

# Second Quarter Highlights and Financial Results

Fiscal 2019

**PAYCHEX**<sup>®</sup>  
Payroll | Benefits | HR | Insurance



# 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.

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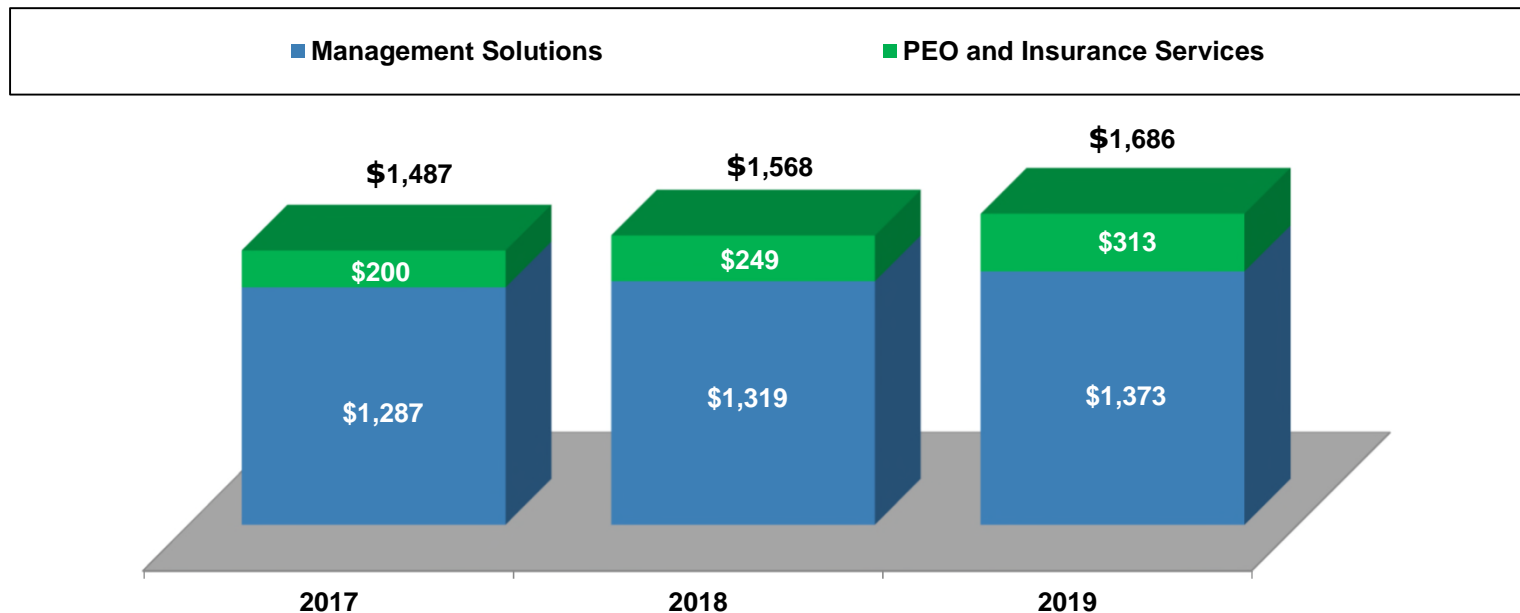
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# Paychex Overview

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 \$24B
- ❑ Strong financial position
- ❑ > 650,000 payroll clients as of May 31, 2018

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



Fiscal Year-to-Date Ended November 30,

# Second Quarter Fiscal 2019 Highlights

- ❑ Continued solid growth across our major product lines, in particular comprehensive HR outsourcing services, retirement services, insurance and time and attendance solutions
- ❑ Paychex PEO, including HROI, reflects strong demand for comprehensive outsourced HR and, along with growth within the existing base, resulted in double-digit growth in client worksite employees served
- ❑ Impact of Tax Cuts and Jobs Act (“Tax Reform”) significantly reduced the Federal Corporate statutory income tax rate
- ❑ Announced agreement to acquire Oasis Outsourcing Group Holdings, L.P. (“Oasis”), the largest privately held PEO in the U.S.
- ❑ Continued investment in products and technology including recent release of:
  - Enhanced HR Dashboard;
  - Self service workflow and approval functionality;
  - Employee turnover benchmarking reports; and
  - Continued evolution of Flex API

