



Payroll • HR • Retirement • Insurance

Second Quarter Highlights and Financial Results Fiscal 2017

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 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 and 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. We undertake no obligation to update these forward-looking statements after the date of issuance of this document to reflect events or circumstances after the date of release of this information, or to reflect the occurrence of unanticipated events.

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Company Overview

Paychex is a leading provider of integrated human capital management solutions for payroll, HR, retirement, and insurance services for small to medium-sized businesses

- Market capitalization of over \$20B
- Strong financial position
- Approximately 605,000 payroll clients as of May 31, 2016

Revenue Source

Small-Business Payroll

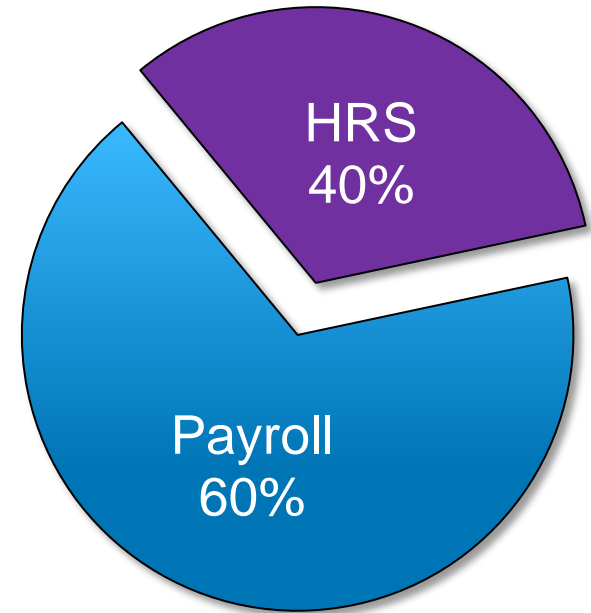
- Small-business targets businesses with 1-50 employees

Mid-Market Payroll

- Mid-market targets businesses with 50-1,000 employees
- Growing portfolio of standalone services – expense management; applicant tracking; time and labor

Human Resource Services

- Market leader in complimentary services sold to payroll clients – retirement, insurance, and HR services



As of May 31, 2016

Second Quarter 2017 Highlights

- Results for the second quarter of fiscal 2017 reflect continued growth across all our major human capital management (“HCM”) product lines.
- Introduced HR Analytics in context throughout the Paychex Flex platform, assisting HR leaders with making more informed decisions.
- Announced shift to mobile-first design of our HCM suite. This allows users to have full functionality of all application components, regardless of device or screen size.
- Achieved new milestone during the second quarter of one million worksite employees served by Paychex HR Services.

Second Quarter 2017 Financial Highlights

- Total service revenue up 7%
- Operating income increased 6%, with operating margin of approximately 40%
- Combined interest on funds held for clients and investment income decreased 3%
- Cash and total corporate investments of \$725 million
- Net income increased 7% and diluted earnings per share increased 8%.

2017 Second Quarter Financial Results

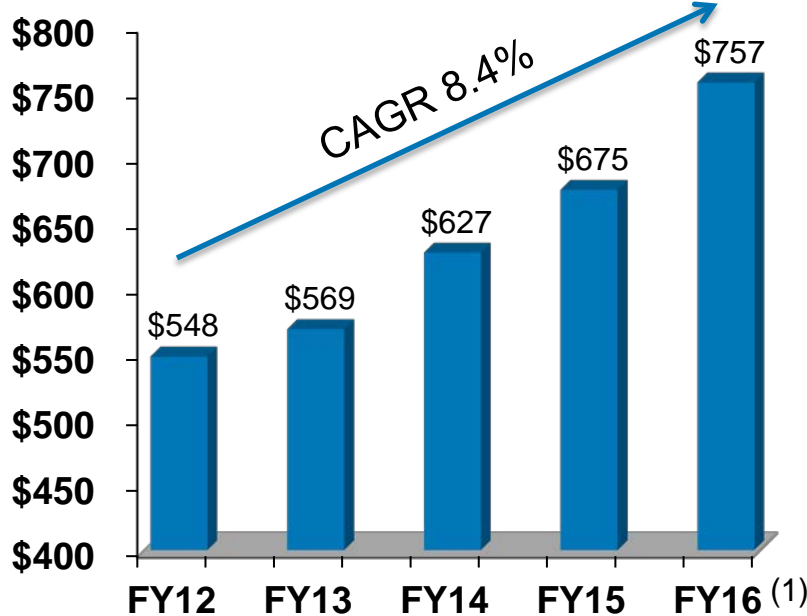
(In Millions, Except Per Share Amounts)

