

# First Quarter Highlights and Financial Results

Fiscal 2025



HR | Payroll | Benefits | Insurance

# Forward Looking Statements

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Certain written statements in this presentation may contain, and members of management may from time to time make or discuss statements which constitute, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, all matters that are not historical facts. Forward-looking statements are not 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 known and unknown uncertainties, risks, changes in circumstances, and other factors that are difficult to predict, many of which are outside our control. Our actual performance and outcomes, including without limitation, our actual results and financial condition, may differ materially from those indicated in or suggested by the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. More information regarding these risks and uncertainties and other important factors that could cause actual results to differ materially from those indicated in or suggested by the forward-looking statements is set forth in the Company's earnings release and filings with the Securities and Exchange Commission. The information provided in this presentation is based upon the facts and circumstances known as of the date of this presentation, and any forward-looking statements made by us in this document speak only as of the date on which they are made. Except as required by law, we undertake no obligation to update these forward-looking statements after the date of issuance of this presentation to reflect events or circumstances after such date, or to reflect the occurrence of unanticipated events.

# Paychex Overview

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An industry-leading human capital management (“HCM”) company delivering a full suite of technology and advisory services in human resources, employee benefit solutions, insurance and payroll for small- to medium-sized businesses.

- Comprehensive technology-driven HCM solutions company
- Leading-edge technology platform backed by HR and compliance expertise
- Industry leader in comprehensive HR outsourcing solutions with approximately 2.3M worksite employees<sup>(1)</sup>
- >745,000 clients<sup>(1)</sup>
- Strong financial position with net cash and equivalents<sup>(2)</sup> of \$735M
- Market capitalization of >\$48B<sup>(3)</sup>

