



Payroll • HR • Retirement • Insurance

Fourth 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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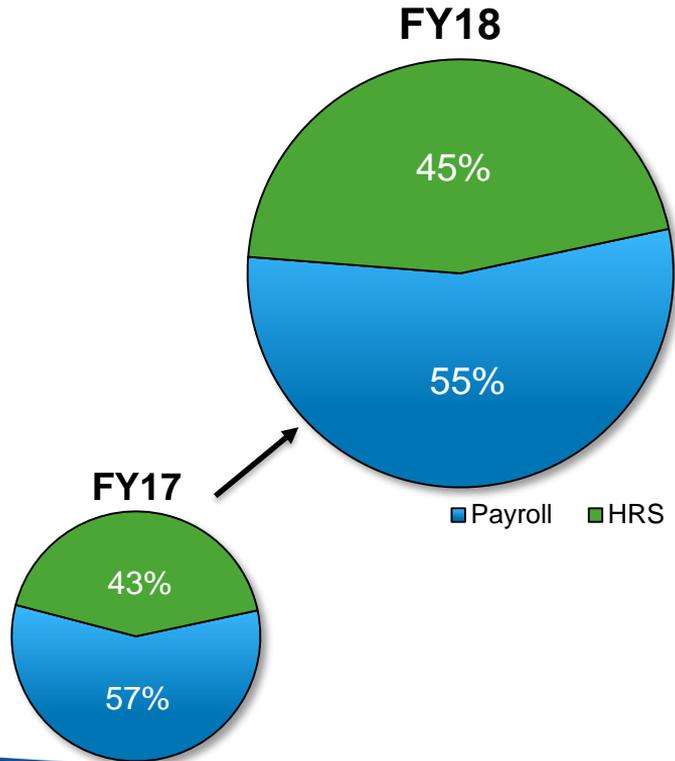
Paychex

A leading provider of integrated human capital management (HCM) solutions for payroll, human resources, retirement and insurance services for small- to mid-sized businesses.

- ❑ Integrated, cloud-based HCM platform
- ❑ Unique, high-touch and technology-enabled service model
- ❑ Market capitalization of approximately \$25B
- ❑ Strong financial position
- ❑ > 650,000 payroll clients as of May 31, 2018

Revenue Source

Increasing attachment of HCM and employee benefit products



Payroll

Serves small- and mid-market businesses

- ❑ Small business targets businesses with 1-50 employees
- ❑ Mid-market targets businesses with 50-1,000 employees
- ❑ Integrated Flex platform allowing for clients to add services as they grow

Human Resource Services

Market leader in complimentary services sold to payroll clients – retirement, insurance, comprehensive HR services, time and attendance, recruiting, onboarding, and HR administration

Fourth Quarter 2018 Highlights

- ❑ Continued solid growth across our major HCM product lines, in particular comprehensive HR outsourcing services, retirement services, insurance and time and attendance solutions
- ❑ Interest on funds held for clients and corporate investments benefited from higher interest rates
- ❑ On March 1, 2018, we announced the purchase of Lessor Group, a market-leading provider of payroll and HCM software solutions headquartered in Denmark and serving clients in Northern Europe
- ❑ Paychex PEO, including HROI, exceeded expectations with double-digit growth in worksite employees; reflects strong demand for comprehensive outsourced HR
- ❑ Impact of Tax Cuts and Jobs Act (“Tax Reform”) significantly reduced the Federal Corporate tax rate and resulted in 28.7% effective income tax rate for the fourth quarter. See reconciliation of effective tax rate on slide 9
- ❑ Launched Paychex Promise, a first-in-the-industry subscription service that provides payroll protection for clients
- ❑ In April 2018, we announced an increase in our quarterly dividend to \$0.56 per share, a 12% increase from \$0.50 per share

Fourth Quarter 2018 Financial Highlights

- ❑ Total revenue up 9%⁽¹⁾
- ❑ Operating income increased 6%; growth moderated somewhat by accelerated investment in the business and growth in PEO pass-through insurance costs
- ❑ Combined interest on funds held for clients and investment income increased 29%
- ❑ Cash and total corporate investments of \$720 million as of May 31, 2018
- ❑ Net income and diluted earnings per share each increased 17%; growth rate significantly impacted by Tax Reform with the lower blended effective tax rate (before discrete items) of 30.5% compared to 35.8% in the prior year
- ❑ Adjusted net income⁽²⁾ and adjusted diluted earnings per share⁽²⁾ both increased 13%

(1) Total revenue growth includes results from the acquisitions of HROI and Lessor.

