



First Quarter Highlights and Financial Results

Fiscal 2020

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.

Paychex Overview

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

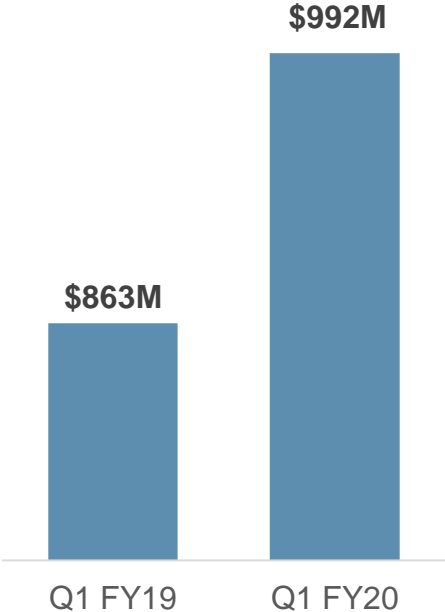
- Integrated, cloud-based HCM platform
- Unique, personalized, technology-enabled service model
- Leader in comprehensive HR outsourcing solutions
- ~670,000 clients with more than 12M employees*
- Strong financial position
- Market capitalization of ~\$29B

First Quarter Highlights

First Quarter Financial Highlights

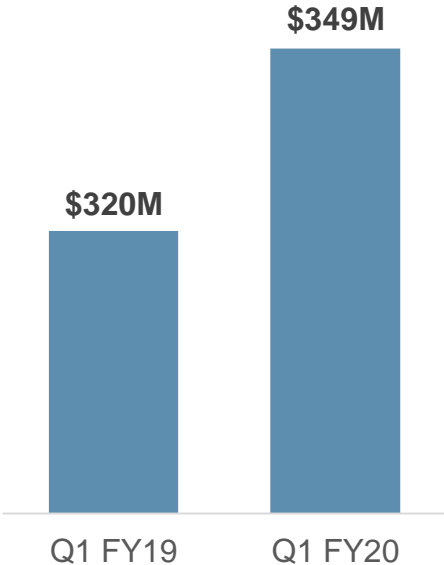
Total Revenues

↑ **15%**
5% Organic



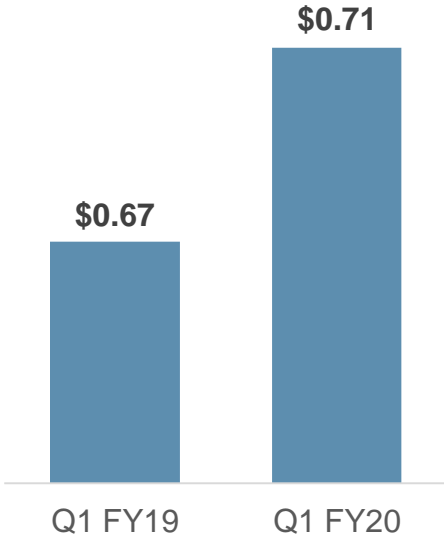
Operating Income

↑ **9%**



Adjusted Diluted EPS⁽¹⁾

↑ **6%**

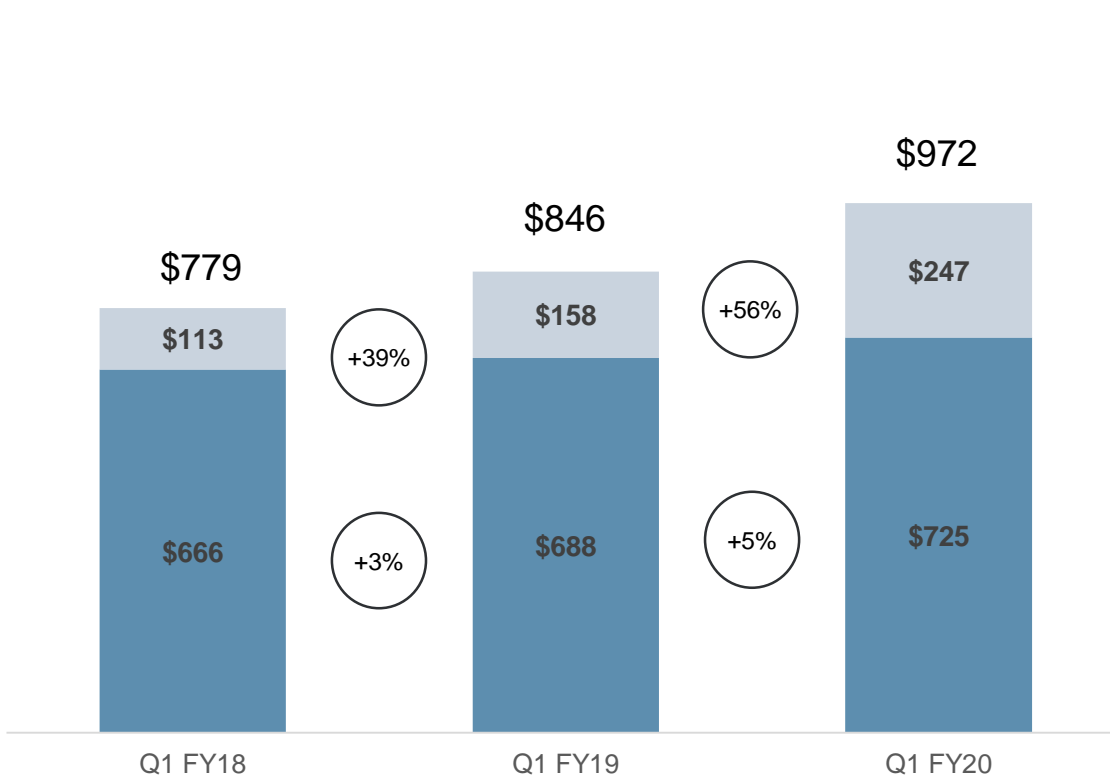


(1) Adjusted Diluted Earnings per Share (“EPS”) is a non-GAAP measure. Refer to slide 18 for a reconciliation to GAAP-based diluted EPS.

First Quarter Service Revenue

Reflects solid growth and increased mix of PEO⁽¹⁾ and Insurance Services

(In Millions)



Growth Drivers

PEO & Insurance Services

- Oasis Outsourcing Group (“Oasis”) acquisition (December 2018)
- Growth in worksite employees served (“WSEs”)
- Increase in number of Health and Benefits insurance applicants, partially offset by softness in Workers’ Compensation insurance premiums

Management Solutions

- Increases in client base across most of our services
- Higher revenue per client
- Growth in retirement asset fee revenue

(1) PEO is Professional Employer Organization

First Quarter Highlights

- Strong growth across the business, in particular comprehensive outsourcing services, HCM software, and retirement services.
