

Fourth Quarter Highlights and Financial Results

Fiscal 2019

Updated July 25, 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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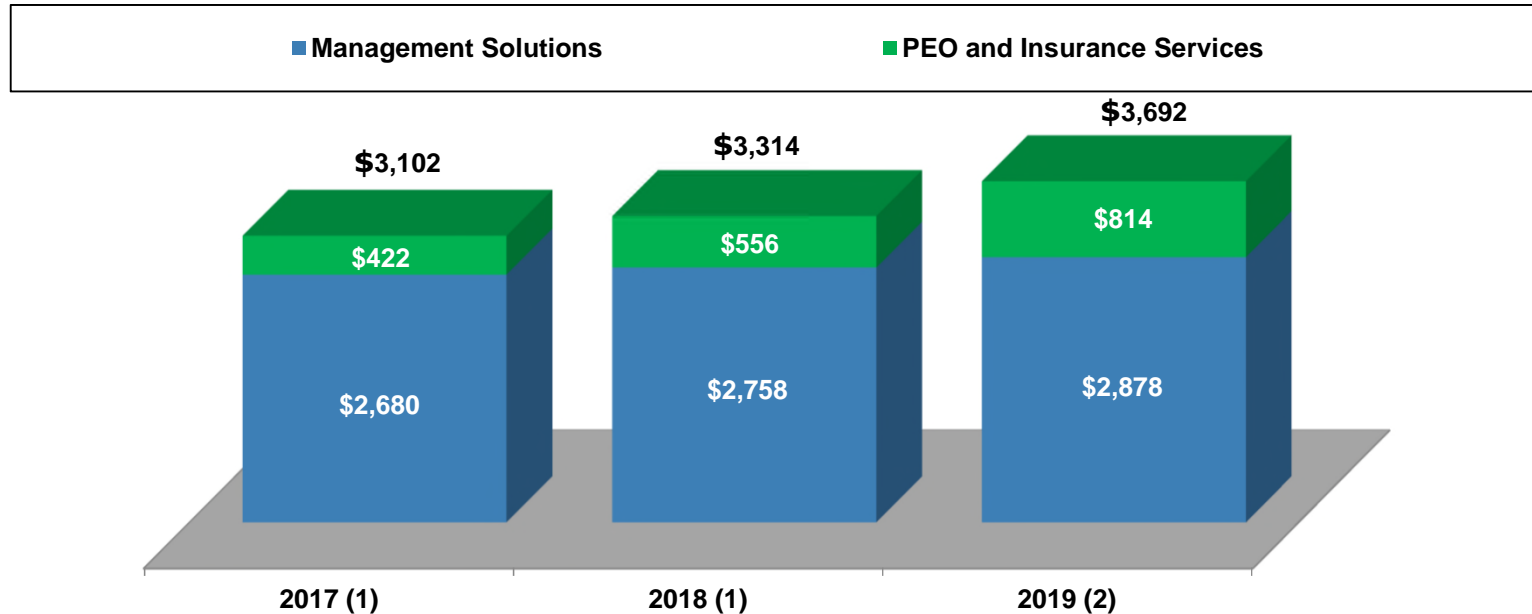
Paychex Overview

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

- ❑ Integrated, cloud-based HCM platform
- ❑ Unique, personalized, technology-enabled service model
- ❑ Strong financial position
- ❑ No significant net debt⁽¹⁾
- ❑ ~ 670,000 payroll clients as of May 31, 2019
- ❑ Market capitalization of approximately \$30B

(1) Net debt defined as Long-term debt, net of debt issuance costs, less cash and total corporate investments.

Total Service Revenue *(In millions)*



Fiscal Year Ended May 31,

- (1) Fiscal 2017 and 2018 results are restated for adoption of Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606").
- (2) Subsequent to the fourth quarter fiscal 2019 earnings release, a change in classification was made for an immaterial amount of Oasis revenue that was determined to belong in Management Solutions revenue. The breakout by quarter is as follows: \$3.3M in Q3, and \$4.8M in Q4 for a total of \$8.1M in FY19.

