

Third Quarter Highlights and Financial Results

Fiscal 2019

PAYCHEX[®]
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. Except as required by law, we undertake no obligation to update these forward-looking statements after the date of issuance of this document to reflect events or circumstances after such date, or to reflect the occurrence of unanticipated events.

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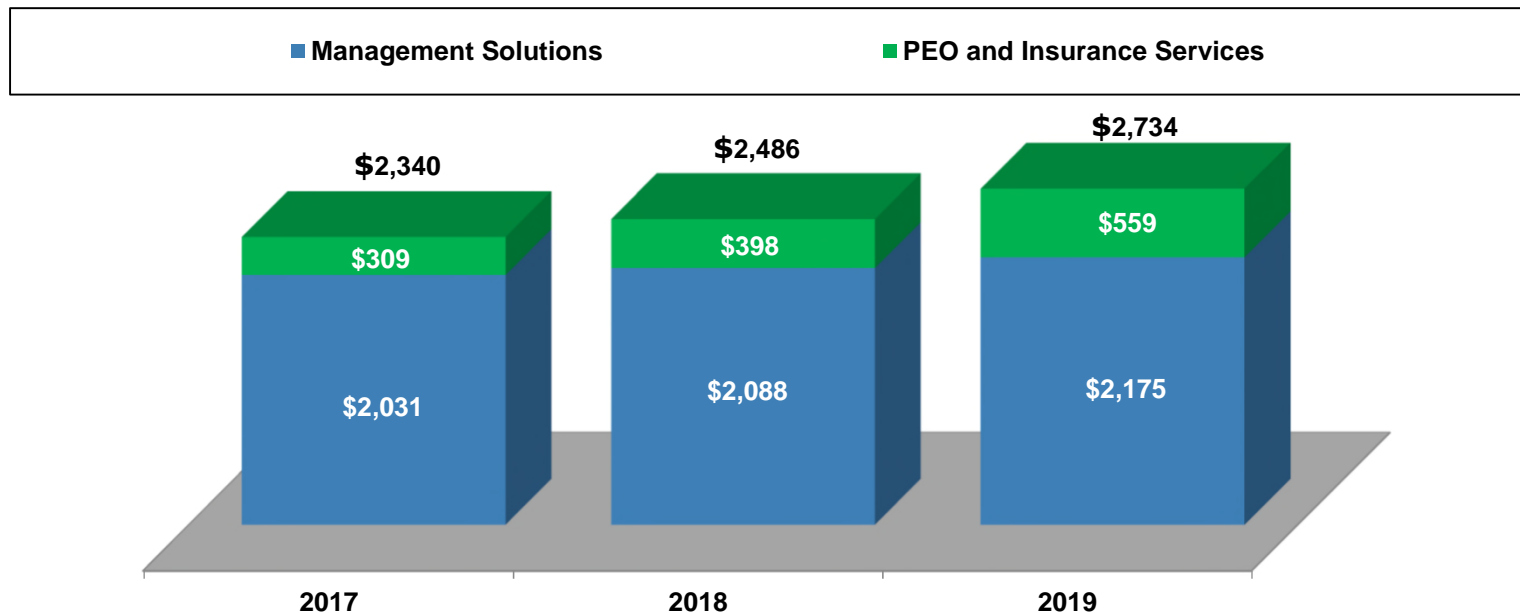
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Paychex Overview

A leading provider of integrated human capital management (HCM) solutions for payroll, benefits, human resources, 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 \$28B
- ❑ 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 February 28,

Note: Results are restated for adoption of Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers."