- Continued investments in sales force, product, and technology to drive future growth in the business.
- Integration of Oasis, acquired in December 2018, is proceeding on track.
- Returned \$394M to shareholders in the quarter through a combination of dividends and share repurchases.
- Launched several enhancements and new solutions designed to help our customers solve common HR and payroll challenges.
- Introduced several new and enhanced solutions at the HR Technology Conference & Exposition to address key developments in payments, wearable devices, integrations, and data and analytics.

Recent Product & Technology Launches

Designed to simplify common HR and payroll challenges

Paychex Solo

New bundled offering to meet the specific needs of sole proprietors. Combines payroll, 401(k), and incorporation services into one solution.

Payroll Grid View

Enhanced grid entry view enables power users to input complex payroll information quickly and efficiently. Paychex Flex is the only solution in the market to offer multiple pay entry options on one platform.

Electronic Form I-9 and E-Verify

Expanded employee verification capabilities to enable employers to complete Form I-9 and E-Verify processes electronically. Integrates with the Paychex Flex paperless onboarding process.

HR Conversations

New tool in the Paychex performance management module which allows managers, employees, and HR staff to collaborate and capture day-to-day interactions.

Document Management

Users have one centralized and secure file repository for company forms and policies, as well as employee documents. Allows users to manage documents efficiently and digitally.



