

Second Quarter Highlights and Financial Results

Fiscal 2020

PAYCHEX[®]

HR | Payroll | Benefits | 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.

Paychex Overview

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

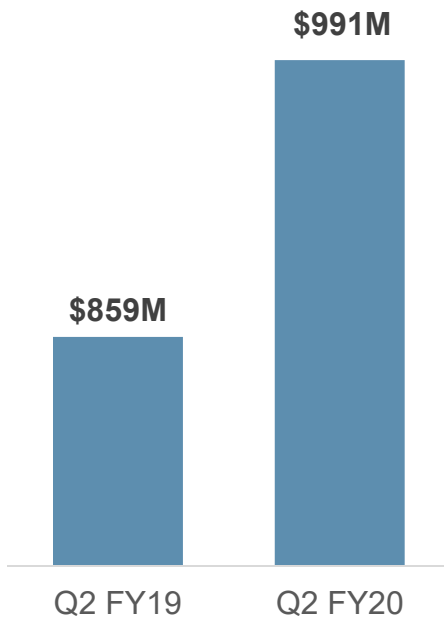
- Integrated, cloud-based HCM platform
- Unique, personalized, technology-enabled service model
- Leader in comprehensive HR outsourcing solutions
- ~670,000 clients with more than 12M employees*
- Strong financial position
- Market capitalization of ~\$30B