# Second Quarter Fiscal 2019 Financial Highlights

- ❑ Prior year periods presented have been restated for adoption of ASC Topic 606, “Revenue from Contracts with Customers.” Refer to the presentation entitled “Impacts of ASC Topic 606 and Other Items” on our Investor Relations webpage under Events and Presentations
- ❑ 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 7%<sup>(1)</sup>
- ❑ 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 31%, benefitting from higher interest rates
- ❑ Cash and total corporate investments of \$769 million as of November 30, 2018
- ❑ Net income and diluted earnings per share increased 19% and 18%, respectively; growth rate significantly impacted by Tax Reform which lowered the corporate federal statutory tax rate to 21% from 35%
- ❑ Adjusted net income<sup>(2)</sup> and adjusted diluted earnings per share<sup>(2)</sup> both increased 20%

(1) Total revenue growth includes results from the acquisition of 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 10 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 November 30, 2018

*(In Millions, Except Per Share Amounts)*

	Three Months Ended November 30, 2018	% Change	Six Months Ended November 30, 2018	% Change
Management Solutions	\$ 685.4	5%	\$ 1,373.1	4%
PEO and Insurance Services	155.2	15%	313.2	26%
Total Service Revenue	840.6	7%	1,686.3	8%
Interest on Funds Held for Clients	18.3	31%	35.4	28%
Total Revenue	<u>\$ 858.9</u>	7%	<u>\$ 1,721.7</u>	8%
Operating Income	\$ 307.2	1%	\$ 627.5	1%
Net Income	\$ 235.8	19%	\$ 479.4	17%
Diluted Earnings Per Share	\$ 0.65	18%	\$ 1.33	18%
<b>Non-GAAP Measures:<sup>(1)</sup></b>				
Adjusted Net Income	\$ 235.3	20%	\$ 477.3	19%
Adjusted Diluted Earnings Per Share	\$ 0.65	20%	\$ 1.32	19%
<b>Prior Service Revenue Disaggregation:<sup>(2)</sup></b>				
Payroll Services	\$ 432.6	3%	\$ 871.0	2%
HRS Revenue	408.0	11%	815.3	14%
Total Service Revenue	<u>\$ 840.6</u>	7%	<u>\$ 1,686.3</u>	8%

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

(2) Upon adoption of ASC Topic 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.



# Financial Results for the Quarter and six months ended November 30, 2017 as Reported and as Restated

(In Millions, Except Per Share Amounts)

	Three Months Ended November 30, 2017			Six Months Ended November 30, 2017		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Payroll Services	\$ 444.8	\$ (24.0)	\$ 420.8	\$ 902.6	\$ (48.4)	\$ 854.2
HRS Revenue	367.7	0.5	368.2	713.0	1.0	714.0
Total Service Revenue	812.5	(23.5)	789.0	1,615.6	(47.4)	1,568.2
Interest on Funds Held for Clients	14.0	-	14.0	27.7	-	27.7
Total Revenue	<u>\$ 826.5</u>	<u>\$ (23.5)</u>	<u>\$ 803.0</u>	<u>\$ 1,643.3</u>	<u>\$ (47.4)</u>	<u>\$ 1,595.9</u>
Operating Income	\$ 332.2	\$ (29.1)	\$ 303.1	\$ 677.2	\$ (27.7)	\$ 620.4
Net Income	\$ 217.0	\$ (18.2)	\$ 198.8	\$ 444.8	\$ (35.6)	\$ 409.2
Diluted Earnings Per Share	\$ 0.60	\$ (0.05)	\$ 0.55	\$ 1.23	\$ (0.10)	\$ 1.13
<b>Non-GAAP Measures:<sup>(1)</sup></b>						
Adjusted Net Income	\$ 214.4	\$ (18.2)	\$ 196.2	\$ 437.2	\$ (35.6)	\$ 401.6
Adjusted Diluted Earnings Per Share	\$ 0.59	\$ (0.05)	\$ 0.54	\$ 1.21	\$ (0.10)	\$ 1.11
<b>New Service Revenue Disaggregation:<sup>(2)</sup></b>						
Management Solutions	\$ 677.3	\$ (23.8)	\$ 653.5	\$ 1,367.0	\$ (47.6)	\$ 1,319.4
PEO and Insurance Services	135.2	0.3	135.5	248.6	0.2	248.8
Total Service Revenue	<u>\$ 812.5</u>	<u>\$ (23.5)</u>	<u>\$ 789.0</u>	<u>\$ 1,615.6</u>	<u>\$ (47.4)</u>	<u>\$ 1,568.2</u>