Product & Technology Horizon

Innovation to meet our customers' evolving business needs



Wearable Solutions



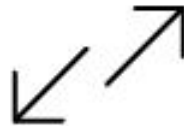
Pay-on-Demand



Real-Time Payments



Paychex Flex
Intelligence Engine



Expanded
Integrations (APIs)

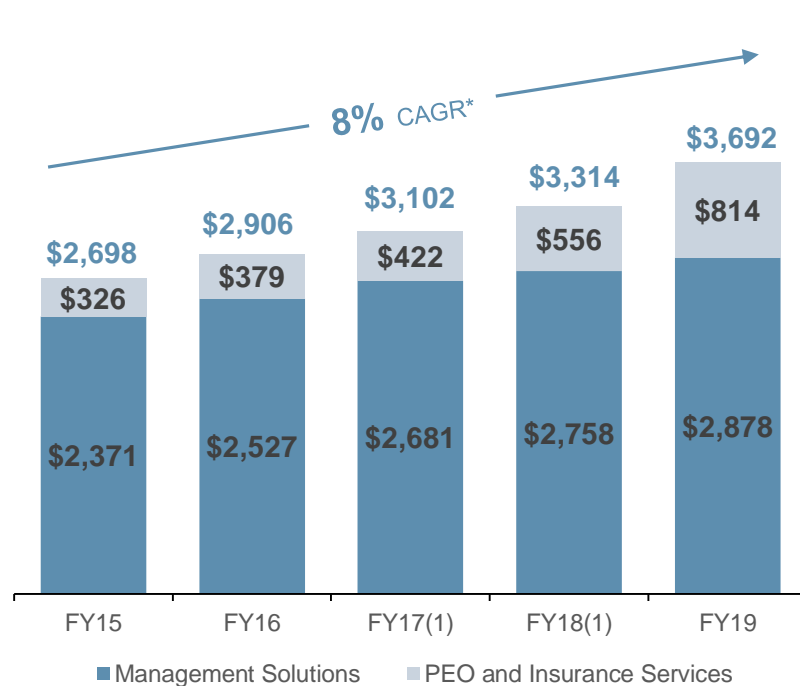


Voice
Recognition

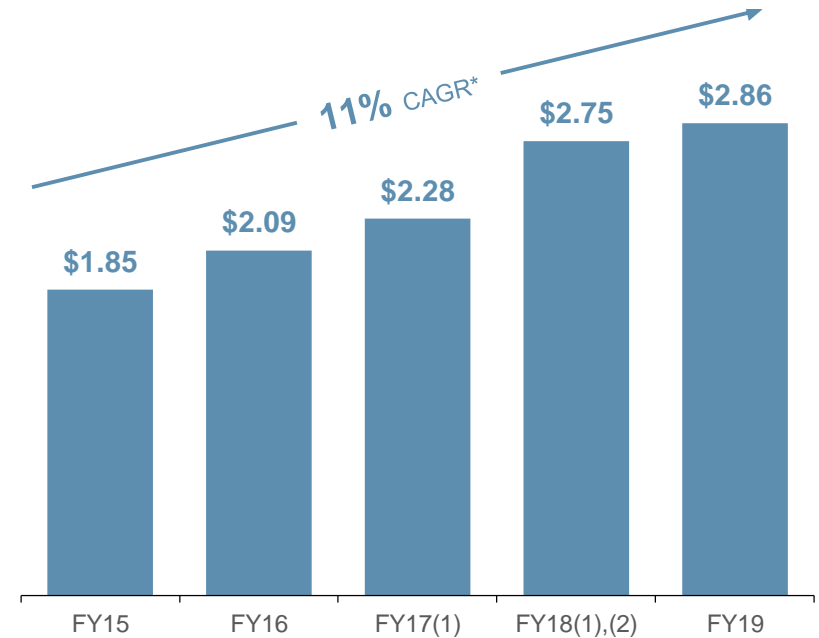
Sustained Financial Performance

(In Millions, Except Per Share Amounts)

Total Service Revenue



Diluted EPS



* 5-Year CAGR

- (1) ASC Topic 606 was adopted effective June 1, 2018. FY17 and FY18 results were adjusted to reflect a comparable presentation.
- (2) Diluted EPS growth for FY18 was impacted by the Tax Cuts and Jobs Act of 2017.

