

First Quarter Highlights and Financial Results

Fiscal 2019



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. 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.

Contents

- ❑ Company Overview
- ❑ Service Revenue Disclosures
- ❑ Quarterly Highlights
- ❑ First Quarter Financial Results
- ❑ Fiscal 2019 Outlook

Paychex Overview

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 \$26B
- ❑ Strong financial position
- ❑ > 650,000 payroll clients as of May 31, 2018

Service Revenue Disclosures

With adoption of Accounting Standards Codification Topic 606, “Revenue From Contracts With Customers” (ASC 606), we are changing our disclosures regarding components of our service revenue to more appropriately reflect how the nature, amount, timing, and uncertainty of revenues and cash flows are affected by economic factors.

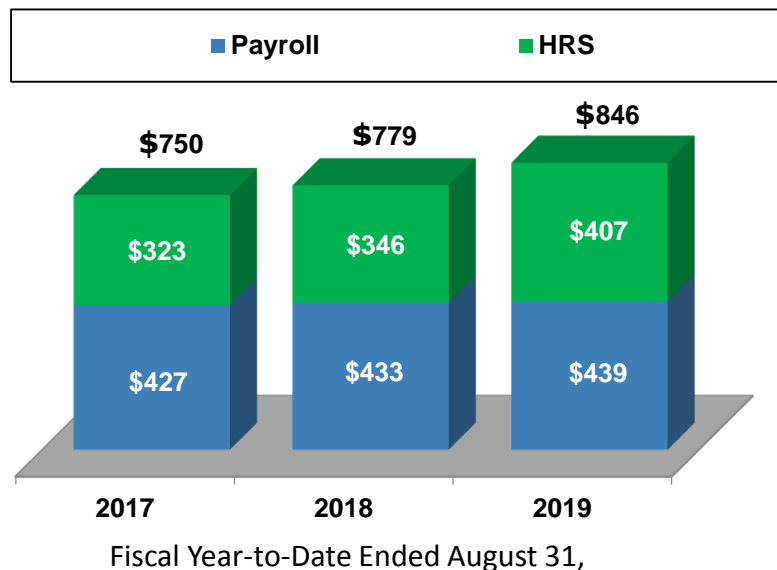
Please refer to presentation entitled “Service Revenue Disaggregation” on our Investor Relations page for historical service revenues as reported and under the new categories.

Previous Disclosures	Revised Disclosures
Payroll service revenue <ul style="list-style-type: none">• Revenues from payroll and payroll-related ancillary services• Included payroll processing, payroll tax administration services, employee payment services, and regulatory compliance services	Management Solutions revenue <ul style="list-style-type: none">• Revenues from payroll, HR and employee benefit bundles and stand-alone services• Includes payroll services revenue, retirement services, and HR administration services revenue (including ASO)
Human Resource Services (HRS) revenue <ul style="list-style-type: none">• HR and employee benefit services beyond payroll• Included retirement services, Paychex HR Services⁽¹⁾, HR administration services, insurance services, and other HR services and products	PEO and Insurance Services Revenue <ul style="list-style-type: none">• PEO revenue, including both PBS PEO and HR Outsourcing Holdings, Inc. (HROI), acquired in fiscal 2018• Insurance Services revenue including property and casualty insurance and health and benefits insurance

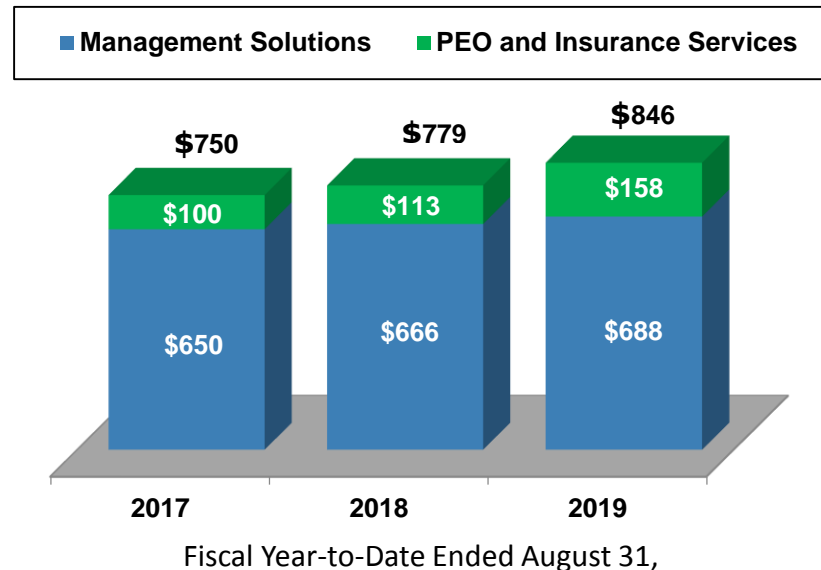
⁽¹⁾ Paychex HR Services includes both our administrative services organization (ASO) and our professional employer organization (PEO)