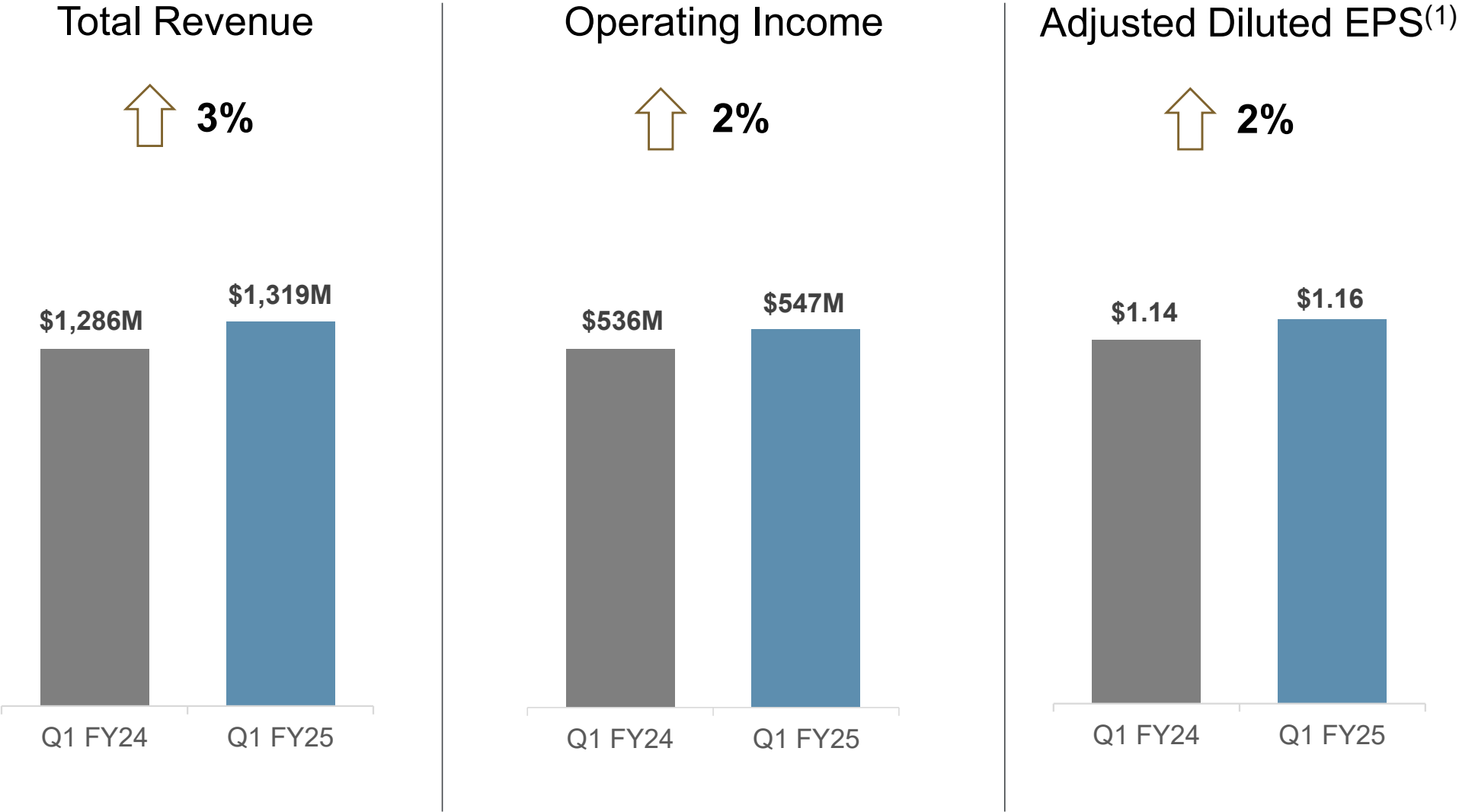
(1) As of May 31, 2024

(2) See slide 16 for additional financial highlights

(3) As of September 30, 2024

# First Quarter Highlights

# First Quarter Financial Highlights

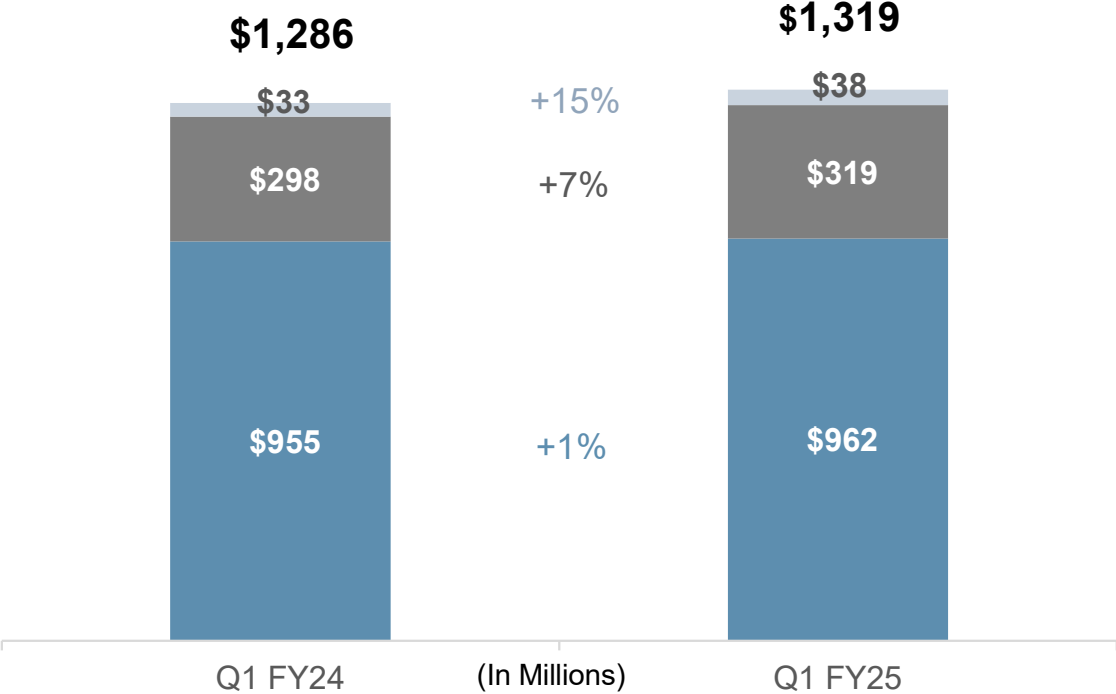


(1) Adjusted diluted earnings per share (“EPS”) is not a U.S. generally accepted accounting principles (“GAAP”) measure. Refer to slide 17 for a reconciliation to the corresponding GAAP measure.

# First Quarter Revenue

## Total Revenue

↑ 3%



## Key Drivers

**Total Revenue: +7%** excluding ERTC and having one less payroll processing day

### Management Solutions

- Growth in the number of clients served across our suite of HCM solutions and client worksite employees for HR Solutions
- Higher product penetration, including HR Solutions and Retirement
- Lower revenue from ancillary services, primarily due to the expiration of our ERTC Service

### PEO<sup>(1)</sup> & Insurance Solutions

- Growth in the number of average PEO worksite employees
- Increase in PEO insurance revenues

### Interest on Funds Held for Clients

- Higher average interest rates and investment balances

(1) Professional Employer Organization (“PEO”)

# First Quarter Business Highlights

## **Sustained growth in revenue and earnings**

- Solid revenue growth of 3% and adjusted diluted EPS<sup>(1)</sup> growth of 2%
- Excluding expiration of ERTC and one fewer processing day, revenue grew 7%
- PEO momentum continues with strong results in sales and retention
- Stable trends in the macroeconomic environment reflected in hiring within our existing client base

## **Solid execution across key operational metrics**

- Upper-single-digit growth in HR outsourcing WSEs
- Losses declined y/y; increased revenue and client retention
- Product penetration continues to increase across our suite of HCM solutions

