



Payroll • HR • Retirement • Insurance

Second Quarter Highlights and Financial Results Fiscal 2018

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, 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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Paychex Overview

Paychex is a leading provider of integrated human capital management solutions (“HCM”) for payroll, human resources (“HR”), retirement, and insurance services for small- to mid-sized businesses.

- Market capitalization of approximately \$25B
- Strong financial position
- Approximately 605,000 payroll clients as of May 31, 2017

Revenue Source

Small Business Payroll

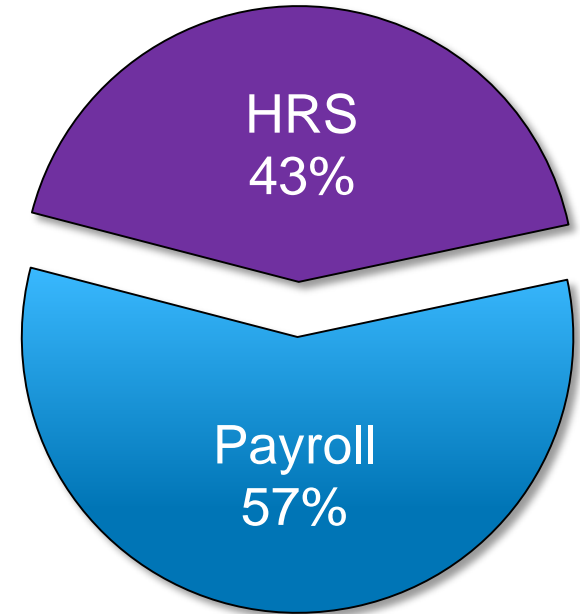
- Small business targets businesses with 1-50 employees

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, 2017

Second Quarter 2018 Highlights

- Results reflect continued solid growth across our major HCM product lines, in particular comprehensive HR outsourcing services, retirement services, and time and attendance solutions.
- The combined interest on funds held for clients and corporate investment portfolios benefited from higher interest rates.
- Inc.com recently recognized Paychex as the Best HR Outsourcing for Small Business overall.
- Paychex Flex® recently awarded a Gold Excellence in Technology Award for Best Advance in HR or Workforce Management Technology for Small and Medium-Sized Businesses from Brandon Hall Group.
- Introduction of a retina scan, InVision™ Iris Time Clock
- Introduced new product bundles with simplified prices. Certain of these bundles include our new Paychex Flex® Onboarding Essentials and Do-It-Yourself Handbook Builder at no extra charge.
- Completed the purchase of five buildings for the new multi-building Paychex campus for a combined cost of approximately \$34.7 million. Renovations on the buildings have commenced.
- We are integrating HR Outsourcing Holdings, Inc. (“HROI”) into our existing PEO business with favorable results. This integration further strengthens and expands our presence in the PEO market and positions us for stronger, long-term growth.

Second Quarter 2018 Financial Highlights

- Total service revenue up 7%⁽¹⁾
- Operating income increased 7%, with operating margin of 40.2%
- Combined interest on funds held for clients and investment income increased 28%
- Cash and total investments of \$819.5 million as of November 30, 2017
- Net income and diluted earnings per share each increased 7%.
- Adjusted net income⁽²⁾ increased 7% and adjusted diluted earnings per share⁽²⁾ increased 5%.

(1) HROI contributed approximately 3% to total service revenue growth for the second quarter.

(2) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude the additional tax benefit or shortfall related to employee stock-based compensation payments recognized in income taxes. Refer to a reconciliation of non-GAAP measures on slide 9 along with further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.