(2) Adjusted net income, and adjusted diluted earnings per share are non-GAAP measures, which exclude discrete tax items. Refer to a reconciliation of non-GAAP measures on slides 10-11 along with further discussion in our fourth quarter earnings release or the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

2018 Fourth Quarter Financial Results

(In Millions, Except Per Share Amounts)

	Three Months Ended May 31, 2018	% Change	Twelve Months Ended May 31, 2018	% Change
Payroll Services	\$ 452.4	3%	\$ 1,810.0	2%
HRS Revenue	<u>401.0</u>	17%	<u>1,507.4</u>	14%
Total Service Revenue	853.4	9%	3,317.4	7%
Interest on Funds Held for Clients	<u>17.7</u>	27%	<u>63.5</u>	26%
Total Revenue	<u>\$ 871.1</u>	9%	<u>\$ 3,380.9</u>	7%
Operating Income	\$ 317.8	6%	\$ 1,287.5	4%
Net Income	\$ 228.5	17%	\$ 933.7	14%
Diluted Earnings Per Share	\$ 0.63	17%	\$ 2.58	15%
Non-GAAP Measures⁽¹⁾:				
Adjusted Operating Income	\$ 317.8	6%	\$ 1,320.1	6%
Adjusted Net Income	\$ 219.1	13%	\$ 919.9	15%
Adjusted Diluted Earnings Per Share	\$ 0.61	13%	\$ 2.55	16%

(1) Refer to a reconciliation of non-GAAP measures on slides 10-11 along with further discussion in the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

2018 Fourth Quarter Effective Tax Rate

Tax Reform reduced ETR by 5.3% and discrete tax items reduced the ETR further by 1.8% for Q4

	Three Months Ended May 31, 2018	Twelve Months Ended May 31, 2018
Pre-Tax Reform Effective Tax Rate	35.8%	35.8%
<u>Annual Rate Items</u>		
Impact of Tax Reform on Annual Effective Tax Rate	<u>(5.3%)</u>	<u>(5.3%)</u>
Post-Tax Reform Annual Effective Tax Rate	30.5%	30.5%
<u>Discrete Items</u>		
Revaluation of Net Deferred Tax Liabilities	(1.5%)	(2.0%)
Tax Benefit on Employee Stock-Based Compensation Payments	(1.4%)	(1.0%)
Termination of License Agreements ⁽¹⁾	0.0%	0.2%
Other Immaterial Discrete Tax Items	<u>1.2%</u>	<u>0.3%</u>
Total Discrete Tax Benefit, Net	(1.8%)	(2.5%)
Post Tax Reform Effective Tax Rate	<u>28.7%</u>	<u>28.0%</u>

(1) Reflects the difference between the post Tax Reform Estimated Annual Effective Tax Rate of 30.5% and the tax benefit recognized on the charge following the termination of certain license agreements at 24.3%.

Non-GAAP Financial Measures

(In Millions, Except Per Share Amounts)