Third Quarter Fiscal 2019 Highlights

- ❑ Continued solid growth across our major product lines, in particular comprehensive HR outsourcing services, retirement services, insurance services, and time and attendance solutions
- ❑ Effective December 20, 2018, acquired Oasis Outsourcing Group Holdings, L.P. (“Oasis”), the largest privately held professional employer organization (“PEO”) in the U.S.
- ❑ Paychex PEO 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 (before Oasis)
- ❑ Insurance Services revenue reflects increases in health and benefits applicants, partially offset by lower worker’s compensation premiums per client due to “soft” market
- ❑ Anniversary of the Tax Cuts and Jobs Act of 2017 (“Tax Reform”), which significantly reduced the Federal Corporate statutory income tax rate
- ❑ Continued investment in products and technology including recent release of enhancements to Paychex Flex, which brought performance management, workflow approvals, real-time analytics and a configurable events calendar to the platform

Third Quarter Fiscal 2019 Financial Highlights

- ❑ Prior year periods presented have been restated for adoption of ASC Topic 606, “Revenue from Contracts with Customers” (“ASC Topic 606”). 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 14%⁽¹⁾ to \$1.1 billion
- ❑ Operating income increased 16%; adjusted operating income⁽²⁾ increased 7%
- ❑ Interest on funds held for clients increased 27% primarily as a result of higher yields
- ❑ Cash, restricted cash, and total corporate investments of \$886 million as of February 28, 2019
- ❑ Net income and diluted earnings per share decreased 12% and 11%, respectively; growth rate significantly impacted by Tax Reform, including a one-time tax benefit recognized in the prior year third quarter
- ❑ Adjusted net income⁽²⁾ and adjusted diluted earnings per share⁽²⁾ both increased 3%

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

(2) Adjusted operating income, 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 February 28, 2019

(In Millions, Except Per Share Amounts)

	Three Months Ended February 28, 2019	%	Nine Months Ended February 28, 2019	%
		Change		Change
Management Solutions	\$ 801.6	4%	\$ 2,174.7	4%
PEO and Insurance Services	245.8	65%	559.0	40%
Total Service Revenue	1,047.4	14%	2,733.7	10%
Interest on Funds Held for Clients	23.0	27%	58.4	28%
Total Revenue	\$ 1,070.4	14%	\$ 2,792.1	10%
Operating Income	\$ 429.3	16%	\$ 1,056.8	7%
Net Income	\$ 324.6	(12%)	\$ 804.0	4%
Diluted Earnings Per Share	\$ 0.90	(11%)	\$ 2.22	3%
Non-GAAP Measures:⁽¹⁾				
Adjusted Operating Income	\$ 429.3	7%	\$ 1,056.8	3%
Adjusted Net Income ⁽²⁾	\$ 322.4	3%	\$ 799.7	12%
Adjusted Diluted Earnings Per Share ⁽²⁾	\$ 0.89	3%	\$ 2.21	12%

Note: Under the prior service revenue disaggregation, Payroll revenue growth was 3% and HRS growth was 29% (11% excluding Oasis) for the third quarter of fiscal 2019.

- (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) The growth rates for adjusted net income and adjusted diluted earnings per share are lower for the third quarter than for the nine months as a result of a tax benefit of approximately \$36 million recognized in the third quarter of fiscal 2018. This benefit was a year-to-date catch-up to bring the effective tax rate down to the lower blended effective corporate income tax rate as a result of Tax Reform. This had an impact on the third quarter, but was not a factor for the nine-month period.

Financial Results for the Quarter and Nine Months ended February 28, 2018 as Reported and as Adjusted

(In Millions, Except Per Share Amounts)