Operating and EBITDA⁽¹⁾ Margins

- Operating margins impacted by growth in PEO direct insurance costs
- Amortization in the first quarter of fiscal 2020 includes intangible assets acquired with Oasis
- Accelerated investments in sales, product, and technology started to ramp up in the first quarter of fiscal 2019

	Three Months Ended August 31,		% Change
	2019	2018	
Total Revenue	\$ 992.0	\$ 862.8	15%
Operating Income	349.1	320.3	9%
Operating Margin	35.2%	37.1%	
Net Income	264.2	243.6	8%
Interest Expense/(Income), Net	5.8	(2.3)	
Income Taxes	80.1	79.0	
Depreciation and Amortization Expense	52.9	35.9	
Total Adjustments	138.8	112.6	
EBITDA	\$ 403.0	\$ 356.2	13%
EBITDA Margin	40.6%	41.3%	

(1) EBITDA is Earnings Before Interest, Taxes, Depreciation, and Amortization

Balance Sheet and Cash Flows

(\$ in Millions)

- Strong liquidity position
- \$800M of private placement, fixed-rate long-term debt to fund Oasis acquisition
- Return on equity remains resilient at 42%
- Consistent free cash flow generation supports industry-leading dividend payout ratio targeted at 80% of net income

	<u>August 31, 2019</u>	<u>May 31, 2019</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 695.3	\$ 779.9
Total Debt, Net of Debt	\$ 853.0	\$ 796.4
Return on Equity	42%	42%
Fiscal Year-to-Date Period Ended:		
	<u>August 31, 2019</u>	<u>August 31, 2018</u>
Operating Cash Flow	\$ 294.8	\$ 273.7
Dividends Paid	\$ 222.0	\$ 201.4
Dividend Coverage Ratio ⁽¹⁾	1.2x	1.2x

(1) Ratio is calculated based on free cash flow of \$266.7M and \$248.5M for the quarters ended August 31, 2019 and 2018, respectively.

Fiscal 2020 Outlook

Fiscal Year 2020 Outlook

	Original Guidance	Revised Guidance
	Year-over-Year Growth	Year-over-Year Growth
Management Solutions Revenue ⁽¹⁾	~4%	~5%
PEO & Insurance Services Revenue ⁽¹⁾	30% - 35%	~30%
Interest on Funds Held for Clients	4% - 8%	4% - 8%
Total Revenue	10% - 11%	10% - 11%
EBITDA ⁽²⁾	9% - 11%	9% - 11%
Net Income	~8%	~9%
Adjusted Net Income ⁽³⁾	8% - 9%	~9%
Diluted EPS	~8%	~9%
Adjusted Diluted EPS ⁽³⁾	8% - 9%	~9%
	Anticipated Result	Anticipated Result
Operating Income, as a Percent of Total Revenue	~36%	~36%
EBITDA ⁽²⁾ , as a Percent of Total Revenue	~41%	~41%
Depreciation & Amortization Expense	\$210M - \$220M	\$210M - \$220M
Interest Expense, net	\$15M - \$18M	\$18M - \$20M
Effective Income Tax Rate	24.0% - 24.5%	24.0% - 24.5%

(1) Reflects reclassification of an immaterial Oasis revenue stream from PEO & Insurance Services Revenue to Management Solutions Revenue, see slide 15 for further detail.

(2) EBITDA is a non-GAAP measure. Refer to slides 11 and 18 for information on how EBITDA and related margin are calculated.

(3) Adjusted net income and adjusted diluted EPS are non-GAAP measures, which exclude the impact of certain discrete tax items. No assumptions were made in regards to discrete tax items in future months of fiscal 2020 for employee stock-based compensation payments.