Fourth Quarter Fiscal 2019 Highlights

- ❑ Continued growth across major product lines, in particular comprehensive outsourcing services, retirement services, insurance services, and time and attendance solutions.
- ❑ Integration of Oasis Outsourcing Group Holdings, L.P. (“Oasis”), acquired in December 2018, is proceeding on track.
- ❑ Professional Employer Organization (“PEO”) results reflect strong demand for comprehensive outsourcing, growth within the existing base, and 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.
- ❑ Continued investment in sales force, technology resources, and operations to support growth in the business.
- ❑ In May 2019, we announced an increase in our quarterly dividend to \$0.62 per share, an 11% increase from \$0.56 per share.

Fourth Quarter Fiscal 2019 Financial Highlights

- ❑ Prior year periods presented have been restated for adoption of 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.
- ❑ Beginning in fiscal 2019, we began disclosing service revenues as Management Solutions revenue and PEO and Insurance Services revenue. Refer to the presentation entitled “Service Revenue Disaggregation” on our Investor Relations webpage under Events and Presentations for historical revenues under this new categorization.
- ❑ Total revenue up 16%⁽¹⁾ to \$980 million.
- ❑ Interest on funds held for clients increased 25% primarily as a result of higher yields.
- ❑ Cash, restricted cash, and total corporate investments of \$780 million as of May 31, 2019.
- ❑ Net income and diluted earnings per share increased 6% and 7%, respectively.
- ❑ Adjusted net income⁽²⁾ and adjusted diluted earnings per share⁽²⁾ increased 10% and 9%, respectively.

(1) Total revenue growth includes results from the acquisition of Oasis.

(2) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude certain one time charges and discrete tax items. Refer to slide 10 for a reconciliation of these non-GAAP measures to their related GAAP measures.

Financial Results

for the quarter and fiscal year ended

May 31, 2019

(In Millions, Except Per Share Amounts)

	Three Months Ended May 31, 2019	% Change	Twelve Months Ended May 31, 2019	% Change
Management Solutions ⁽¹⁾	\$ 700.3	5%	\$ 2,877.7	4%
PEO and Insurance Services ⁽¹⁾	258.0	63%	814.2	46%
Total Service Revenue	<u>958.2</u>	16%	<u>3,691.9</u>	11%
Interest on Funds Held for Clients	22.2	25%	80.6	27%
Total Revenue	<u>\$ 980.4</u>	16%	<u>\$ 3,772.5</u>	12%
Operating Income	\$ 314.5	4%	\$ 1,371.3	6%
Net Income	\$ 230.4	6%	\$ 1,034.4	4%
Diluted Earnings Per Share	\$ 0.64	7%	\$ 2.86	4%
Non-GAAP Measures:⁽²⁾				
Adjusted Operating Income	\$ 314.5	4%	\$ 1,371.3	4%
Adjusted Net Income	\$ 228.1	10%	\$ 1,027.8	11%
Adjusted Diluted Earnings Per Share	\$ 0.63	9%	\$ 2.84	11%
Prior Service Revenue Disaggregation:⁽³⁾				
Payroll Services	\$ 434.3	2%	\$ 1,844.6	2%
Human Resource Services	523.9	31%	1,847.3	23%
Total Service Revenue	<u>\$ 958.2</u>	16%	<u>\$ 3,691.9</u>	11%

(1) Subsequent to the fourth quarter fiscal 2019 earnings release, a change in classification was made for an immaterial amount of Oasis revenue that was determined to belong in Management Solutions revenue. See slide 5 for details.

(2) Refer to slide 10 for a reconciliation of non-GAAP measures to their related GAAP measures.