	Three Months Ended November 30, 2016	% Change	Six Months Ended November 30, 2016	% Change
Payroll Service Revenue	\$ 440.9	3%	\$ 891.8	4%
Human Resource Services Revenue	319.1	12%	641.7	14%
Total Service Revenue	760.0	7%	1,533.5	8%
Interest on Funds Held for Clients	11.4	2%	23.4	6%
Total Revenue	\$ 771.4	7%	\$ 1,556.9	8%
Operating Income	\$ 311.1	6%	\$ 634.1	7%
Net Income	\$ 202.1	7%	\$ 419.5	5%
Adjusted Net Income (non-GAAP) ⁽¹⁾	\$ 201.2	6%	\$ 405.4	7%
Diluted Earnings Per Share	\$ 0.56	8%	\$ 1.16	5%
Adjusted Diluted Earnings per Share ⁽¹⁾	\$ 0.56	8%	\$ 1.12	8%

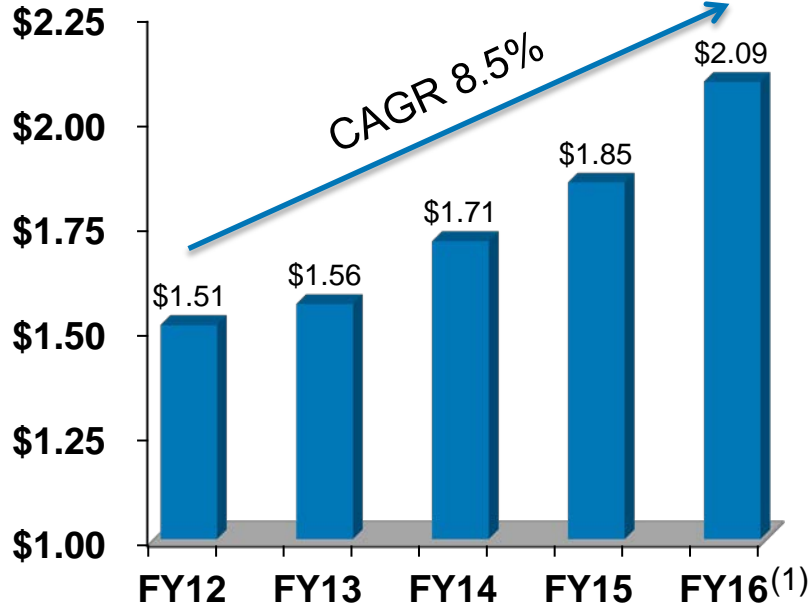
(1) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude certain discrete tax items recognized within the respective periods of fiscal years 2017 and 2016. Refer to further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.

Strong Earnings History

Net Income (in millions)