Second Quarter Highlights

Second Quarter Financial Highlights

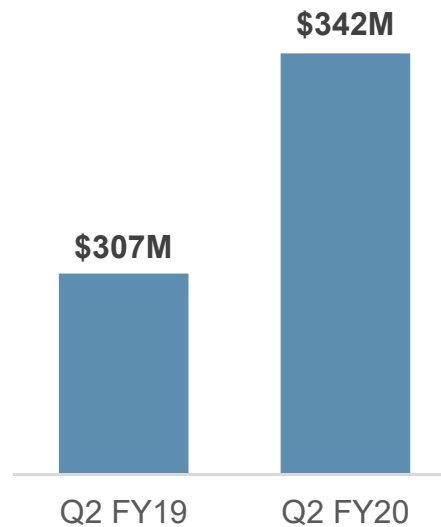
Total Revenues

↑ **15%**
6% Organic



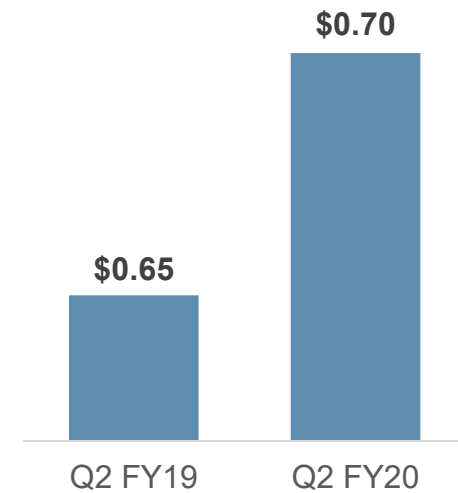
Operating Income

↑ **11%**



Adjusted Diluted EPS⁽¹⁾

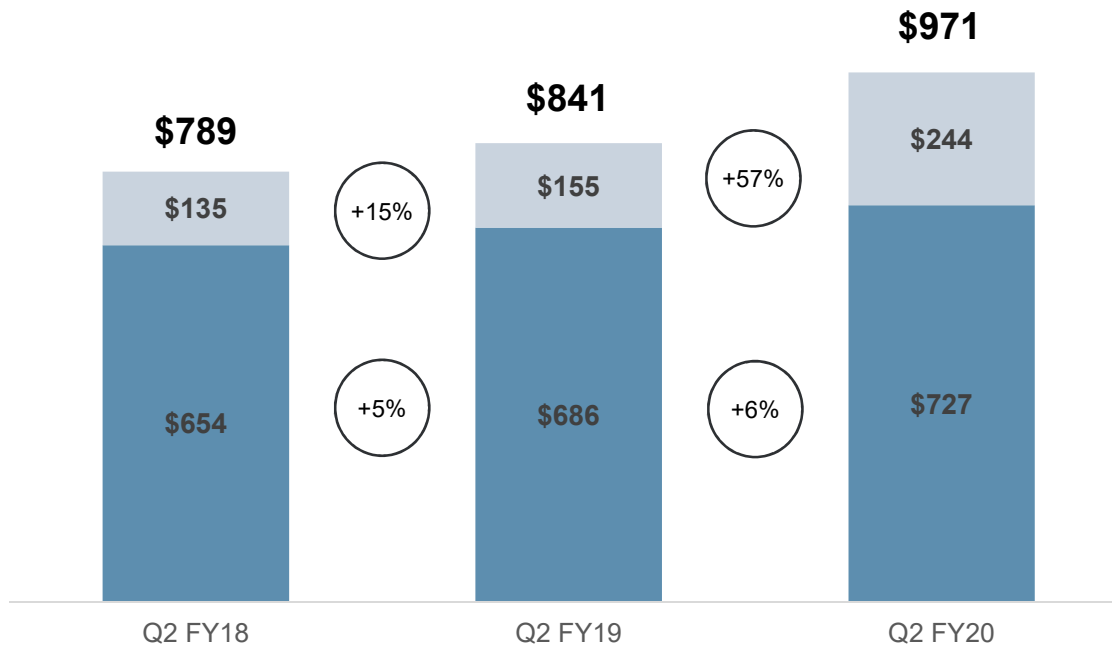
↑ **8%**



(1) Adjusted Diluted Earnings per Share ("EPS") is not a generally accepted accounting principles ("GAAP") measure. Refer to slide 19 for a reconciliation to GAAP-based diluted EPS.

Second Quarter Service Revenue

(In Millions)



Growth Drivers

PEO⁽¹⁾ & Insurance Services

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

Management Solutions

- Growth in client base
- Higher price realization
- Increased product penetration of our suite of solutions, particularly time and attendance, retirement services, and HR outsourcing

(1) Professional Employer Organization (“PEO”)

Second Quarter Highlights

- Strong growth across the business, in particular comprehensive outsourcing services, HCM software solutions, and retirement services.
- Continued investments in sales, product, and technology to drive future growth in the business.
- Returned \$222M to shareholders during the second quarter in the form of dividends.
- Launched Paychex Pay-On-Demand which provides employees the option to access wages they have already earned prior to pay day.
- Received numerous awards and recognition for our innovative solutions and strong growth prospects.
- Product development efforts continue in the areas of wearable solutions, flexible and real-time payments, integrations, data analytics, and AI.
- Continue to execute on plans to integrate the PEO businesses - long-term outlook remains strong.

Recent Product & Technology Launches

Designed to simplify common HR and payroll challenges

Paychex Pay-On-Demand

Innovative new service that gives employees access to earned wages before payday. Allows employers flexible payment options including direct deposit, pay card, and digital payment. Allows employees to be paid when they want, allowing more flexibility than the traditional weekly, bi-weekly or monthly pay schedule.

Paychex Solo

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

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

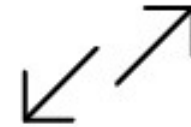
Innovation to meet our customers' evolving business needs



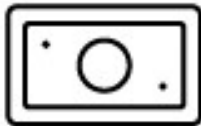
Artificial Intelligence
(including Paychex Flex
Intelligence Engine)



Data Analytics



**Expanded
Integrations (APIs)**



**Real-Time
Payments**



Wearable Solutions



**Voice
Recognition**

Recent Awards and Recognition

Paychex is being honored for its innovative technology and growth prospects



FORTUNE® Future 50 Company

Named a FORTUNE
Future 50 Company for
Consistent Performance
and Continued
Innovation



Brandon Hall Group Gold Excellence in Technology Award

Recognized for “Best
Advance in HR or
Workforce Management
Technology for Small and
Medium-Sized Businesses”