## **Positioned for growth in fiscal 2025 and beyond**

- Leading SaaS HCM platform with comprehensive, integrated suite of solutions from hire to retire. Paychex Flex<sup>®</sup> is consistently rated as a leader in the industry by independent analysts
- Investing in the business to drive sustainable, profitable growth with targeted investments in our go to market capabilities, product suite and technology
- Leveraging vast data assets and accelerating AI investments to improve efficiency, enhance customer experience and provide our clients with actionable insights to help them succeed

## **Returned \$457M to shareholders during the quarter**

- Paid \$353M of dividends
- Returned \$104M through share repurchases

(1) Adjusted diluted EPS is a non-GAAP financial measures. Refer to slide 17 for a reconciliation to the corresponding GAAP measure.

# Recent Product & Technology Launches

Designed to simplify common HR and payroll challenges

## Paychex Recruiting Copilot

- New AI-assisted talent acquisition solution powered by unique and robust data set
- Analyzes millions of potential employees through a natural language search engine
- Quickly produces an active list of qualified individuals for open positions
- Helps SMBs leverage enterprise-level recruiting capabilities affordably

## Paychex Perks

- A digital marketplace of employee benefits
- Offers employees access to affordable benefits and discounted products and services
- Available at no cost to the employer and convenient for employees through automatic payroll deductions
- Strengthens benefit offerings for SMBs, helping them to compete more effectively for talent
- Earned Human Resource Executive “Top HR Product of the Year” award in 2024

## Paychex Flex Engage

- A comprehensive employee engagement solution with Gen AI capabilities
- Combines employee engagement, performance reviews, rewards, and compensation management features
- Creates a simplified approach to talent and workforce management, enabling clients to build a strong company culture
- Helps businesses digitally manage their workforce, drive collaboration and enhance the employee experience



# Product & Technology Horizon

Innovation to meet our customers' evolving business needs



# Recent Awards and Recognition

Paychex was recognized for its innovative technology, market leadership, and corporate culture



## TIME America's Best Mid-size Companies 2024

Paychex ranked 29th out of 500 top-performing U.S.-based organizations for the strength of the Paychex culture, business results, and corporate responsibility efforts



## Selling Power 60 Best Companies to Sell For

Paychex was recognized for the 11<sup>th</sup> time by Selling Power magazine on their annual list of top sales organizations



## Human Resource Executive 2024 Top HR Product of the Year

Paychex earned a "Top HR Product of the Year" award for Paychex Flex Perks



## 2024 GLOBEE Award for American Business

Paychex was recognized with a Silver GLOBEE Award for the company's significant contributions and innovations to American Business in the Small Business Technology category



## 2024 Tech Cares Award from TrustRadius

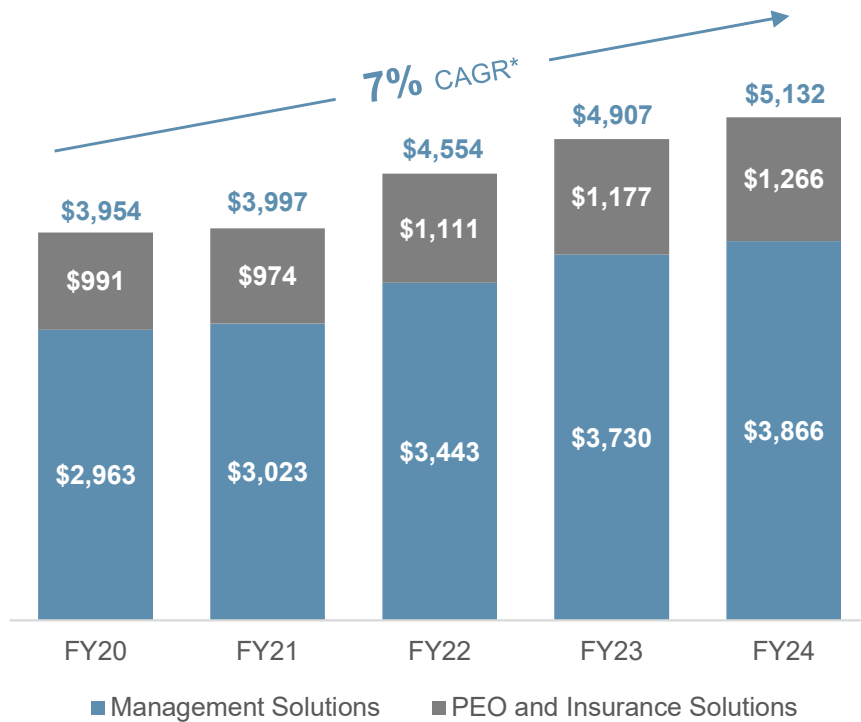
Paychex was recognized for the fourth time by TrustRadius for the company's Corporate Social Responsibility (CSR) program and community impact