Diluted EPS

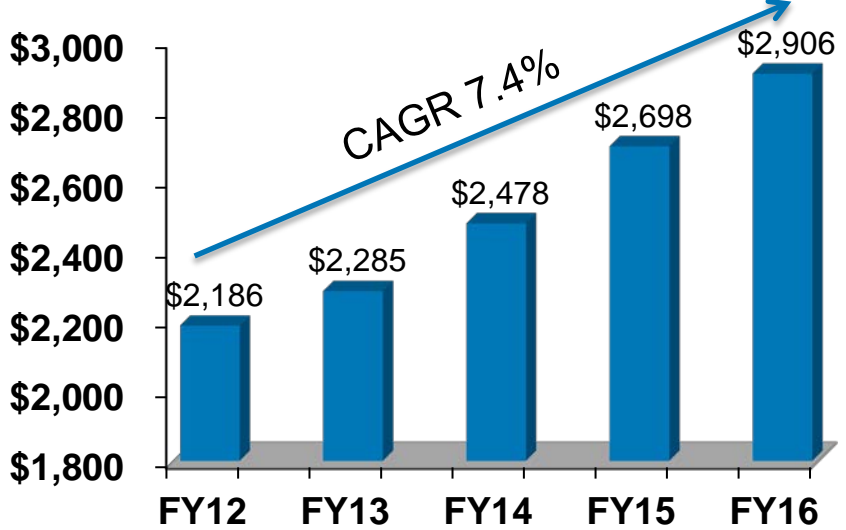


(1) Net income and diluted earnings per share were both impacted by a net tax benefit derived from income in prior tax years related to customer-facing software we produce.

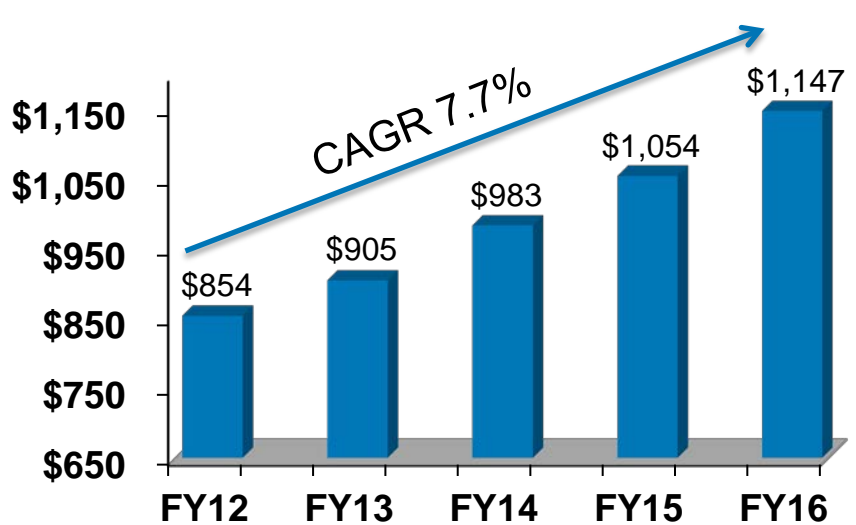
Accelerating Performance

(in millions)

Service Revenue (1)