HRExaminer 2020 Watchlist for Intelligent Tools and AI in HR

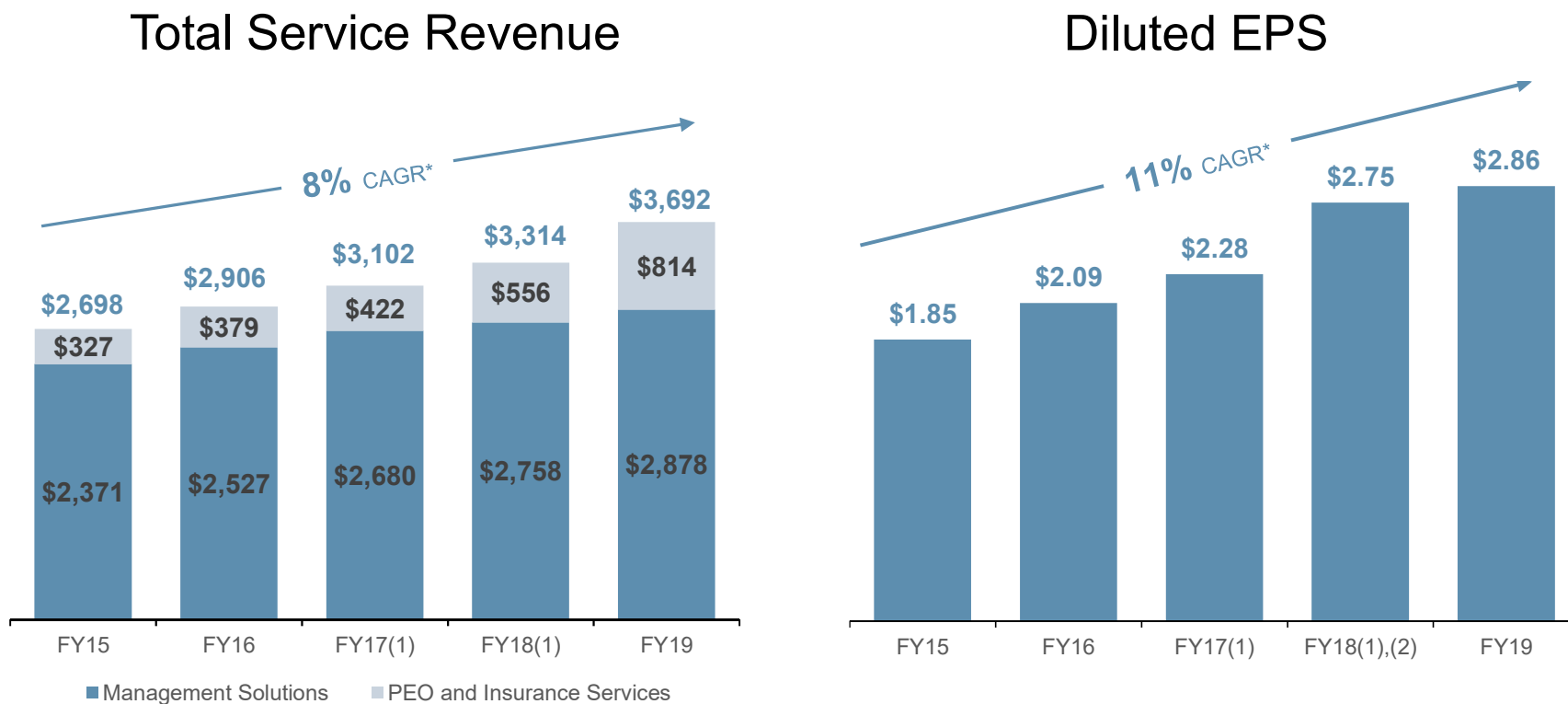
Paychex recognized for its use
of AI in tools such as Paychex
Flex Assistant, the customer-
facing service chatbot



2019 HR Technology Conference Awesome New HR Technologies for HR Award

Sustained Financial Performance

(In Millions, Except Per Share Amounts)



* 5-Year CAGR

- (1) Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" 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 half of fiscal 2020 includes intangible assets acquired with Oasis
- Accelerated investments in sales, product, and technology began to ramp up in the first half of fiscal 2019