	Three Months Ended		% Change	Twelve Months Ended		% Change
	May 31, 2018	May 31, 2017		May 31, 2018	May 31, 2017	
Operating Income	\$ 317.8	\$ 298.9	6%	\$ 1,287.5	\$ 1,239.6	4%
Non-GAAP Adjustments:						
Termination of License Agreements	\$ -	\$ -		\$ 32.6	\$ -	
Total Non-GAAP Adjustments	\$ -	\$ -		\$ 32.6	\$ -	
Adjusted Operating Income	\$ 317.8	\$ 298.9	6%	\$ 1,320.1	\$ 1,239.6	6%
Net Income	\$ 228.5	\$ 195.3	17%	\$ 933.7	\$ 817.3	14%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(4.6)	(1.0)		(12.9)	(18.3)	
Revaluation of Net Deferred Tax Liabilities	(4.8)	-		(25.6)	-	
Termination of License Agreements, net of tax	-	-		24.7	-	
Total Non-GAAP Adjustments	(9.4)	(1.0)		(13.8)	(18.3)	
Adjusted Net Income	\$ 219.1	\$ 194.3	13%	\$ 919.9	\$ 799.0	15%

(1) Adjusted operating income and adjusted net income are non-GAAP measures. Refer to our fourth quarter earnings release or the Management's Discussion and Analysis section of our Annual Report on Form 10-K for further details.

Non-GAAP Financial Measures (Continued)

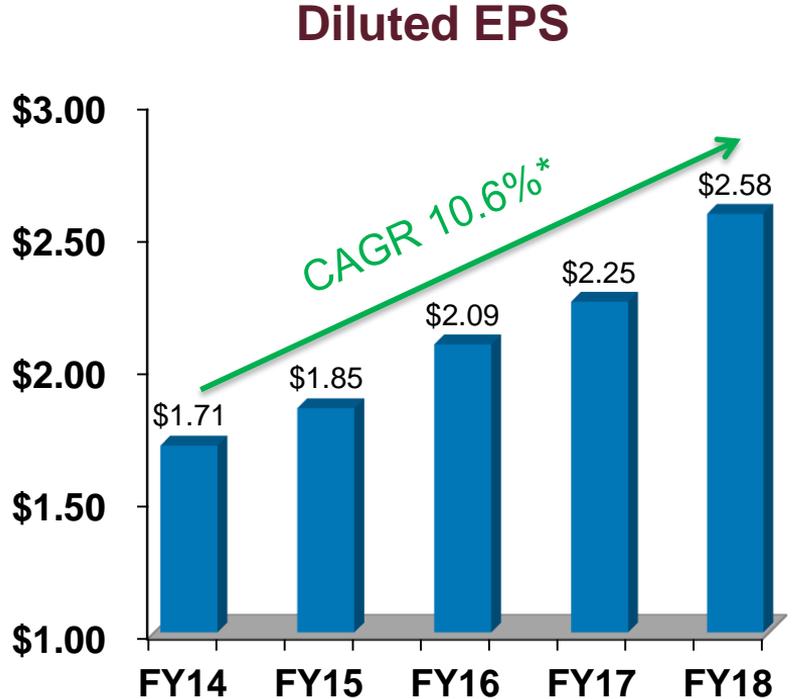
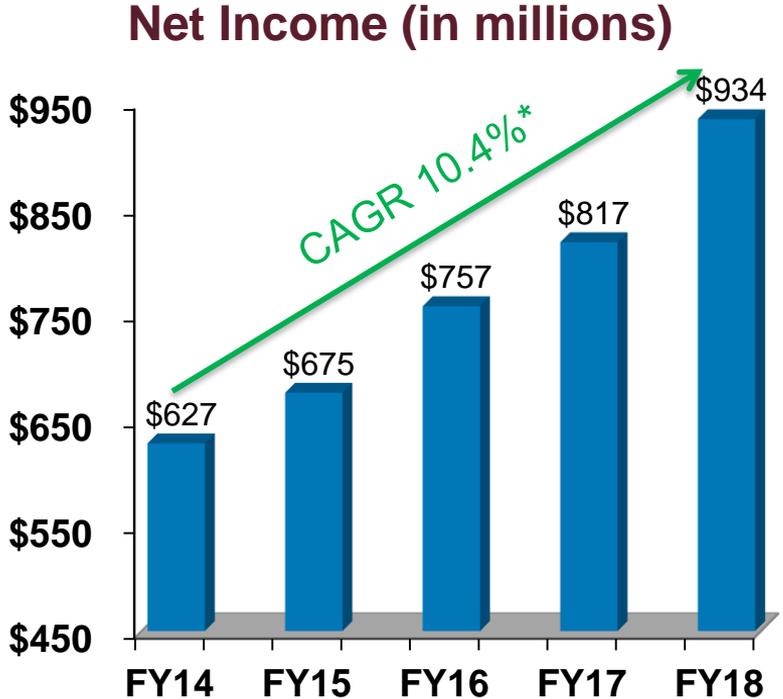
(In Millions, Except Per Share Amounts)

