

Third 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
- Leading-edge technology solutions coupled with flexible service options
- Leader in comprehensive HR outsourcing solutions
- ~670,000 clients with more than 12M employees⁽¹⁾
- Strong financial position
- Market capitalization of >\$20B⁽²⁾

(1) As of May 31, 2019

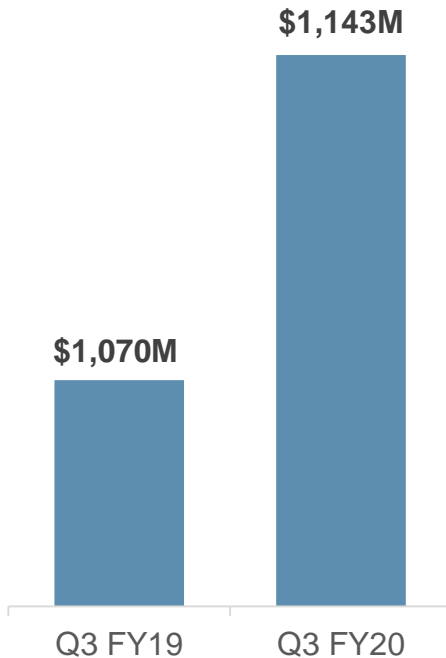
(2) As of March 24, 2020

Third Quarter Highlights

Third Quarter Financial Highlights

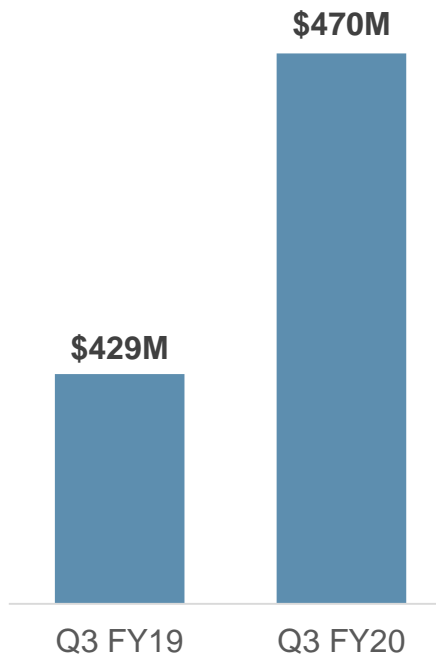
Total Revenues

↑ **7%**
5% Organic



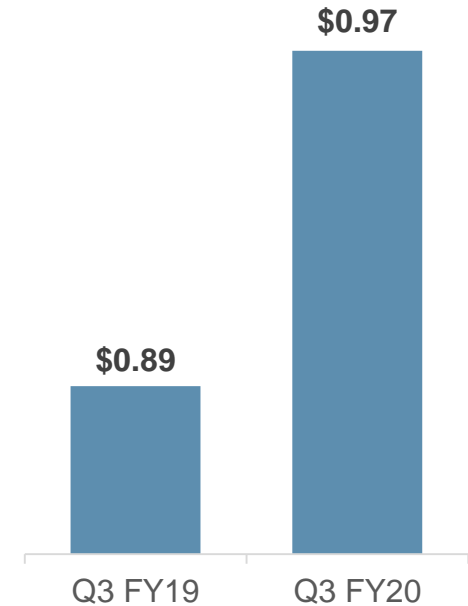
Operating Income

↑ **10%**



Adjusted Diluted EPS⁽¹⁾

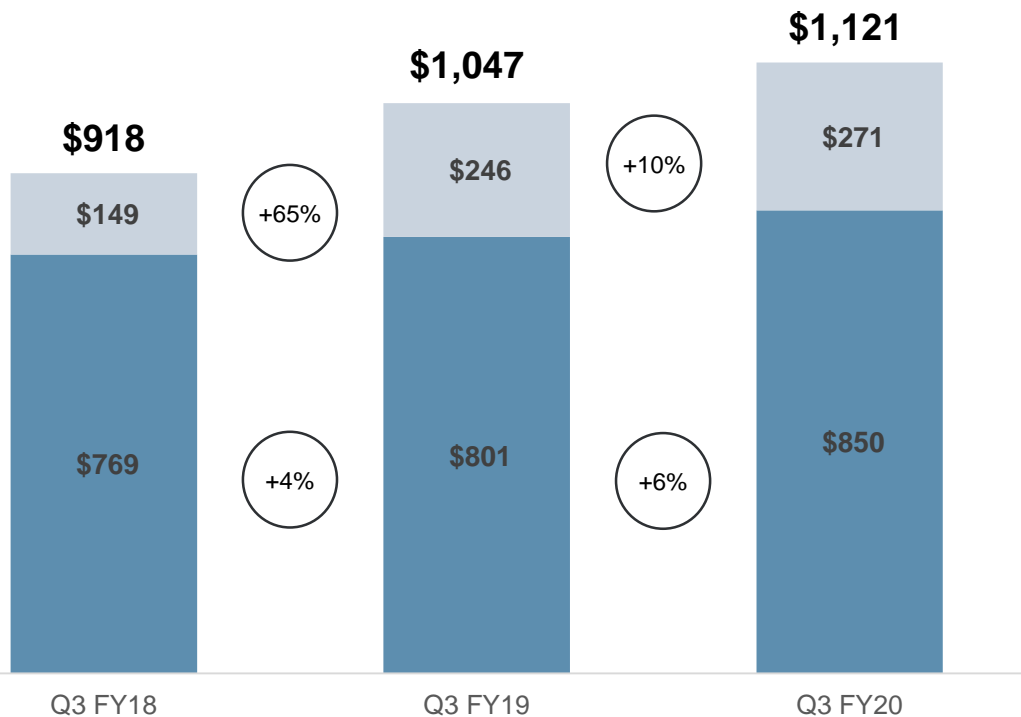
↑ **9%**



(1) Adjusted Diluted Earnings per Share ("EPS") is not a generally accepted accounting principles ("GAAP") measure. Refer to slide 20 for a reconciliation to GAAP-based diluted EPS.

Third Quarter Service Revenue

(In Millions)



Growth Drivers

PEO⁽¹⁾ & Insurance Solutions

- Oasis Outsourcing Group (“Oasis”) acquisition (December 2018)
- Growth in PEO clients
- 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 retirement services, time and attendance, and HR outsourcing

(1) Professional Employer Organization (“PEO”)

Third Quarter Highlights

- Solid growth across the business, in particular retirement services, comprehensive outsourcing services, and HCM software solutions.
- Continued investments in sales, product, and technology to drive future growth in the business.
- Product development efforts continue in the areas of wearable solutions, flexible and real-time payments, integrations, data analytics, and AI.
- Launched Paychex Pay-On-Demand, Paychex Time for Apple Watch, and Paychex Flex Help Center this quarter, as well as several enhancements to Paychex Flex tools.
- Good progress on Oasis integration efforts with improvements in leading indicators for both sales and service.
- Received numerous awards and recognition for our innovative solutions and strong corporate culture.
- Returned \$222M to shareholders during the third quarter in the form of dividends.

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 Time for the Apple Watch

The first of our wearable apps, this allows client employees the flexibility and convenience of punching in and out right on their Apple Watch.

Paychex Flex Help Center

This provides training resources and how-to tutorials for assistance using the Flex technology from within the application itself, and allows customers to access help materials that are relevant and easy to consume, via their individual preferred learning method, whether that is a video tutorial, step-by-step instructions, or a chat.

Live Reports Enhancements

New enhancements to the analytics tools in Paychex Flex that surface data intuitively, making it easier for customers to find actionable information without the need for additional searching or training.

Paychex Integrations

Our integration offering includes some of the world's leading and most widely adopted HR, finance, time and attendance, and benefits solutions. We're also listening to our customers and continuously expanding our partnerships to bring more high-value integrations that align with their business goals.