2018 Second Quarter Financial Results

(In Millions, Except Per Share Amounts)

| | Three Months Ended November 30, 2017 | % Change | Six Months Ended November 30, 2017 | % Change |
|--|---|-------------|---|-------------|
| Payroll Service Revenue | \$ 444.8 | 1% | \$ 902.6 | 1% |
| Human Resource Services Revenue | 367.7 | 15% | 713.0 | 11% |
| Total Service Revenue | 812.5 | 7% | 1,615.6 | 5% |
| Interest on Funds Held for Clients | 14.0 | 23% | 27.7 | 19% |
| Total Revenue | \$ 826.5 | 7% | \$ 1,643.3 | 6% |
| Operating Income | \$ 332.2 | 7% | \$ 677.2 | 7% |
| Net Income | \$ 217.0 | 7% | \$ 444.8 | 6% |
| Adjusted Net Income ⁽¹⁾ | \$ 214.4 | 7% | \$ 437.2 | 8% |
| Diluted Earnings Per Share | \$ 0.60 | 7% | \$ 1.23 | 6% |
| Adjusted Diluted Earnings per Share ⁽¹⁾ | \$ 0.59 | 5% | \$ 1.21 | 8% |

(1) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude the additional tax benefit or shortfall related to employee stock-based compensation payments recognized in income taxes. Refer to a reconciliation of non-GAAP measures on slide 9 along with further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.

Non-GAAP Financial Measures

(In Millions, Except Per Share Amounts)

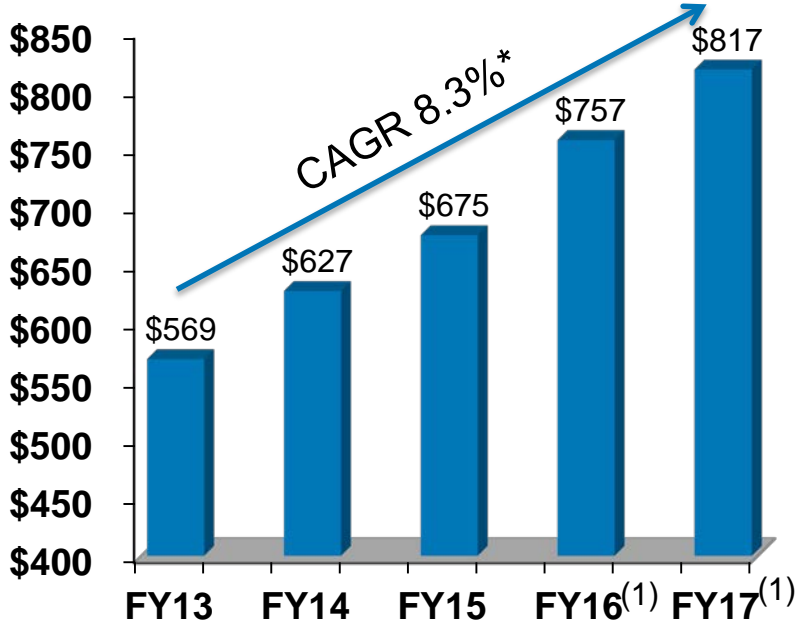
| | Three Months Ended November 30, | | % Change | Six Months Ended November 30, | | % Change |
|--|------------------------------------|----------|-------------|----------------------------------|----------|-------------|
| | 2017 | 2016 | | 2017 | 2016 | |
| Net Income | \$ 217.0 | \$ 202.1 | 7% | \$ 444.8 | \$ 419.5 | 6% |
| Non-GAAP Adjustments: | | | | | | |
| Excess tax benefit related to employee stock-based compensation payments | (2.6) | (0.9) | | (7.6) | (14.1) | |
| Adjusted Net Income ⁽¹⁾ | \$ 214.4 | \$ 201.2 | 7% | \$ 437.2 | \$ 405.4 | 8% |
| Diluted Earnings per Share | \$ 0.60 | \$ 0.56 | 7% | \$ 1.23 | \$ 1.16 | 6% |
| Non-GAAP Adjustments: | | | | | | |
| Excess tax benefit related to employee stock-based compensation payments | (0.01) | — | | (0.02) | (0.04) | |
| Adjusted Diluted Earnings per Share ⁽¹⁾ | \$ 0.59 | \$ 0.56 | 5% | \$ 1.21 | \$ 1.12 | 8% |

(1) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures. Refer to the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q for further details.