	Three Months Ended		% Change	Twelve Months Ended		% Change
	May 31, 2018	May 31, 2017		May 31, 2018	May 31, 2017	
Diluted Earnings Per Share	\$ 0.63	\$ 0.54	17%	\$ 2.58	\$ 2.25	15%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.01)	-		(0.03)	(0.05)	
Revaluation of Net Deferred Tax Liabilities	(0.01)	-		(0.07)	-	
Termination of License Agreements, net of tax	-	-		0.07	-	
Total Non-GAAP Adjustments	(0.02)	-		(0.03)	(0.05)	
Adjusted Diluted Earnings Per Share	\$ 0.61	\$ 0.54	14%	\$ 2.55	\$ 2.20	16%

(1) Adjusted diluted earnings per share is a non-GAAP measure. Refer to our fourth quarter earnings release or the Management's Discussion and Analysis section of our Annual Report on Form 10-K for further details.

Strong Earnings History

* 5-Year CAGR



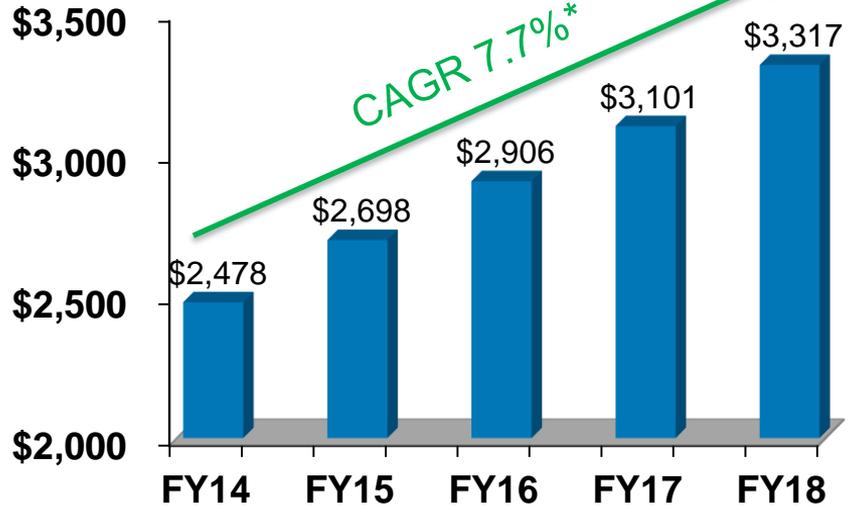
(1) Net income and diluted earnings per share were both impacted by the impact of Tax Reform in Fiscal 2018 as well as certain net tax benefits recognized during the respective periods of fiscal 2016, 2017, and 2018. Refer to further discussion in the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

Sustained Financial Performance

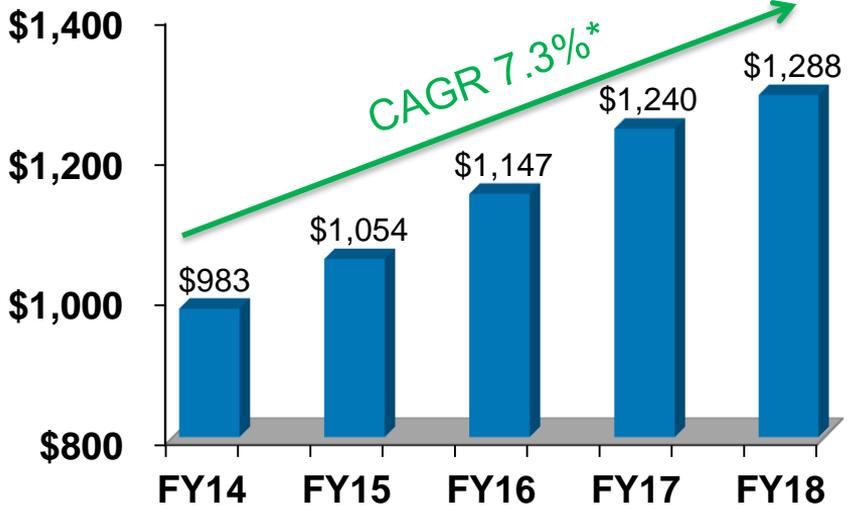
(in millions)