Product & Technology Horizon

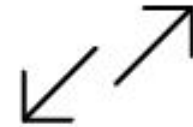
Innovation to meet our customers' evolving business needs



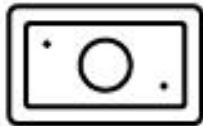
Artificial Intelligence
(including Paychex Flex
Intelligence Engine)



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 corporate culture



Training Magazine
World's Top 125
Training Companies

#14 on the list of top training organizations in the world. Honored for the 19th consecutive year



Stevie Award® for
Customer Service
Excellence

Paychex was recognized for the fourth consecutive year, this time for the Paychex Flex® Assistant customer service chatbot



Ethisphere
World's Most Ethical
Companies

Paychex recognized for the 12th time, and the 9th consecutive year



Business
Intelligence Group
2020 BIG
Innovation Award

Paychex Retirement
Services Participant
Portal



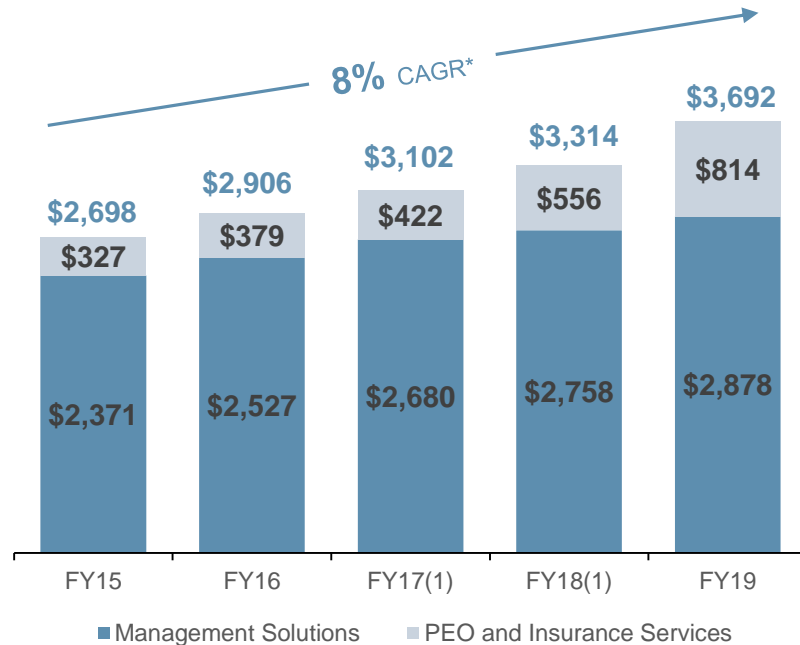
FORTUNE® Magazine
2020 World's Most
Admired Companies

Paychex was named to the list of the World's Most Admired Companies due to its outstanding financial performance and leadership in key areas of importance in today's business environment

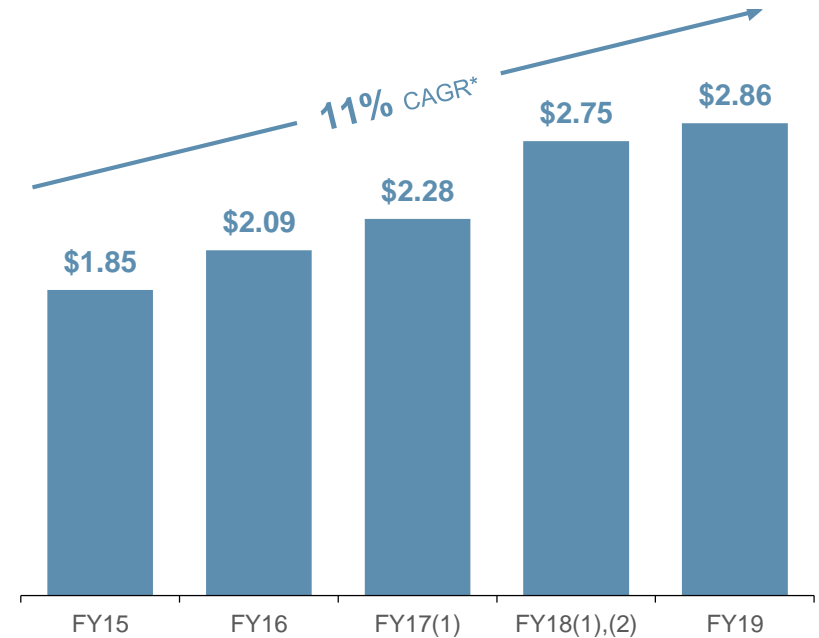
Sustained Financial Performance

(In Millions, Except Per Share Amounts)

Total Service Revenue



Diluted EPS



* 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 and EBITDA margins expand for Q3 year-over-year due to lower growth in expenses and prior year acquisition costs
- Operating and EBITDA margins impacted YTD by growth in PEO direct insurance costs
- Interest Expense/(Income), net impacted by interest expense from the acquisition of Oasis in Q3 of fiscal 2019 and 75 bps of interest rate cuts in fiscal 2020 YTD

(1) Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). EBITDA margin is EBITDA as a percentage of Total Revenue.