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

(\$ in millions)	Three Months Ended November 30,			Six Months Ended November 30,		
	2019	2018	% Change	2019	2018	% Change
Total Revenue	\$ 990.7	\$ 858.9	15%	\$ 1,982.7	\$ 1,721.7	15%
Operating Income	\$ 341.7	\$ 307.2	11%	\$ 690.8	\$ 627.5	10%
Operating Margin	34.5%	35.8%		34.8%	36.4%	
Net Income	\$ 258.7	\$ 235.8	10%	\$ 522.9	\$ 479.4	9%
Interest Expense / (Income), Net	6.8	(2.0)		12.6	(4.3)	
Income Taxes	78.3	73.5		158.4	152.5	
Depreciation and Amortization Expense	55.0	36.8		107.9	72.7	
Total Adjustments	140.1	108.3		278.9	220.9	
EBITDA	<u>\$ 398.8</u>	<u>\$ 344.1</u>	16%	<u>\$ 801.8</u>	<u>\$ 700.3</u>	14%
EBITDA Margin	40.3%	40.1%		40.4%	40.7%	

Balance Sheets 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 robust at 42%
- Consistent free cash flow generation supports industry-leading dividend payout ratio targeted at approximately 80% of net income

	<u>November 30, 2019</u>	<u>May 31, 2019</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 707.8	\$ 779.9
Total Debt, Net of Debt Issuance Costs	\$ 847.9	\$ 796.4
Return on Equity	42%	42%
Fiscal Year-to-Date Period Ended:	<u>November 30, 2019</u>	<u>November 30, 2018</u>
Operating Cash Flow	\$ 564.6	\$ 497.2
Dividends Paid	\$ 444.3	\$ 402.7
Dividend Coverage Ratio ⁽¹⁾	1.1x	1.1x

(1) Dividend Coverage Ratio is calculated based on free cash flow of \$500.5M and \$435.4M for the six months ended November 30, 2019 and 2018, respectively.

Fiscal 2020 Outlook

Fiscal Year 2020 Outlook

	Previous Guidance	Updated Guidance
	Year-over-Year Growth	Year-over-Year Growth
Management Solutions Revenue	~5%	5.0% - 5.5%
PEO & Insurance Services Revenue	~30%	25% - 30%
Interest on Funds Held for Clients	4% - 8%	~4%
Total Revenue	10% - 11%	10% - 11%
EBITDA ⁽¹⁾	9% - 11%	9% - 11%
Net Income	~9%	~9%
Adjusted Net Income ⁽²⁾	~9%	~9%
Diluted EPS	~9%	9% - 10%
Adjusted Diluted EPS ⁽²⁾	~9%	~9%
	Anticipated Result	Anticipated Result
Operating Income, as a Percent of Total Revenue	~36%	~36%
EBITDA ⁽¹⁾ , as a Percent of Total Revenue	~41%	~41%
Depreciation & Amortization Expense	\$210M - \$220M	\$210M - \$220M
Interest Expense, net	\$18M - \$20M	\$18M - \$20M
Effective Income Tax Rate	24.0% - 24.5%	24.0% - 24.5%

(1) EBITDA is a non-GAAP measure. Refer to slides 12 and 19 for information on how EBITDA and related margin are calculated.

(2) 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

(In millions)	Q3 FY19			Q4 FY19			Full Year FY19		
	Original	Adjustment ⁽¹⁾	As Adjusted	Original	Adjustment ⁽¹⁾	As Adjusted	Original	Adjustment ⁽¹⁾	As Adjusted
Management Solutions	\$ 801.6	\$ -	\$ 801.6	\$ 694.9	\$ 8.1	\$ 703.0	\$ 2,869.6	\$ 8.1	\$ 2,877.7
PEO & Insurance Services	245.8	-	245.8	263.3	(8.1)	255.2	822.3	(8.1)	814.2
Total Service Revenue	\$ 1,047.4	\$ -	\$ 1,047.4	\$ 958.2	\$ -	\$ 958.2	\$ 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.

