted Net Income	\$ 264.8	4%	\$ 492.8	(4%)
Adjusted Diluted EPS	\$ 0.73	4%	\$ 1.36	(4%)

(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 and Six Months ended November 30, 2020

(In millions, except per share amounts)

	Three Months Ended		%	Six Months Ended		%
	November 30,			November 30,		
	2020	2019 <sup>(1)</sup>	Change	2020 <sup>(1)</sup>	2019	Change
<b>Operating Income</b>	\$ 354.3	\$ 341.7	4%	\$ 638.3	\$ 690.8	(8%)
Non-GAAP Adjustments:						
Cost-Saving Initiatives <sup>(2)</sup>	1.0	-		32.2	-	
Total Non-GAAP Adjustments	1.0	-		32.2	-	
<b>Adjusted Operating Income<sup>(3)</sup></b>	<b>\$ 355.3</b>	<b>\$ 341.7</b>	<b>4%</b>	<b>\$ 670.5</b>	<b>\$ 690.8</b>	<b>(3%)</b>
<b>Net Income</b>	\$ 272.4	\$ 258.7	5%	\$ 484.0	\$ 522.9	(7%)
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(8.5)	(4.9)		(15.5)	(11.5)	
Cost-Saving Initiatives <sup>(2)</sup>	0.9	-		24.3	-	
Total Non-GAAP Adjustments	(7.6)	(4.9)		8.8	(11.5)	
<b>Adjusted Net Income<sup>(3)</sup></b>	<b>\$ 264.8</b>	<b>\$ 253.8</b>	<b>4%</b>	<b>\$ 492.8</b>	<b>\$ 511.4</b>	<b>(4%)</b>
<b>Diluted EPS</b>	\$ 0.75	\$ 0.72	4%	\$ 1.34	\$ 1.45	(8%)
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.02)	(0.01)		(0.04)	(0.03)	
Cost-Saving Initiatives <sup>(2)</sup>	-	-		0.07	-	
Total Non-GAAP Adjustments	(0.02)	(0.01)		0.02	(0.03)	
<b>Adjusted Diluted EPS<sup>(3)</sup></b>	<b>\$ 0.73</b>	<b>\$ 0.70</b>	<b>4%</b>	<b>\$ 1.36</b>	<b>\$ 1.42</b>	<b>(4%)</b>
<b>Net Income</b>	\$ 272.4	\$ 258.7	5%	\$ 484.0	\$ 522.9	(7%)
Non-GAAP Adjustments:						
Interest Expense, Net	8.5	6.8		16.9	12.6	
Income Taxes	77.2	78.3		141.7	158.4	
Depreciation and Amortization Expense	48.6	55.0		98.2	107.9	
Total Non-GAAP Adjustments	134.3	140.1		256.8	278.9	
EBITDA	406.7	398.8	2%	740.8	801.8	(8%)
Cost-Saving Initiatives <sup>(2)</sup>	1.0	-		32.2	-	
<b>Adjusted EBITDA<sup>(3)</sup></b>	<b>\$ 407.7</b>	<b>\$ 398.8</b>	<b>2%</b>	<b>\$ 773.0</b>	<b>\$ 801.8</b>	<b>(4%)</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 the first and second quarters 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 November 30,			Six Months Ended November 30,		
	2020	2019	% Change	2020	2019	% Change
<b>Average Investment Balances:</b>						
Funds Held For Clients	\$3,581.4	\$3,726.3	(4%)	\$3,544.3	\$3,735.5	(5%)
Corporate Cash Equivalents and Investments	\$ 964.9	\$ 788.5	22%	\$ 993.6	\$ 825.2	20%
<b>Average Rate of Return Earned:</b>						
Funds Held For Clients	1.6%	2.0%		1.6%	2.1%	
Corporate Cash Equivalents and Investments	0.2%	1.7%		0.2%	1.9%	
<b>Realized Gains, Net</b>	\$ 0.4	\$ 0.9		\$ 0.7	\$ 1.8	
<u>End of Period:</u>	<u>November 30, 2020</u>			<u>May 31, 2020</u>		
<b>Unrealized Gain, Net</b>	\$108.9			\$100.0		

- 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 4% during the second quarter due to lower client fund collections and changes in client base mix, offset by timing of collections and remittances and wage inflation

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**The Power of Simplicity**