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

(1) Refer to a reconciliation of non-GAAP measures on slide 10 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 November 30,		% Change	Six Months Ended November 30,		% Change
	2018	2017 <sup>(1)</sup>		2018	2017 <sup>(1)</sup>	
<b>Net Income</b>	\$ 235.8	\$ 199.0	19%	\$ 479.4	\$ 409.2	17%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.5)	(2.6)		(3.8)	(7.6)	
Revaluation of Net Deferred Tax Liabilities	-	-		1.7	-	
Total Non-GAAP Adjustments	(0.5)	(2.6)		(2.1)	(7.6)	
<b>Adjusted Net Income<sup>(2)</sup></b>	<b>\$ 235.3</b>	<b>\$ 196.2</b>	<b>20%</b>	<b>\$ 477.3</b>	<b>\$ 401.6</b>	<b>19%</b>

	Three Months Ended November 30,		% Change	Six Months Ended November 30,		% Change
	2018	2017 <sup>(1)</sup>		2018	2017 <sup>(1)</sup>	
<b>Diluted Earnings Per Share</b>	\$ 0.65	\$ 0.55	18%	\$ 1.33	\$ 1.13	18%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	-	(0.01)		(0.01)	(0.02)	
Revaluation of Net Deferred Tax Liabilities	-	-		-	-	
Total Non-GAAP Adjustments	-	(0.01)		(0.01)	(0.02)	
<b>Adjusted Diluted Earnings Per Share<sup>(2)</sup></b>	<b>\$ 0.65</b>	<b>\$ 0.54</b>	<b>20%</b>	<b>\$ 1.32</b>	<b>\$ 1.11</b>	<b>19%</b>

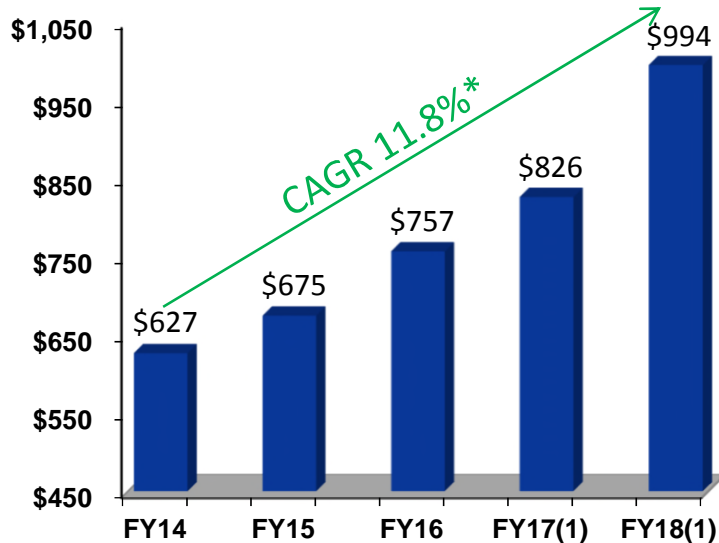
(1) Financial results for the second quarter and six months ended November 30, 2017 were restated with the adoption of ASC Topic 606 effective June 1, 2019.

(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.

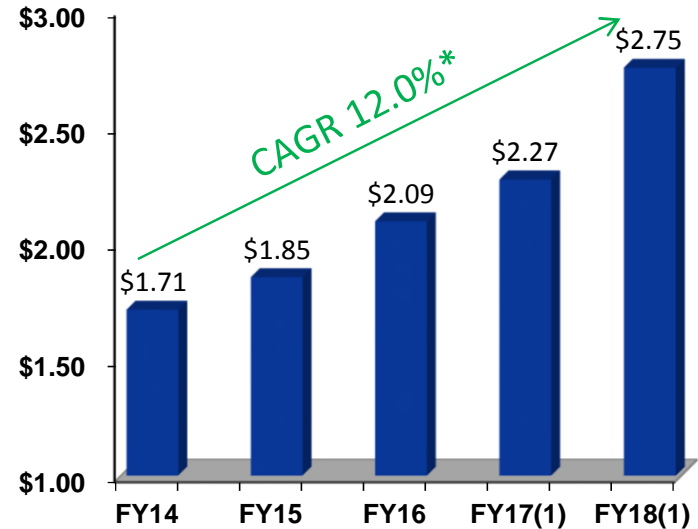
# Strong Earnings History

\* 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 Topic 606.
- (2) Net income and diluted earnings per share were both impacted by 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