Oasis Revenue Reclassification

<u>Twelve Months Ended May 31, 2019</u>	<u>Original Pre-Guidance</u>	<u>Adjustment</u>	<u>Revised Post-Guidance</u>
Management Solutions ⁽¹⁾	\$2,869.6	\$8.1	\$2,877.7
PEO & Insurance Services ⁽¹⁾	822.3	(8.1)	814.2
Total Service Revenue	\$3,691.9	-	\$3,691.9

(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. This reclass occurred in the fourth quarter of fiscal 2019 for \$8.1M, but was related to revenues recognized in the third quarter of \$3.3M and the fourth quarter of \$4.8M.

Financial Results

Financial Results for the Quarter

(In Millions, Except Per Share Amounts)

	<u>Three Months Ended</u> <u>August 31, 2019</u>	<u>%</u> <u>Change</u>
Management Solutions	\$ 724.5	5%
PEO and Insurance Services	247.0	56%
Total Service Revenue	971.5	15%
Interest on Funds Held for Clients	20.5	20%
Total Revenue	\$ 992.0	15%
Operating Income	\$ 349.1	9%
Net Income	\$ 264.2	8%
Diluted EPS	\$ 0.73	9%
Non-GAAP Measures:⁽¹⁾		
Adjusted Net Income	\$ 257.6	6%
Adjusted Diluted EPS	\$ 0.71	6%
EBITDA	\$ 403.0	13%

(1) Refer to a reconciliation of non-GAAP measures to the related GAAP measures on slide 18.

Non-GAAP Financial Measures

(In Millions, Except Per Share Amounts)

	Three Months Ended August 31,		% Change
	2019	2018 ⁽¹⁾	
Net Income	\$ 264.2	\$ 243.6	8%
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(6.6)	\$ (3.3)	
Revaluation of Net Deferred Tax Liabilities	-	1.7	
Total Non-GAAP Adjustments	(6.6)	(1.6)	
Adjusted Net Income⁽²⁾	\$ 257.6	\$ 242.0	6%
Diluted EPS	\$ 0.73	\$ 0.67	9%
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.02)	(0.01)	
Revaluation of Net Deferred Tax Liabilities	-	-	
Total Non-GAAP Adjustments	(0.02)	-	
Adjusted Diluted EPS⁽²⁾	\$ 0.71	\$ 0.67	6%
Net Income	\$ 264.2	\$ 243.6	8%
Non-GAAP Adjustments:			
Interest Expense/(Income), Net	\$ 5.8	\$ (2.3)	
Income Taxes	80.1	79.0	
Depreciation and Amortization Expense	52.9	35.9	
Total Non-GAAP Adjustments	138.8	112.6	
EBITDA⁽²⁾	\$ 403.0	\$ 356.2	13%

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

(2) Adjusted net income, adjusted diluted earnings per share, and EBITDA are non-GAAP financial measures. Refer to our Quarterly Report on Form 10-Q for further discussion.

Investment Portfolio Results

	Three Months Ended		% Change
	August 31,		
	2019	2018	
Average Investment Balances (in billions):			
Funds Held For Clients	\$ 3.7	\$ 3.7	1%
Corporate Investments	\$ 0.9	\$ 0.9	-3%
Average Rate of Return Earned:			
Funds Held For Clients	2.1%	1.9%	
Corporate Investments	1.8%	1.4%	
Realized Gains, Net (in millions)	\$ 0.9	\$ 0.1	
<u>End of Period:</u>	<u>August 31, 2019</u>	<u>May 31, 2019</u>	
Unrealized Gain, Net (in millions)	\$ 53.4	\$ 19.7	

- The Federal Funds rate decreased 25 basis points during the first quarter of fiscal 2020, but remains above the levels of first quarter fiscal 2019.
- Declining yields on longer-term investments increased the net unrealized gain position of the longer-term portfolio.
- Average invested balances for funds held for clients increased 1% as the impact of wage inflation and increases within our client base were offset by changes in client base mix and timing of collections and remittances.

PAYCHEX[®]

HR | Payroll | Benefits | Insurance

The Power of Simplicity