	Three Months Ended February 28, 2018			Nine Months Ended February 28, 2018		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Payroll Services	\$ 455.0	\$ 69.7	\$ 524.7	\$ 1,357.6	\$ 21.5	\$ 1,379.1
Human Resource Services	393.4	\$ (0.1)	393.3	1,106.4	\$ 0.7	1,107.1
Total Service Revenue	848.4	\$ 69.6	918.0	2,464.0	\$ 22.2	2,486.2
Interest on Funds Held for Clients	18.1	\$ -	18.1	45.8	\$ -	45.8
Total Revenue	<u>\$ 866.5</u>	<u>\$ 69.6</u>	<u>\$ 936.1</u>	<u>\$ 2,509.8</u>	<u>\$ 22.2</u>	<u>\$ 2,532.0</u>
Operating Income	\$ 292.5	\$ 76.5	\$ 369.0	\$ 969.7	\$ 19.7	\$ 989.4
Net Income	\$ 260.4	\$ 106.8	\$ 367.2	\$ 705.2	\$ 71.2	\$ 776.4
Diluted Earnings Per Share ⁽¹⁾	\$ 0.72	\$ 0.30	\$ 1.01	\$ 1.95	\$ 0.20	\$ 2.15
Non-GAAP Measures:⁽²⁾						
Adjusted Operating Income	\$ 325.1	\$ 76.5	\$ 401.6	\$ 1,002.3	\$ 19.7	\$ 1,022.0
Adjusted Net Income	\$ 263.6	\$ 48.9	\$ 312.5	\$ 700.8	\$ 13.3	\$ 714.1
Adjusted Diluted Earnings Per Share ⁽¹⁾	\$ 0.73	\$ 0.14	\$ 0.86	\$ 1.94	\$ 0.04	\$ 1.97
New Service Revenue Disaggregation:⁽³⁾						
Management Solutions	\$ 699.0	\$ 69.8	\$ 768.8	\$ 2,066.1	\$ 22.1	\$ 2,088.2
PEO and Insurance Services	149.4	(0.2)	149.2	397.9	0.1	398.0
Total Service Revenue	<u>\$ 848.4</u>	<u>\$ 69.6</u>	<u>\$ 918.0</u>	<u>\$ 2,464.0</u>	<u>\$ 22.2</u>	<u>\$ 2,486.2</u>

Adoption of ASC Topic 606 increased diluted earnings per share for the third quarter of fiscal 2018 by \$0.30 per share.

- (1) Diluted Earnings Per Share and Adjusted Diluted Earnings Per Share for each column are calculated independently and may not add across by +/- \$0.01 due to rounding.
- (2) 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.
- (3) FY19 service revenue disaggregation as applied to prior year reported and adjusted amounts.

Non-GAAP Financial Measures

(In Millions, Except Per Share Amounts)

	Three Months Ended February 28,		% Change	Nine Months Ended February 28,		% Change
	2019	2018 ⁽¹⁾		2019	2018 ⁽¹⁾	
Operating Income	\$ 429.3	\$ 369.0	16%	\$ 1,056.8	\$ 989.4	7%
Non-GAAP Adjustments:						
Termination of License Agreements	-	32.6		-	32.6	
Total Non-GAAP Adjustments	-	32.6		-	32.6	
Adjusted Operating Income	\$ 429.3	\$ 401.6	7%	\$ 1,056.8	\$ 1,022.0	3%
Net Income	\$ 324.6	\$ 367.2	(12)%	\$ 804.0	\$ 776.4	4%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(2.2)	(0.7)		(6.0)	(8.3)	
Revaluation of Net Deferred Tax Liabilities	-	(78.7)		1.7	(78.7)	
Termination of License Agreements, net of tax	-	24.7		-	24.7	
Total Non-GAAP Adjustments	(2.2)	(54.7)		(4.3)	(62.3)	
Adjusted Net Income^{(2),(3)}	\$ 322.4	\$ 312.5	3%	\$ 799.7	\$ 714.1	12%
Diluted Earnings Per Share	\$ 0.90	\$ 1.01	(11)%	\$ 2.22	\$ 2.15	3%
Non-GAAP Adjustments: ⁽⁴⁾						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.01)	-		(0.02)	(0.02)	
Revaluation of Net Deferred Tax Liabilities	-	(0.22)		-	(0.22)	
Termination of License Agreements, net of tax	-	0.07		-	0.07	
Total Non-GAAP Adjustments ⁽⁴⁾	(0.01)	(0.15)		(0.02)	(0.17)	
Adjusted Diluted Earnings Per Share^{(2),(3),(4)}	\$ 0.89	\$ 0.86	3%	\$ 2.21	\$ 1.97	12%

(1) Financial results for the third quarter and nine months ended February 28, 2018 were restated with the adoption of ASC Topic 606 effective June 1, 2018.

(2) Adjusted operating income, 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 growth rates for adjusted net income and adjusted diluted earnings per share are lower for the third quarter than for the nine months as a result of a tax benefit of approximately \$36 million recognized in the third quarter of fiscal 2018. This benefit was a year-to-date catch-up to bring the effective tax rate down to the lower blended effective corporate income tax rate as a result of Tax Reform. This had an impact on the third quarter but was not a factor for the nine-month period.