	Three Months Ended November 30,			% Change	Six Months Ended November 30,			% Change		
	2018		2017		2018		2017			
<b>Average Investment Balances (in billions):</b>										
Funds Held For Clients	\$	3.7	\$	3.7	0%	\$	3.7	\$	3.7	(1%)
Corporate Investments	\$	0.9	\$	0.9	(2%)	\$	0.9	\$	0.9	(3%)
<b>Average Rate of Return Earned:</b>										
Funds Held For Clients		2.0%		1.5%		1.9%		1.5%		
Corporate Investments		1.4%		1.2%		1.4%		1.2%		
<b>Realized Gains, Net (in millions)</b>	\$	(0.3)	\$	-		\$	(0.2)	\$	-	
End of Period:						<b>November 30, 2018</b>		<b>May 31, 2018</b>		
<b>Unrealized Loss, Net (in millions)</b>						\$	(45.3)	\$	(38.3)	

- Federal Funds rate increased 75 basis points during fiscal 2018 and another 50 basis points YTD fiscal 2019
- 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 Tax Reform on client employee withholdings and client size mix, partially offset by the impact of wage inflation

# 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

	November 30, 2018	May 31, 2018
Cash & Total Corporate Investments	\$ 769.0	\$ 719.7
Short-term Borrowings	\$ 57.3	\$ -
Return on Equity <sup>(1)</sup>	45%	44%
Fiscal Year-to-Date Period Ended:	November 30, 2018	November 30, 2017
Operating Cash Flow	\$ 497.2	\$ 519.4
Dividends Paid	\$ 402.7	\$ 358.9
Dividend Coverage Ratio <sup>(2)</sup>	1.1X	1.1X

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

(2) Ratio is calculated based on free cash flow of \$435.3M and \$401.9M for the six months ended November 30, 2018 and 2017, respectively.

# Fiscal Year 2019 Full Year Outlook

Fiscal 2019 outlook shown below excludes Oasis and is based on our financial results with the implementation of ASC 606, "Revenue from Contracts with Customers," on a full retrospective basis. The guidance in the table below is based on results excluding the acquisition of Oasis.

Management Solutions Revenue	~ 4%
PEO and Insurance Services Revenue	18% - 20%
Interest on Funds Held for Clients <sup>(1)</sup>	20% - 25%
Total Revenue	6% - 7%
Net Income <sup>(1), (2)</sup>	~4%
Adjusted Net Income <sup>(3)</sup>	11% - 12%
Diluted Earnings per Share <sup>(1),(2)</sup>	~ 4%
Adjusted Diluted Earnings per Share <sup>(1),(3)</sup>	11% - 12%
	<b>Anticipated Result</b>
Operating Income, as a Percent of Total Revenue	Approximately 37%
Investment Income, Net <sup>(1)</sup>	\$10M - \$15M
Effective Income Tax Rate (before discrete items)	24.0%

The acquisition of Oasis is anticipated to contribute between \$155 million to \$175 million of revenue to fiscal 2019. Excluding one-time acquisition costs, the impact to diluted earnings per share is minimal. With one-time costs, this acquisition is anticipated to be approximately \$0.03 per share dilutive for fiscal 2019.

(1) Guidance was revised in December 2018

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

(3) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude the impact of certain discrete tax items and one-time expenses. Fiscal 2019 growth rates for these non-GAAP measures are based on fiscal 2018 adjusted net income as restated for adoption of ASC Topic 606. No assumptions were made in regards to discrete tax items in future months of fiscal 2019 for employee stock-based compensation payments.

# Oasis Acquisition

- ❑ On November 26, 2018, announced an agreement to acquire Oasis for \$1.2B
- ❑ With acquisition of Oasis, Paychex will become the second largest PEO in the U.S. by number of worksite employees served. Pro Forma, Paychex with Oasis will serve approximately 1.4M worksite employees through HR Outsourcing solutions
- ❑ Acquisition fits with Paychex growth strategy with the following benefits:
  - Adds scale;
  - Brings new relationships with insurance partners;
  - Expands markets;
  - Opportunity to cross-sell to Oasis client base; and
  - Adds talent to our leadership team
- ❑ Acquisition to be financed with cash on hand and \$800M of new debt
- ❑ Oasis is anticipated to add \$155M to \$175M to total revenue for fiscal 2019. Excluding one-time acquisition costs, this acquisition is anticipated to have minimal impact on diluted EPS. With one-time acquisition costs it is anticipated to be dilutive by approximately \$0.03 per share

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