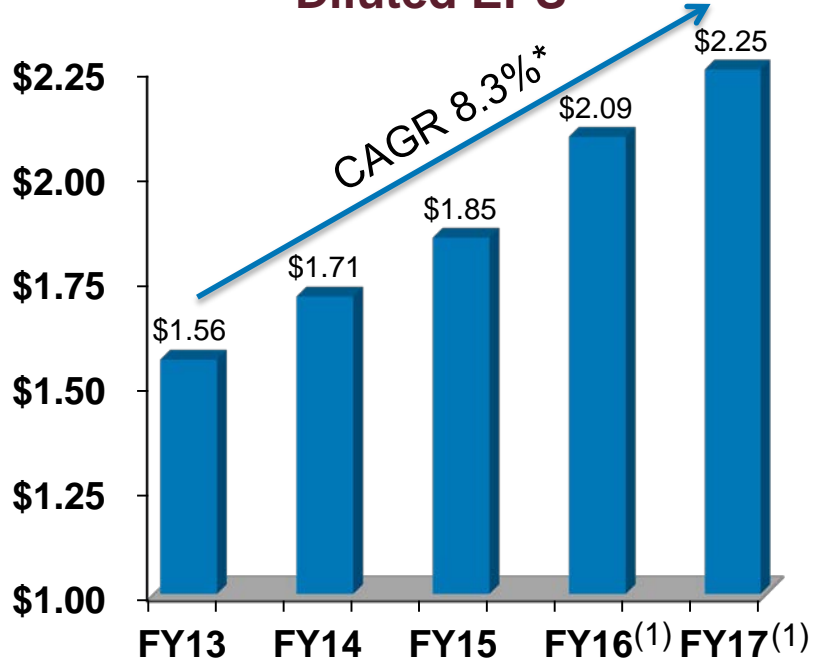
Strong Earnings History

* 5-Year CAGR

Net Income (in millions)



Diluted EPS



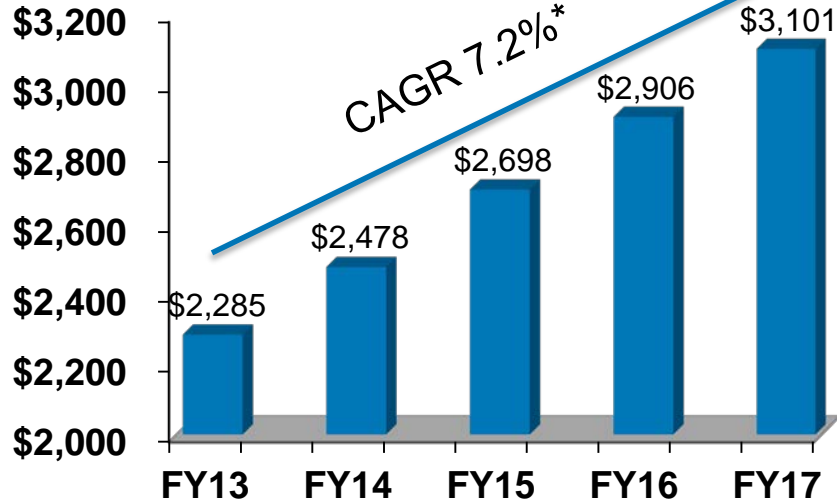
(1) Net income and diluted earnings per share were both impacted by certain net tax benefits recognized during the respective periods. Refer to further discussion in the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