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

Old Disaggregation



New Disaggregation



Service Revenue Vs. Expectations

First quarter service revenue in line with expectations

	Three Months Ended August 31, 2018	% Change	FY19 Guidance	Commentary
Prior Service Revenue Disaggregation:				
Payroll Services	\$ 438.5	1%	2% - 3%	In line with guidance provided in June of below low end of the range; impacted by composition of payroll processing days
HRS Revenue	407.2	18%	10% - 11%	In line with guidance provided in June of above high end of the range due to timing of HROI acquisition
Total Service Revenue	<u>845.7</u>	9%	6% - 7%	
First Quarter FY19 as Reported:				
Management Solutions	\$ 687.7	3%	~ 4%	Payroll services included in this category, so impacted by composition of payroll processing days
PEO and Insurance Services	158.0	39%	18% - 20%	Above high end of the range due to timing of HROI acquisition
Total Service Revenue	<u>845.7</u>	9%	6% - 7%	

First Quarter Fiscal 2019 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
- ❑ Paychex PEO, including HROI, reflects strong demand for comprehensive outsourced HR
- ❑ Impact of Tax Cuts and Jobs Act (“Tax Reform”) significantly reduced the Federal Corporate statutory income tax rate
- ❑ Launched new Paychex Learning, a web-based learning management system that provides employers with a simple and affordable learning tool

First Quarter Fiscal 2019 Financial Highlights

- ❑ Adopted ASC 606, “Revenue from Contracts with Customers,” restating prior year periods presented. Refer to the presentation entitled “Impacts of ASC 606 and Other Items” on our Investor Relations webpage under Events and Presentations
- ❑ Revised disaggregation of service revenues beginning in first quarter. Currently disclosing service revenues as Management Solutions revenue and PEO and Insurance Services revenue. Refer to presentation entitled “Service Revenue Disaggregation” on our Investor Relations webpage under Events and Presentations
- ❑ Total revenue up 9%⁽¹⁾
- ❑ Operating income increased 1%; growth moderated by accelerated investment in the business, acquisitions, and growth in PEO pass-through insurance costs
- ❑ Combined interest on funds held for clients and investment income increased 23%
- ❑ Cash and total corporate investments of \$788 million as of August 31, 2018
- ❑ Net income and diluted earnings per share each increased 16%; growth rate significantly impacted by Tax Reform which lowered the corporate federal statutory tax rate to 21% from 35%
- ❑ Adjusted net income⁽²⁾ and adjusted diluted earnings per share⁽²⁾ both increased 18%

(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 certain discrete tax items. Refer to a reconciliation of non-GAAP measures on slide 13 along with further discussion in the Management’s Discussion and Analysis section of our Quarterly Report on Form 10-Q.

Financial Results

for the quarter ended

August 31, 2018

(In Millions, Except Per Share Amounts)

	Three Months Ended August 31, 2018	% Change
Prior Service Revenue Disaggregation:⁽¹⁾		
Payroll Services	\$ 438.5	1%
HRS Revenue	<u>407.2</u>	18%
Total Service Revenue	<u><u>845.7</u></u>	9%
First Quarter FY19 as Reported:		
Management Solutions	\$ 687.7	3%
PEO and Insurance Services	<u>158.0</u>	39%
Total Service Revenue	<u>845.7</u>	9%
Interest on Funds Held for Clients	<u>17.1</u>	25%
Total Revenue	<u><u>\$ 862.8</u></u>	9%
Operating Income	\$ 320.3	1%
Net Income	\$ 243.6	16%
Diluted Earnings Per Share	\$ 0.67	16%
Non-GAAP Measures:⁽²⁾		
Adjusted Net Income	\$ 242.0	18%
Adjusted Diluted Earnings Per Share	\$ 0.67	18%

- (1) Upon adoption of ASC 606, a new disaggregation of service revenues was implemented, breaking service revenues down into Management Solutions revenues and PEO and Insurance Services revenues. The previous presentation, which reflected Payroll services and Human Resource Services revenues is being supplied during the transition. Refer to the presentation entitled "Service Revenue Disaggregation" on our Investor Relations webpage for historic revenues under this new categorization.
- (2) Refer to a reconciliation of non-GAAP measures on slide 13 along with further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.