Financial Results

Financial Results

For the Three and Six Months ended November 30, 2019

(In millions, except per share amounts)	<u>Three Months Ended</u> <u>November 30, 2019</u>	<u>%</u> <u>Change</u>	<u>Six Months Ended</u> <u>November 30, 2019</u>	<u>%</u> <u>Change</u>
Management Solutions	\$ 726.7	6%	\$ 1,451.2	6%
PEO and Insurance Services	244.1	57%	491.1	57%
Total Service Revenue	970.8	15%	1,942.3	15%
Interest on Funds Held for Clients	19.9	9%	40.4	14%
Total Revenue	\$ 990.7	15%	\$ 1,982.7	15%
Operating Income	\$ 341.7	11%	\$ 690.8	10%
Net Income	\$ 258.7	10%	\$ 522.9	9%
Diluted EPS	\$ 0.72	11%	\$ 1.45	9%
Non-GAAP Measures: ⁽¹⁾				
Adjusted Net Income	\$ 253.8	8%	\$ 511.4	7%
Adjusted Diluted EPS	\$ 0.70	8%	\$ 1.42	8%
EBITDA	\$ 398.8	16%	\$ 801.8	14%

(1) Refer to a reconciliation of non-GAAP financial measures to the related GAAP financial measures on slide 19.

Non-GAAP Financial Measures

(In millions, except per share amounts)

	Three Months Ended November 30,		% Change	Six Months Ended November 30,		% Change
	2019 ⁽¹⁾	2018		2019	2018	
Net Income	\$ 258.7	\$ 235.8	10%	\$ 522.9	\$ 479.4	9%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(4.9)	(0.5)		(11.5)	(3.8)	
Revaluation of Net Deferred Tax Liabilities	-	-		-	1.7	
Total Non-GAAP Adjustments	(4.9)	(0.5)		(11.5)	(2.1)	
Adjusted Net Income⁽²⁾	\$ 253.8	\$ 235.3	8%	\$ 511.4	\$ 477.3	7%
Diluted EPS	\$ 0.72	\$ 0.65	11%	\$ 1.45	\$ 1.33	9%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.01)	-		(0.03)	(0.01)	
Revaluation of Net Deferred Tax Liabilities	-	-		-	-	
Total Non-GAAP Adjustments	(0.01)	-		(0.03)	(0.01)	
Adjusted Diluted EPS⁽²⁾	\$ 0.70	\$ 0.65	8%	\$ 1.42	\$ 1.32	8%
Net Income	\$ 258.7	\$ 235.8	10%	\$ 522.9	\$ 479.4	9%
Non-GAAP Adjustments:						
Interest Expense/(Income), Net	6.8	(2.0)		12.6	(4.3)	
Income Taxes	78.3	73.5		158.4	152.5	
Depreciation and Amortization Expense	55.0	36.8		107.9	72.7	
Total Non-GAAP Adjustments	140.1	108.3		278.9	220.9	
EBITDA⁽²⁾	\$ 398.8	\$ 344.1	16%	\$ 801.8	\$ 700.3	14%

(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

(\$ in millions)	Three Months Ended November 30,			Six Months Ended November 30,		
	2019	2018	% Change	2019	2018	% Change
Average Investment Balances:						
Funds Held For Clients	\$ 3,726.3	\$ 3,656.2	2%	\$ 3,735.5	\$ 3,675.5	2%
Corporate Investments	\$ 788.5	\$ 878.9	(10%)	\$ 825.2	\$ 881.6	(6%)
Average Rate of Return Earned:						
Funds Held For Clients	2.0%	2.0%		2.1%	1.9%	
Corporate Investments	1.7%	1.4%		1.9%	1.4%	
Realized Gains, Net	\$ 0.9	\$ (0.3)		\$ 1.8	\$ (0.2)	
End of Period:				November 30, 2019	May 31, 2019	
Unrealized Gain, Net				\$ 38.7	\$ 19.7	

- The Federal Funds rate decreased 50 basis points during the second quarter of fiscal 2020, for a total of 75 basis points YTD.
- 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 2% as the impact of wage inflation and increases within our client base were partially offset by changes in client base mix and timing of collections and remittances.

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The Power of Simplicity