Sustained Performance

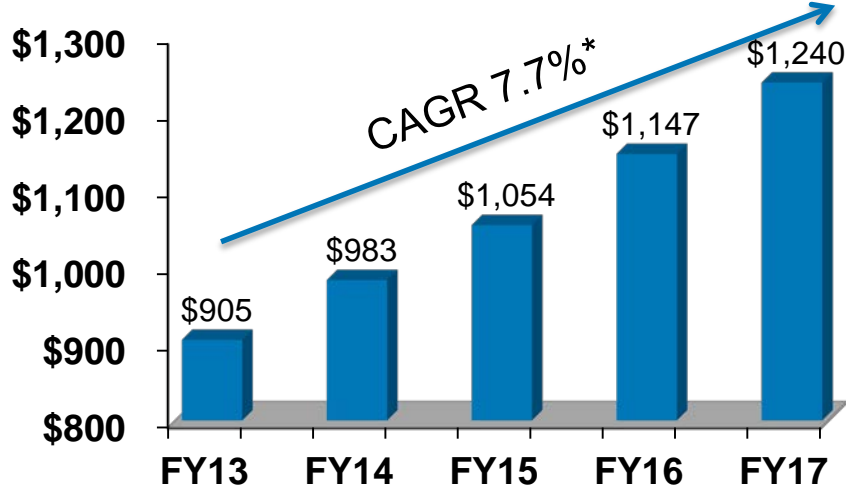
(in millions)

* 5-Year CAGR

Service Revenue (1)



Operating Income

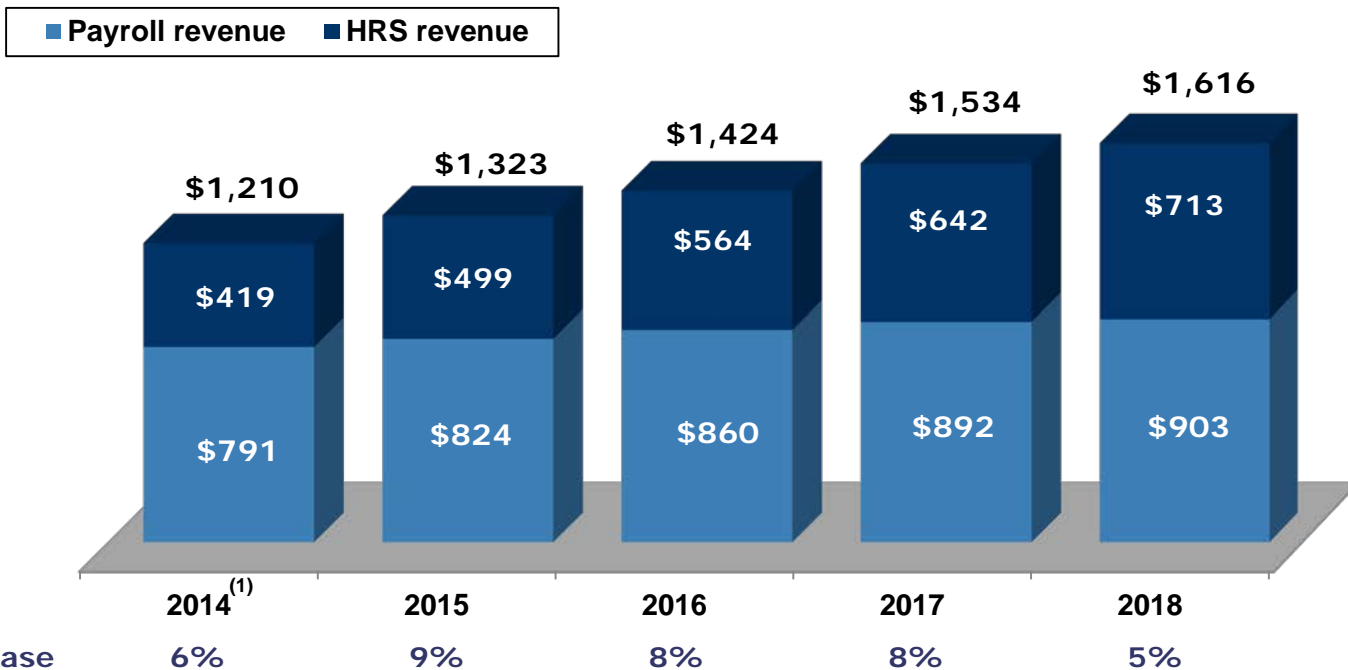


(1) Reflects change to classify certain PEO direct costs as operating expenses rather than a reduction in service revenue starting in FY14.