(4) The calculation of the impact of non-GAAP adjustments on diluted earnings per share is performed on each line independently. The table may not add down by +/- \$0.01 due to rounding.

Operating Income and EBITDA Margins

(\$ In Millions)

	Nine Months Ended February 28,		% Change
	2019	2018 ⁽¹⁾	
Total Revenue	\$ 2,792.1	\$ 2,532.0	10%
Operating Income	\$ 1,056.8	\$ 989.4	7%
Operating Margin	37.8%	39.1%	
<u>Adjustments:</u>			
Depreciation	91.7	88.0	
Amortization	34.0	14.3	
Total Adjustments	<u>125.7</u>	<u>102.3</u>	
EBITDA	<u>\$ 1,182.5</u>	<u>\$ 1,091.7</u>	8%
EBITDA Margin	42.4%	43.1%	

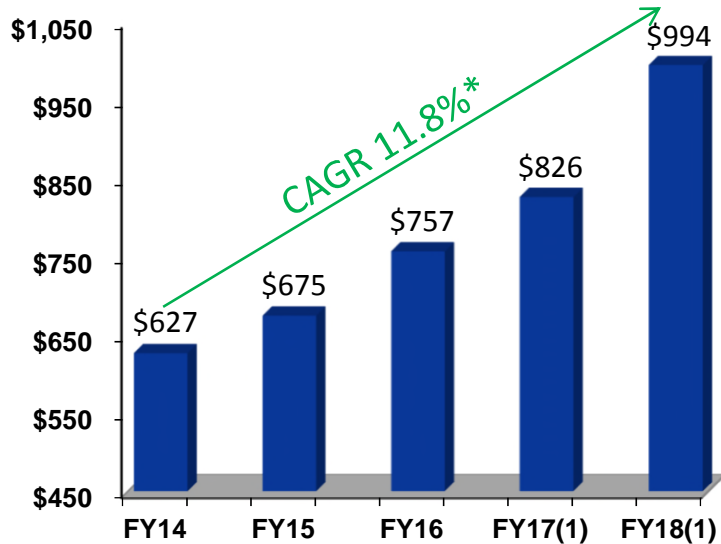
Note: EBITDA margin for the full year fiscal 2019 is anticipated to be ~41%.

(1) Financial results for the nine months ended February 28, 2018 were restated with the adoption of ASC Topic 606 effective June 1, 2018.

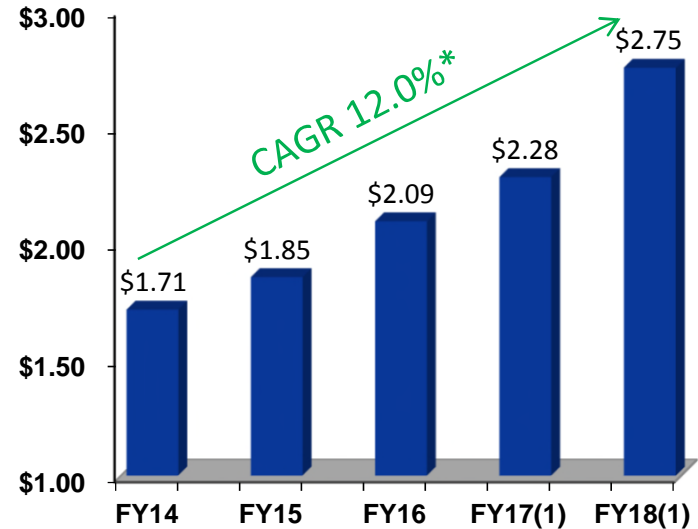
Strong Earnings History

* 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 February 28,		% Change	Nine Months Ended February 28,		% Change
	2019	2018		2019	2018	
Average Investment Balances (in billions):						
Funds Held For Clients	\$ 4.4	\$ 4.6	(4%)	\$ 3.9	\$ 4.0	(2%)
Corporate Investments	\$ 0.8	\$ 0.9	(15%)	\$ 0.8	\$ 0.9	(10%)
Average Rate of Return Earned:						
Funds Held For Clients	2.1%	1.6%		2.0%	1.5%	
Corporate Investments	1.6%	1.4%		1.5%	1.3%	
Realized Gains/(Losses), Net (in millions)	\$ 0.1	\$ 0.1		\$ (0.1)	\$ 0.1	
<u>End of Period:</u>				February 28, 2019	May 31, 2018	
Unrealized Loss, Net (in millions)				\$ (9.8)	\$ (38.3)	