* 5-Year CAGR

Service Revenue

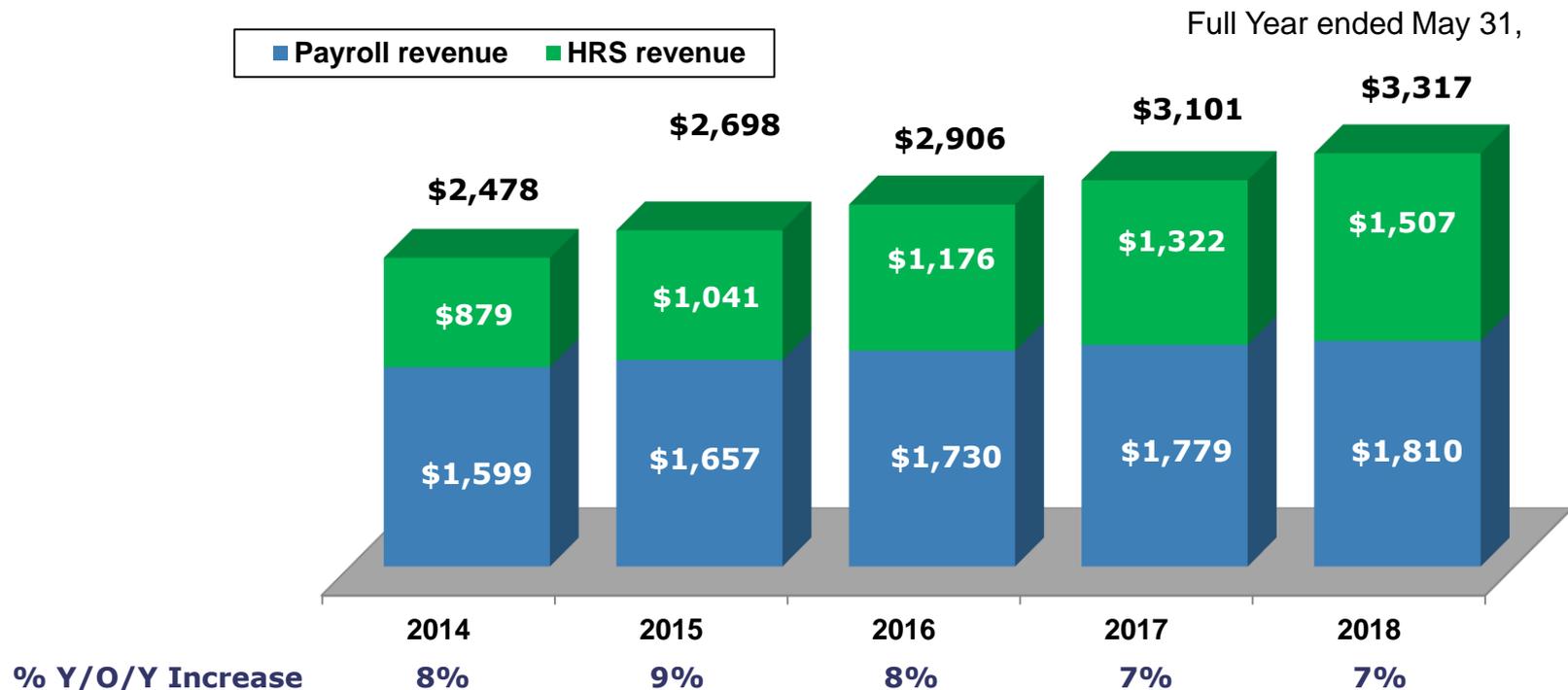


Operating Income



Total Service Revenue Year to Date *(In millions)*

Revenue growth sustained; HRS becoming larger portion with move to HCM product bundles



Investment Portfolios Results

Fed Funds rate increased 3 times during fiscal 2018. Higher yields on longer-term investments resulting in change to net unrealized loss position.