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>2017</u> | <u>November 30,</u> <u>2016</u> | <u>% Change</u> |
| Average Investment Portfolios (in billions): | | | |
| Funds Held for Clients | \$3.7 | \$3.7 | – % |
| Corporate Investments | \$0.9 | \$0.9 | (2)% |
| Average Rate of Return Earned: | | | |
| Funds Held for Clients | 1.5% | 1.3% | |
| Corporate Investments | 1.2% | 1.0% | |
| Realized Gains, Net (in millions) | – | \$0.1 | |
| End of Period: | <u>November 30, 2017</u> | <u>May 31, 2017</u> | |
| Unrealized (Loss)/Gain, Net (in millions) | \$ (14.2) | \$ 32.0 | |

Balance Sheet and Cash Flows

(\$ in Millions)

| | <u>November 30, 2017</u> | <u>May 31, 2017</u> |
|------------------------------------|--------------------------|--------------------------|
| Cash & Investments | \$819.5 | \$777.4 |
| Short-term Borrowings | \$133.4 | \$0 |
| Return on Equity | 43% | 42% |
| For the fiscal year-to-date ended: | <u>November 30, 2017</u> | <u>November 30, 2016</u> |
| Operating Cash Flow | \$519.4 | \$413.4 |
| Dividends Paid | \$358.9 | \$331.5 |
| Dividend Coverage Ratio* | 1.1x | 1.1x |

* Ratio is calculated based on free cash flow of \$401.9M and \$362.0M for the fiscal year-to-date ended November 30, 2017 and 2016, respectively.

Fiscal Year 2018 Outlook⁽¹⁾

| | Year-over-Year Growth |
|--|-----------------------|
| Payroll Service Revenue | 1% – 2% |
| HRS Revenue | 12% – 14% |
| Interest on funds held for clients | Mid- to Upper-teens |
| Total Revenue | Approximately 6% |
| Net Income | Approximately 5% |
| Adjusted Net Income ⁽²⁾ | Approximately 7% |
| Diluted Earnings per Share | 5% - 6% |
| Adjusted Diluted Earnings per Share ⁽²⁾ | 7% - 8% |
| | Anticipated Result |
| Operating Income, as a Percent of Total Revenue | 39% - 40% |
| Investment Income, Net | \$9.0M - \$11.0M |
| Effective Income Tax Rate | 35.0% - 35.5% |

(1) Our fiscal 2018 guidance presented does not include any impact from tax reform legislation. We anticipate that the impact of tax reform legislation will be a benefit of 10% to 12% on our annualized effective tax rate. This is based upon our current understanding of the legislation and may be subject to change upon further review of the final law and interpretive guidance that may be issued. We expect a portion of these benefits to be reinvested in the business to drive future growth.

(2) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude the impact of certain discrete tax items. Fiscal 2018 growth rates for these non-GAAP measures are based on fiscal 2017 adjusted net income of \$799.0 million and adjusted diluted earnings per share of \$2.20. No assumptions were made in regards to discrete tax items in the second half of fiscal 2018 for employee stock-based compensation payments in our fiscal 2018 guidance. Refer to the reconciliation for fiscal 2017 results on the Non-GAAP Financial Measures slide on page 9 of this presentation as well as further discussion in the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

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 first six months of fiscal 2018, 1.6 million shares were repurchased for a total of \$94.1 million. During the respective period of fiscal 2017, we repurchased 2.9 million shares for \$166.2 million, of which \$59.7 million was repurchased under a previously authorized common stock repurchase program.

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