(\$ in millions)	Three Months Ended			Nine Months Ended		
	February 29, 2020	February 28, 2019	% Change	February 29, 2020	February 28, 2019	% Change
Total Revenue	\$ 1,142.7	\$ 1,070.4	7%	\$ 3,125.4	\$ 2,792.1	12%
Operating Income	\$ 470.1	\$ 429.3	10%	\$ 1,160.9	\$ 1,056.8	10%
Operating Margin	41.1%	40.1%		37.1%	37.8%	
Net Income	\$ 354.5	\$ 324.6	9%	\$ 877.4	\$ 804.0	9%
Interest Expense / (Income), Net	6.2	3.6		18.8	(0.7)	
Income Taxes	109.7	101.0		268.1	253.5	
Depreciation and Amortization Expense	50.1	53.0		158.0	125.7	
Total Adjustments	166.0	157.6		444.9	378.5	
EBITDA	\$ 520.5	\$ 482.2	8%	\$ 1,322.3	\$ 1,182.5	12%
EBITDA Margin	45.6%	45.0%		42.3%	42.4%	

Balance Sheets and Cash Flows

(\$ in Millions)

- Strong liquidity position with minimal or no net debt
- \$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>February 29, 2020</u>	<u>May 31, 2019</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 930.4	\$ 779.9
Total Debt, Net of Debt Issuance Costs ⁽¹⁾	\$ 847.9	\$ 796.4
Return on Equity	42%	42%
Fiscal Year-to-Date Period Ended:		
	<u>February 29, 2020</u>	<u>February 28, 2019</u>
Operating Cash Flow	\$ 1,052.7	\$ 1,022.8
Dividends Paid	\$ 666.8	\$ 603.9
Dividend Coverage Ratio ⁽²⁾	1.4x	1.2x

(1) Does not include operating lease liabilities of \$142.7M and \$19.0M for the periods ending February 29, 2020 and May 31, 2019, respectively

(2) Dividend Coverage Ratio is calculated based on free cash flow of \$946.3M and \$747.2M for the nine months ended February 29, 2020 and February 28, 2019, respectively.

Fiscal 2020 Outlook

COVID-19 Response

- Enacted business continuity plan and taken steps to ensure safety of employees while continuing to support our clients
- No service disruptions while transitioning ~95% of employees to work from home
- Compliance teams ensure we are aware of and offering support on any new regulations and initiatives that could impact our clients
- Monitoring a variety of leading indicators to estimate potential impacts to the business
- Updated FY20 full year guidance to reflect assumptions as of today based on information that we have regarding potential effects on our business, including impact of 150 bps interest rate cuts in March

Fiscal Year 2020 Outlook

Anticipates Impacts of COVID-19

	Previous Guidance	Updated Guidance ⁽¹⁾
	Year-over-Year Growth	Year-over-Year Growth
Management Solutions Revenue	5.0% - 5.5%	~4%
PEO & Insurance Solutions Revenue	25% - 30%	~24%
Interest on Funds Held for Clients	~4%	(3%) - (2%)
Total Revenue	10% - 11%	8% - 9%
EBITDA ⁽²⁾	9% - 11%	8% - 9%
Net Income	~9%	~7%
Adjusted Net Income ⁽³⁾	~9%	~6%
Diluted EPS	9% - 10%	~7%
Adjusted Diluted EPS ⁽³⁾	~9%	~6%
	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	\$205M - \$215M
Interest Expense, net	\$18M - \$20M	\$22M - \$24M
Effective Income Tax Rate	24.0% - 24.5%	23.5% - 24.0%

(1) Current outlook represents anticipated impacts resulting from COVID-19 based on assumptions as of today. This is a rapidly evolving situation and future developments could result in significant changes to these estimates.

(2) EBITDA and related margin are non-GAAP measures. Refer to slides 12 and 20 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

(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 Solutions	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. This \$8.1M reclass recorded in the fourth quarter of fiscal 2019 relates to revenue of \$3.3M recognized in the third quarter and \$4.8M recognized in the fourth quarter of fiscal 2019.