	Twelve Months Ended		% Change
	May 31, 2018	May 31, 2017	
Average Investment Balances (in billions):			
Funds Held For Clients	\$ 4.0	\$ 4.1	(1%)
Corporate Investments	\$ 0.9	\$ 0.9	1%
Average Rate of Return Earned:			
Funds Held For Clients	1.6%	1.2%	
Corporate Investments	1.3%	1.1%	
Realized Gains, Net (in millions)	\$ 0.1	\$ 0.1	
End of Period:	May 31, 2018	May 31, 2017	
Unrealized (Loss)/Gain, Net (in millions)	\$ (38.3)	\$ 32.0	

Balance Sheet and Cash Flows

(\$ in Millions)

Strong liquidity position with >\$700M in cash and total corporate investments and no debt. Stellar ROE of 46%.

	May 31, 2018	May 31, 2017
Cash & Total Corporate Investments	\$ 719.7	\$ 777.4
Short-term Borrowings	\$ -	\$ -
Return on Equity	46%	42%
Fiscal Year-to-Date Period Ended:		
	May 31, 2018	May 31, 2017
Operating Cash Flow	\$ 1,276.4	\$ 960.4
Dividends Paid	\$ 739.7	\$ 662.3
Dividend Coverage Ratio ⁽¹⁾	1.2X	1.3X

(1) Ratio is calculated based on free cash flow of \$902.2M and \$857.5M for the fiscal year ended May 31, 2018 and 2017, respectively.

Fiscal Year 2019 Full Year Outlook

Fiscal 2019 outlook is based on our financial results with the implementation of ASC 606, "Revenue from Contracts with Customers," on a full retrospective basis.

	Year-over-Year Growth
Payroll Service Revenue	2% - 3%
HRS Revenue	10% - 11%
Interest on funds held for clients	15% - 20%
Total Revenue	6% - 7%
Net Income ⁽¹⁾	3% - 4%
Adjusted Net Income ⁽²⁾	11% - 12%
Diluted Earnings per Share ⁽¹⁾	~ 3%
Adjusted Diluted Earnings per Share ⁽²⁾	~ 11%
	Anticipated Result
Operating Income, as a Percent of Total Revenue	Approximately 37%
Investment Income, Net	Approximately \$15M
Effective Income Tax Rate (before discrete items)	24.0%

(1) The growth rates for the GAAP measures of Net Income and Diluted Earnings per Share are impacted by the benefit of the one-time revaluation of deferred tax liabilities that was recognized in fiscal 2018.

(2) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude the impact of certain discrete tax items and a one-time charge following the termination of certain licensing agreements. Fiscal 2019 growth rates for these non-GAAP measures are based on fiscal 2018 adjusted net income of \$922.9 million and adjusted diluted earnings per share of \$2.56, which includes the impact of the restatement of fiscal 2018 results as it relates to adoption of ASC 606 on June 1, 2018. No assumptions were made in regards to discrete tax items in fiscal 2019 for employee stock-based compensation payments. Refer to the reconciliation for fiscal 2018 results on the Non-GAAP Financial Measures slides on pages 7-8 of this presentation as well as further discussion in our fourth quarter earnings release or the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

Long-Term Capital Allocation

- Cash deployment
 1. Reinvest in the business – drive revenue growth and margin expansion
 2. Strategic acquisitions
 3. 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 fiscal 2018, 2.5 million shares were repurchased for a total of \$143.1 million. \$100.5 million remains available to repurchase shares under the July 2016 authorization.



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