Financial Results

for the quarter ended

August 31, 2017

as Reported and as Restated

(In Millions, Except Per Share Amounts)

Adoption of ASC 606 reduced diluted earnings per share for the first quarter of fiscal 2018 by \$0.05 per share.

	Three Months Ended August 31, 2017		
	As Reported	Adjustments	As Restated
Payroll Services	\$ 457.8	\$ (24.4)	\$ 433.4
HRS Revenue	345.3	\$ 0.5	345.8
Total Service Revenue	803.1	\$ (23.9)	779.2
Interest on Funds Held for Clients	13.7	\$ -	13.7
Total Revenue	<u>\$ 816.8</u>	<u>\$ (23.9)</u>	<u>\$ 792.9</u>
Operating Income	\$ 345.0	\$ (27.7)	\$ 317.3
Net Income	\$ 227.8	\$ (17.4)	\$ 210.4
Diluted Earnings Per Share	\$ 0.63	\$ (0.05)	\$ 0.58
Non-GAAP Measures:⁽¹⁾			
Adjusted Net Income	\$ 222.8		\$ 205.4
Adjusted Diluted Earnings Per Share	\$ 0.62		\$ 0.57
New Service Revenue Disaggregation:⁽²⁾			
Management Solutions	\$ 689.7	\$ (23.8)	\$ 665.9
PEO and Insurance Services	113.4	(0.1)	113.3
Total Service Revenue	<u>\$ 803.1</u>	<u>\$ (23.9)</u>	<u>\$ 779.2</u>

- (1) Refer to a reconciliation of non-GAAP measures on slide 13 along with further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.
- (2) FY19 service revenue disaggregation as applied to prior year reported and restated amounts.

Non-GAAP Financial Measures

(In Millions, Except Per Share Amounts)

	Three Months Ended August 31,		% Change
	2018	2017 ⁽¹⁾	
Net Income	\$ 243.6	\$ 210.4	16%
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(3.3)	(5.0)	
Revaluation of Net Deferred Tax Liabilities	1.7	-	
Total Non-GAAP Adjustments	(1.6)	(5.0)	
Adjusted Net Income⁽²⁾	\$ 242.0	\$ 205.4	18%

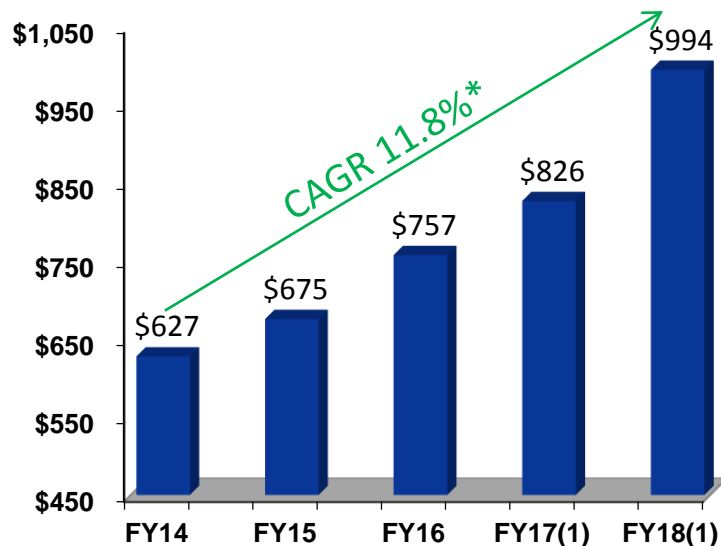
	Three Months Ended August 31,		% Change
	2018	2017 ⁽¹⁾	
Diluted Earnings Per Share	\$ 0.67	\$ 0.58	16%
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.01)	(0.01)	
Revaluation of Net Deferred Tax Liabilities	-	-	
Total Non-GAAP Adjustments	-	(0.01)	
Adjusted Diluted Earnings Per Share^{(2), (3)}	\$ 0.67	\$ 0.57	18%