- The Federal Funds rate increased 75 basis points during fiscal 2018 and another 75 basis points YTD fiscal 2019.
- Rising yields on longer-term investments resulted 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 >\$800M in cash, restricted cash, and total corporate investments
- \$800M of new debt to finance Oasis acquisition
- Strong return on equity of 42%
- Quarterly dividend per share increased 12% in April 2018

	February 28, 2019	May 31, 2018
Cash, Restricted Cash, & Total Corporate Investments	\$ 886.4	\$ 719.7
Short-term Borrowings	\$ 53.6	\$ -
Long-term Borrowings	\$ 800.0	\$ -
Return on Equity ⁽¹⁾	42%	44%
Fiscal Year-to-Date Period Ended:		
	February 28, 2019	February 28, 2018
Operating Cash Flow	\$ 1,022.8	\$ 988.9
Dividends Paid	\$ 603.9	\$ 538.7
Dividend Coverage Ratio ⁽²⁾	1.2X	1.3X

(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 \$747.2M and \$681.7M for the nine months ended February 28, 2019 and 2018, respectively.

Oasis Acquisition

- ❑ On December 20, 2018, completed the acquisition of Oasis for \$1.2B. The acquisition was financed with cash on hand and \$800M of new long-term debt.
- ❑ With the acquisition of Oasis, Paychex became the second largest PEO in the U.S. by number of worksite employees served. Paychex, including Oasis, serves 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.
- ❑ For the third quarter of fiscal 2019, Oasis contributed \$72.7M to total revenue, or approximately one-half of the growth in consolidated total revenue. Overall, Oasis is approximately \$0.01 dilutive for the third quarter largely as a result of \$5.5M in interest expense on debt financing related to the acquisition.
- ❑ 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 and integration costs, it is anticipated to be dilutive by approximately \$0.03 per share.

Fiscal Year 2019 Full Year Outlook

Fiscal 2019 outlook shown below 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.

	Year-over-Year Growth
Management Solutions Revenue	~ 4%
PEO and Insurance Services Revenue	18% - 20%
Interest on Funds Held for Clients	20% - 25%
Total Revenue	6% - 7%
Net Income ⁽¹⁾	~4%
Adjusted Net Income ⁽²⁾	11% - 12%
Diluted Earnings per Share ⁽¹⁾	~ 4%
Adjusted Diluted Earnings per Share ⁽²⁾	11% - 12%
	Anticipated Result
Operating Income, as a Percent of Total Revenue	Approximately 37%
Interest (Expense)/Income, Net	\$10M - \$15M
Effective Income Tax Rate (before discrete items)	24%

The acquisition of Oasis is anticipated to have an incremental impact to total revenue in the range of \$155 million to \$175 million for fiscal 2019. Excluding one-time costs related to the acquisition, Oasis is anticipated to have minimal impact to diluted earnings per share. One-time acquisition and integration costs are anticipated to impact diluted earnings per share by approximately \$0.03 per share for fiscal 2019.

- (1) 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.
- (2) 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.

Preliminary Framework for Fiscal 2020

Preliminary Fiscal 2020 Expectations	
<u>Excluding Oasis:</u>	
Management Solutions Revenue	Comparable to fiscal 2019 growth
PEO and Insurance Services Revenue	Low double-digit growth
Operating Margin	37% to 38%
<u>Oasis:</u>	
Revenue	\$355M - \$375M
Diluted Earnings Per Share	Neutral
<u>Including Oasis:</u>	
PEO and Insurance Services Revenue	30% - 35%
EBITDA Margin	~ 41%; comparable to FY19
Depreciation & Amortization	\$215M - \$225M

For Fiscal 2020, interest expense on debt financing is projected to be in the range of \$35M - \$40M; included in interest (expense)/income, net, which in total is expected to be a net expense of \$10M - \$15M.