(3) 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 Twelve Months ended May 31, 2018 as Reported and as Adjusted

(In Millions, Except Per Share Amounts)

	Three Months Ended May 31, 2018			Twelve Months Ended May 31, 2018		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Payroll Services	\$ 452.4	\$ (24.7)	\$ 427.7	\$ 1,810.0	\$ (3.2)	\$ 1,806.8
Human Resource Services	401.0	(0.7)	400.3	1,507.4	-	1,507.4
Total Service Revenue	853.4	(25.4)	828.0	3,317.4	(3.2)	3,314.2
Interest on Funds Held for Clients	17.7	-	17.7	63.5	-	63.5
Total Revenue	<u>\$ 871.1</u>	<u>\$ (25.4)</u>	<u>\$ 845.7</u>	<u>\$ 3,380.9</u>	<u>\$ (3.2)</u>	<u>\$ 3,377.7</u>
Operating Income	\$ 317.8	\$ (15.7)	\$ 302.1	\$ 1,287.5	\$ 4.0	\$ 1,291.5
Net Income	\$ 228.5	\$ (10.8)	\$ 217.7	\$ 933.7	\$ 60.4	\$ 994.1
Diluted Earnings Per Share	\$ 0.63	\$ (0.03)	\$ 0.60	\$ 2.58	\$ 0.17	\$ 2.75
Non-GAAP Measures:⁽¹⁾						
Adjusted Operating Income	\$ 317.8	\$ (15.7)	\$ 302.1	\$ 1,320.1	\$ 4.0	\$ 1,324.1
Adjusted Net Income	\$ 219.1	\$ (10.8)	\$ 208.3	\$ 920.0	\$ 2.4	\$ 922.4
Adjusted Diluted Earnings Per Share	\$ 0.61	\$ (0.03)	\$ 0.58	\$ 2.55	\$ -	\$ 2.55
New Service Revenue Disaggregation:⁽²⁾						
Management Solutions	\$ 695.0	\$ (24.8)	\$ 670.2	\$ 2,761.0	\$ (2.6)	\$ 2,758.4
PEO and Insurance Services	158.4	(0.6)	157.8	556.4	(0.6)	555.8
Total Service Revenue	<u>\$ 853.4</u>	<u>\$ (25.4)</u>	<u>\$ 828.0</u>	<u>\$ 3,317.4</u>	<u>\$ (3.2)</u>	<u>\$ 3,314.2</u>

Adoption of ASC Topic 606 decreased diluted earnings per share for the fourth quarter fiscal 2018 by \$0.03 per share and increased diluted earnings per share for the full year fiscal 2018 by \$0.17 per share.

(1) Refer to slide 10 for a reconciliation of these non-GAAP measures to their related GAAP measures.

(2) Fiscal 2019 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 May 31,		% Change	Twelve Months Ended May 31,		% Change
	2019	2018 ⁽¹⁾		2019	2018 ⁽¹⁾	
Operating Income	\$ 314.5	\$ 302.1	4%	\$ 1,371.3	\$ 1,291.5	6%
Non-GAAP Adjustments:						
Termination of License Agreements	-	-		-	32.6	
Total Non-GAAP Adjustments	-	-		-	32.6	
Adjusted Operating Income⁽²⁾	\$ 314.5	\$ 302.1	4%	\$ 1,371.3	\$ 1,324.1	4%
Net Income	\$ 230.4	\$ 217.7	6%	\$ 1,034.4	\$ 994.1	4%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(2.3)	(4.6)		(8.3)	(12.9)	
Revaluation of Net Deferred Tax Liabilities	-	(4.8)		1.7	(83.5)	
Termination of License Agreements, net of tax	-	-		-	24.7	
Total Non-GAAP Adjustments	(2.3)	(9.4)		(6.6)	(71.7)	
Adjusted Net Income⁽²⁾	\$ 228.1	\$ 208.3	10%	\$ 1,027.8	\$ 922.4	11%
Diluted Earnings Per Share	\$ 0.64	\$ 0.60	7%	\$ 2.86	\$ 2.75	4%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.01)	(0.01)		(0.02)	(0.04)	
Revaluation of Net Deferred Tax Liabilities	-	(0.01)		-	(0.23)	
Termination of License Agreements, net of tax	-	-		-	0.07	
Total Non-GAAP Adjustments	(0.01)	(0.02)		(0.02)	(0.20)	
Adjusted Diluted Earnings Per Share⁽²⁾	\$ 0.63	\$ 0.58	9%	\$ 2.84	\$ 2.55	11%

(1) Financial results for the fourth quarter and fiscal year ended May 31, 2018 were restated for 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. For a discussion of these 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, to be filed by the end of July 2019.