Operating Income

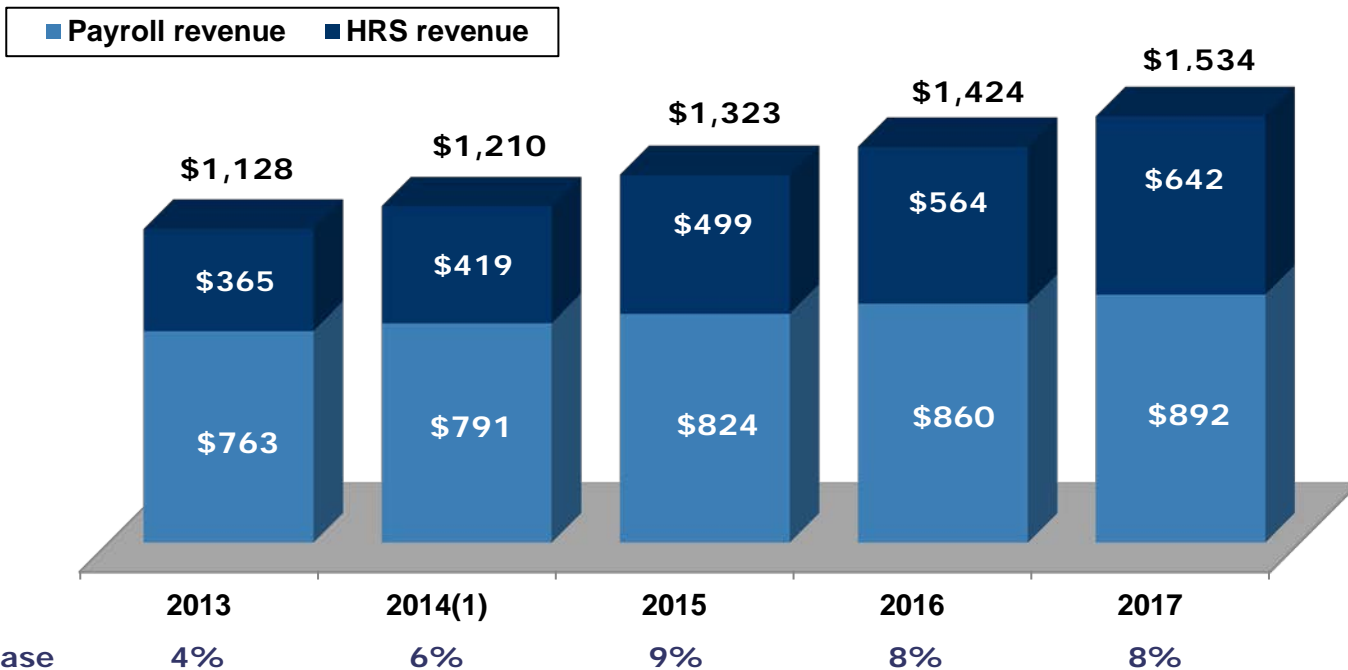


(1) Reflects change to classify certain PEO direct costs as operating expenses rather than a reduction in service revenue starting in FY14.

Total Service Revenue Year to Date

(In millions)

Six months ended November 30



(1) Reflects change to classify certain PEO direct costs as operating expenses rather than a reduction in service revenue during fiscal 2014. Refer to the “Management’s Discussion and Analysis” section of Paychex, Inc.’s Form 10-K for the period ended May 31, 2014 for further discussion.

Investment Portfolios Results

Six Months Ended

	<u>November 30,</u> <u>2016</u>	<u>November 30,</u> <u>2015</u>	<u>% Change</u>
Average Investment Portfolios (in billions):			
Funds Held for Clients	\$3.7	\$3.8	(1%)
Corporate Investments	\$0.9	\$1.0	(7%)
Average Rate of Return Earned:			
Funds Held for Clients	1.3%	1.2%	
Corporate Investments	1.0%	0.8%	
Realized Gains, Net (in millions)	\$0.1	-	
End of Period:	<u>November 30, 2016</u>	<u>May 31, 2016</u>	
Unrealized (Loss)/Gain, Net (in millions)	\$ (24.8)	\$47.6	

Balance Sheet and Cash Flows

	<u>November 30, 2016</u>	<u>May 31, 2016</u>
Cash & Investments	\$725.1	\$793.2
Short-Term Borrowings	\$103.1	\$0
Return on Equity	40%	40%
For the fiscal year-to-date ended:	<u>November 30, 2016</u>	<u>November 30, 2015</u>
Operating Cash Flow	\$413.4	\$419.9
Dividends Paid	\$331.5	\$303.6
Dividend Coverage Ratio*	1.1x	1.2x

* Ratio is calculated based on free cash flow of \$362.0M and \$366.5M for the fiscal year-to-date ended November 30, 2016 and 2015, respectively.

Fiscal Year 2017 Outlook

Payroll Service Revenue	3% – 4%
Human Resource Services Revenue	12% – 14%
Total Service Revenue	7% – 8%
Interest on Funds Held For Clients	Upper-single-digit growth
Net Income (GAAP)	Approximately 7%
Adjusted Net Income ⁽¹⁾ (non-GAAP)	Approximately 8%

(1) Adjusted net income is a non-GAAP measure, which excludes the impact of certain discrete tax items. Refer to further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.

Long-Term Capital Strategy

- Cash deployment
 - Investment for organic growth
 - Strategic acquisitions
 - Return cash to shareholders through dividends and stock repurchase
- In July 2016, the Board of Directors authorized a new stock repurchase plan to purchase up to \$350 million of Paychex common stock, with authorization for this program expiring in May 2019. During the six months ending November 30, 2016, we repurchased 2.9 million shares of common stock for a total of \$166.2 million, of which \$59.7 million was under a previously authorized repurchase plan.

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