Financial Results

Financial Results

For the Three and Nine Months ended February 29, 2020

(In millions, except per share amounts)	<u>Three Months Ended February 29, 2020</u>	<u>% Change</u>	<u>Nine Months Ended February 29, 2020</u>	<u>% Change</u>
Management Solutions	850.0	6%	2,301.2	6%
PEO and Insurance Solutions	271.5	10%	762.6	36%
Total Service Revenue	1,121.5	7%	3,063.8	12%
Interest on Funds Held for Clients	21.2	(7%)	61.6	6%
Total Revenue	1,142.7	7%	3,125.4	12%
Operating Income	\$ 470.1	10%	\$ 1,160.9	10%
Net Income	\$ 354.5	9%	\$ 877.4	9%
Diluted EPS	\$ 0.98	9%	\$ 2.43	9%
Non-GAAP Measures: ⁽¹⁾				
Adjusted Net Income	\$ 351.2	9%	\$ 862.6	8%
Adjusted Diluted EPS	\$ 0.97	9%	\$ 2.39	8%
EBITDA	\$ 520.5	8%	\$ 1,322.3	12%

(1) Refer to a reconciliation of non-GAAP financial measures to the related GAAP financial measures on slide 20.

Non-GAAP Financial Measures

(In millions, except per share amounts)

	Three Months Ended		% Change	Nine Months Ended		% Change
	February 29, 2020	February 28, 2019		February 29, 2020	February 28, 2019 ⁽¹⁾	
Net Income	\$ 354.5	\$ 324.6	9%	\$ 877.4	\$ 804.0	9%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(3.3)	(2.2)		(14.8)	(6.0)	
Revaluation of Net Deferred Tax Liabilities	-	-		-	1.7	
Total Non-GAAP Adjustments	(3.3)	(2.2)		(14.8)	(4.3)	
Adjusted Net Income⁽²⁾	\$ 351.2	\$ 322.4	9%	\$ 862.6	\$ 799.7	8%
Diluted EPS	\$ 0.98	\$ 0.90	9%	\$ 2.43	\$ 2.22	9%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.01)	(0.01)		(0.04)	(0.02)	
Revaluation of Net Deferred Tax Liabilities	-	-		-	-	
Total Non-GAAP Adjustments	(0.01)	-		(0.04)	(0.02)	
Adjusted Diluted EPS⁽²⁾	\$ 0.97	\$ 0.89	9%	\$ 2.39	\$ 2.21	8%
Net Income	\$ 354.5	\$ 324.6	9%	\$ 877.4	\$ 804.0	9%
Non-GAAP Adjustments:						
Interest Expense/(Income), Net	6.2	3.6		18.8	(0.7)	
Income Taxes	109.7	101.0		268.1	253.5	
Depreciation and Amortization Expense	50.1	53.0		158.0	125.7	
Total Non-GAAP Adjustments	166.0	157.6		444.9	378.5	
EBITDA⁽²⁾	\$ 520.5	\$ 482.2	8%	\$ 1,322.3	\$ 1,182.5	12%

(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			Nine Months Ended		
	February 29, 2020	February 28, 2019	% Change	February 29, 2020	February 28, 2019	% Change
Average Investment Balances:						
Funds Held For Clients	\$ 4,454.3	\$ 4,377.9	2%	\$ 3,975.0	\$ 3,909.6	2%
Corporate Investments	\$ 837.9	\$ 793.4	6%	\$ 829.5	\$ 830.4	(0%)
Average Rate of Return Earned:						
Funds Held For Clients	1.9%	2.1%		2.0%	2.0%	
Corporate Investments	1.5%	1.6%		1.7%	1.5%	
Realized Gains / (Losses), Net						
	\$ 0.6	\$ 0.1		\$ 2.4	\$ (0.1)	
End of Period:				February 29, 2020	May 31, 2019	
Unrealized Gain, Net				\$ 84.1	\$ 19.7	

- The Federal Funds rate decreased 75 basis points during fiscal 2020 through February 29, 2020. Additional cuts were subsequently made in March 2020 totaling 150 bps in reaction to COVID-19.
- 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