Operating Income and EBITDA Margins

(\$ In Millions)

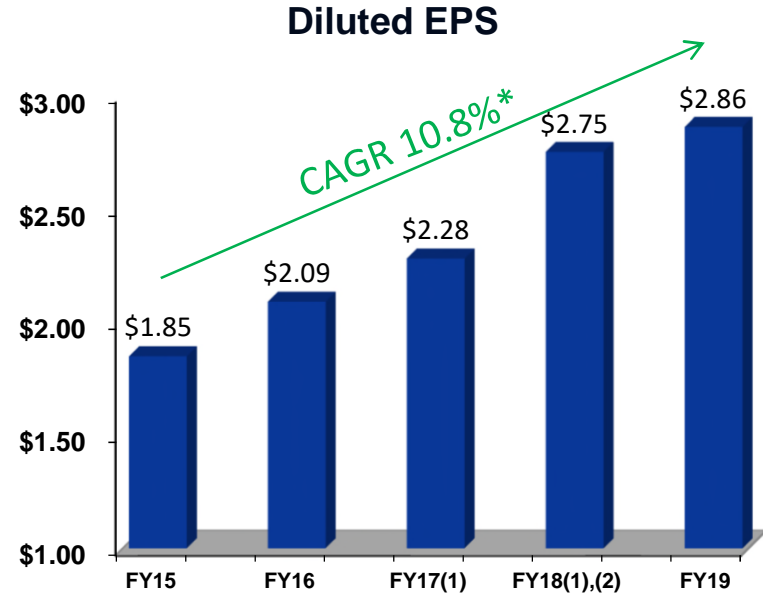
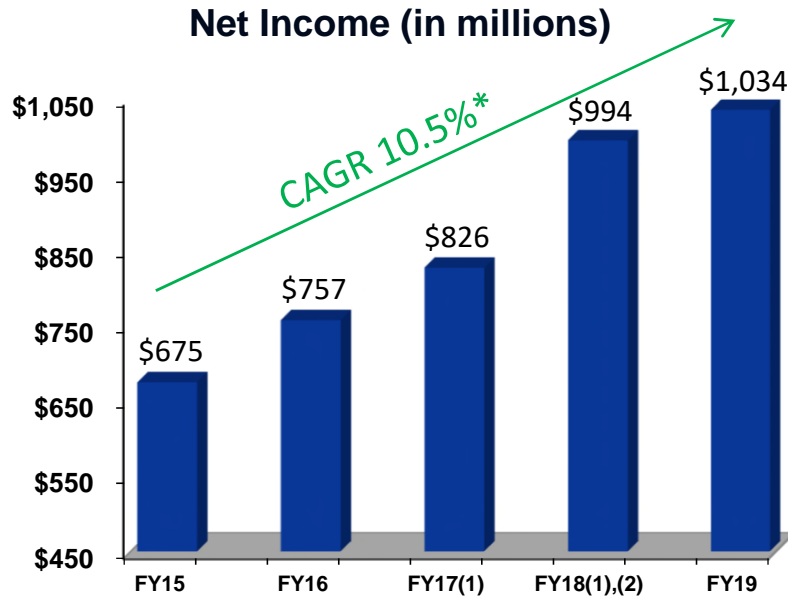
	Twelve Months Ended May 31,		% Change
	2019	2018 ⁽¹⁾	
Total Revenue	\$ 3,772.5	\$ 3,377.7	12%
Operating Income	\$ 1,371.3	\$ 1,291.5	6%
Operating Margin	36.3%	38.2%	
<u>Adjustments:</u>			
Depreciation	125.7	116.9	
Amortization	55.8	21.1	
Total Adjustments	181.5	138.0	
EBITDA	<u>\$ 1,552.8</u>	<u>\$ 1,429.5</u>	9%
EBITDA Margin	41.2%	42.3%	

Note: EBITDA margin for the full year fiscal 2020 is anticipated to be ~41%.