- (1) Financial results for the first quarter ended August 31, 2017 were restated with the adoption of ASC 606 effective June 1, 2019.
- (2) Adjusted net income and adjusted diluted earnings per share are non-GAAP financial measures. Refer to our Quarterly Report on Form 10-Q for further discussion of these measures.
- (3) The calculation of the impact of non-GAAP adjustments on diluted earnings per share is performed on each line independently. The table above may not add down by +/- \$0.01 due to rounding.

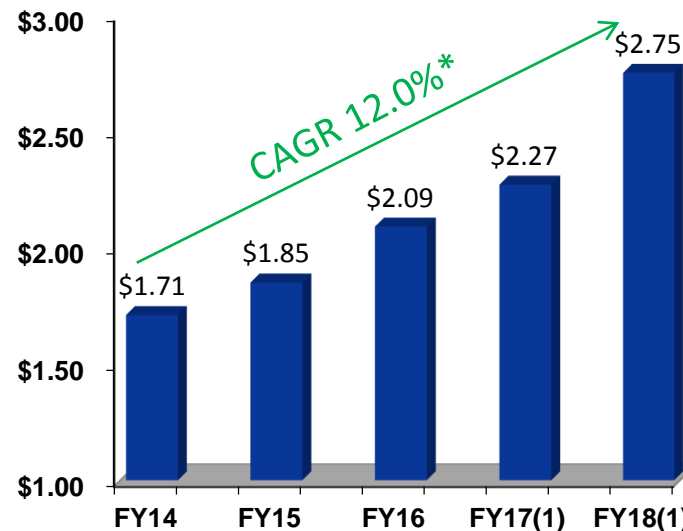
Strong Earnings History

* 5-Year CAGR

Net Income (in millions)



Diluted EPS



- (1) Fiscal 2017 and 2018 financial results have been restated for the impacts of adoption of ASC 606.
- (2) 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.

Investment Portfolios Results

- Federal Funds rate increased 75 basis points during fiscal 2018 and another 25 basis points in June 2018
- Rising yields on longer-term investments resulting in longer-term portfolio being in a net unrealized loss position
- Average invested balances for funds held for clients declined due to impact of the Tax Act on client employee withholdings and client size mix, partially offset by the impact of wage inflation

Average Investment Balances (in billions):

Funds Held For Clients

Corporate Investments

Average Rate of Return Earned:

Funds Held For Clients

Corporate Investments

Realized Gains, Net (in millions)

End of Period:

Unrealized Loss, Net (in millions)

Three Months Ended August 31,				% Change
2018		2017		
\$	3.7	\$	3.8	(2%)
\$	0.9	\$	0.9	(5%)
	1.9%		1.4%	
	1.4%		1.2%	
\$	0.1	\$	-	
August 31, 2018		May 31, 2018		
\$	(35.9)	\$	(38.3)	

Balance Sheet and Cash Flows

(\$ in Millions)

- Strong liquidity position with >\$700M in cash and total corporate investments and no long-term debt
- Stellar return on equity of 45%
- Quarterly dividend per share increased 12% in April 2018

	August 31, 2018	May 31, 2018
Cash & Total Corporate Investments	\$ 787.6	\$ 719.7
Short-term Borrowings	\$ 56.7	\$ -
Return on Equity ⁽¹⁾	45%	44%
Fiscal Year-to-Date Period Ended:		
Operating Cash Flow	\$ 273.7	\$ 343.6
Dividends Paid	\$ 201.4	\$ 179.1
Dividend Coverage Ratio ⁽²⁾	1.2X	1.8X

(1) Return on Equity as of May 31, 2018 restated to reflect impact of adoption of ASC 606.

(2) Ratio is calculated based on free cash flow of \$248.5M and \$317.0M for the three months ended August 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
Management Solutions Revenue	~ 4%
PEO and Insurance Services Revenue	18% - 20%
Payroll Services 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. Fiscal 2019 growth rates for these non-GAAP measures are based on fiscal 2018 adjusted net income as restated for adoption of ASC 606. No assumptions were made in regards to discrete tax items in future months of fiscal 2019 for employee stock-based compensation payments.