(1) Financial results for the twelve months ended May 31, 2018 were restated for the adoption of ASC Topic 606 effective June 1, 2018.

Strong Earnings History

* 5-Year CAGR



- (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.

Investment Portfolios Results

	Three Months Ended May 31,			% Change	Twelve Months Ended May 31,			% Change		
	2019		2018		2019		2018			
Average Investment Balances (in billions):										
Funds Held For Clients	\$	4.1	\$	4.2	0%	\$	4.0	\$	4.0	(2%)
Corporate Investments	\$	0.9	\$	0.9	0%	\$	0.8	\$	0.9	(7%)
Average Rate of Return Earned:										
Funds Held For Clients		2.1%		1.7%		2.0%		1.6%		
Corporate Investments		1.9%		1.4%		1.6%		1.3%		
Realized Gains/(Losses), Net (in millions)	\$	0.1	\$	-		\$	-	\$	0.1	
<u>End of Period:</u>						May 31, 2019	May 31, 2018			
Unrealized Gain/(Loss), Net (in millions)						\$	19.7	\$	(38.3)	

- The Federal Funds rate increased 75 basis points during fiscal 2018 and another 75 basis points YTD fiscal 2019.
- Declining yields on longer-term investments moved the longer-term portfolio to a net unrealized gain 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 as of May 31, 2019
- \$800M of new debt to finance Oasis acquisition
- Robust return on equity of 42%
- Quarterly dividend per share increased 11% in May 2019 to \$0.62

	May 31, 2019	May 31, 2018
Cash, Restricted Cash, & Total Corporate Investments	\$ 779.9	\$ 719.7
Long-term Borrowings, Net of Debt Issuance Costs	\$ 796.4	\$ -
Return on Equity ⁽¹⁾	42%	44%
Fiscal Year-to-Date Period Ended:		
Operating Cash Flow	\$ 1,271.5	\$ 1,276.4
Dividends Paid	\$ 826.8	\$ 739.7
Dividend Coverage Ratio ⁽²⁾	1.1x	1.2x

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

(2) Ratio is calculated based on free cash flow of \$946.5M and \$902.2M for the years ended May 31, 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 1.5M worksite employees through HR Outsourcing solutions as of May 31, 2019.
- ❑ Acquisition fits with Paychex growth strategy with the following benefits:
 - Adds scale;
 - Brings new relationships with insurance partners;
 - Expands markets;
 - Provides opportunity for cross-sell to Oasis client base; and
 - Adds talent to our leadership team.
- ❑ For the 2019 fiscal year, Oasis contributed \$163.7M to total revenue, or approximately 5% to the growth in consolidated total revenue.

Fiscal Year 2020 Outlook

Management Solutions Revenue
PEO and Insurance Services Revenue
Interest on Funds Held for Clients
Total Revenue
EBITDA⁽¹⁾
Net Income
Adjusted Net Income⁽²⁾
Diluted Earnings per Share
Adjusted Diluted Earnings per Share⁽²⁾

Year-over-Year Growth

~ 4%
30% - 35%
4% - 8%
10% - 11%
9% - 11%
~8%
8% - 9%
~ 8%
8% - 9%

Operating Income, as a Percent of Total Revenue
EBITDA⁽¹⁾, as a Percent of Total Revenue
Depreciation & Amortization Expense
Net Interest Expense
Effective Income Tax Rate (before discrete items)

Anticipated Result

Approximately 36%
Approximately 41%
\$210M - \$220M
\$15M - \$18M
Approximately 24.0 – 24.5%

(1) EBITDA is a non-GAAP measure. Refer to slide 11 for information on how EBITDA and related margin were calculated for fiscal 2019.

(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. No assumptions were made in regards to discrete tax items in future months of fiscal 2020 for employee stock-based compensation payments.