# Sustained Financial Performance

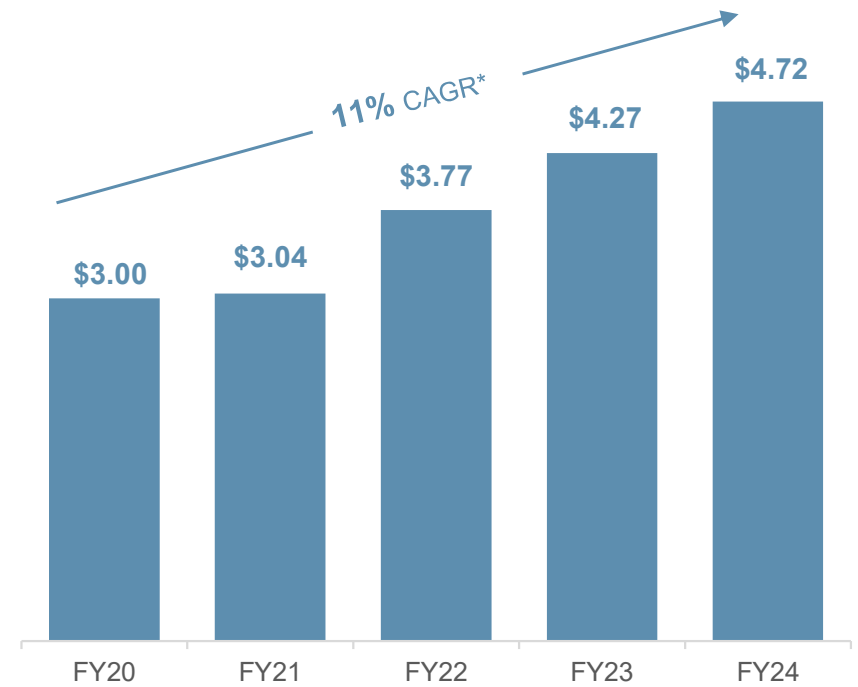
(in uncertain times)

(In Millions, Except Per Share Amounts)

## Total Service Revenue



## Adjusted Diluted EPS<sup>(1)</sup>



\* 5-Year CAGR

(1) Adjusted diluted earnings per share ("EPS") is not a U.S. generally accepted accounting principles ("GAAP") measure. Refer to our Annual Report on Form 10-K for discussion of these measures and a reconciliation to the corresponding GAAP measures.

# Fiscal 2025 Outlook

# Fiscal Year 2025 Outlook

	October 1, 2024 Year-over-Year Growth	June 26, 2024 Year-over-Year Growth
Total Revenue	4.0% - 5.5%	4.0% - 5.5%
Adjusted Diluted EPS <sup>(1)</sup>	5% - 7%	5% - 7%
Management Solutions Revenue	3% - 4%	3% - 4%
PEO & Insurance Solutions Revenue	7% - 9%	7% - 9%
	Anticipated Result	Anticipated Result
Interest on Funds Held for Clients	<b>\$145M - \$155M</b>	\$150M - \$160M
Operating Income, as a Percent of Total Revenue	42% - 43%	42% - 43%
Other Income, net	<b>\$30M - \$35M</b>	\$35M - \$40M
Effective Income Tax Rate	24% - 25%	24% - 25%

(1) Adjusted diluted EPS is a non-GAAP financial measure. Refer to our discussion of non-GAAP financial measures in our first quarter fiscal 2025 earnings press release.

# Financial Results

# Financial Results

For the Three Months ended August 31, 2024

(In millions, except per share amounts)	Three Months Ended	%
	<u>August 31, 2024</u>	<u>Change</u>
Management Solutions	\$ 961.7	1%
PEO and Insurance Solutions	\$ 319.3	7%
<b>Total Service Revenue</b>	<b>\$ 1,281.0</b>	<b>2%</b>
Interest on Funds Held for Clients	\$ 37.5	15%
<b>Total Revenue</b>	<b>\$ 1,318.5</b>	<b>3%</b>
Operating Income	\$ 546.7	2%
Net Income	\$ 427.4	2%
Diluted EPS	\$ 1.18	2%
<b>Non-GAAP Measures:<sup>(1)</sup></b>		
EBITDA	\$ 585.8	1%
Adjusted Net Income	\$ 421.2	1%
Adjusted Diluted EPS	\$ 1.16	2%

(1) Refer to a reconciliation of non-GAAP financial measures to the related GAAP financial measures on slide 17.

# Financial Highlights

(\$ in Millions)

- Strong liquidity position with no net debt
- \$800M of private placement, fixed-rate long-term debt issued in 2019 to fund Oasis acquisition
- Return on equity of 46%
- Consistent free cash flow generation supports industry-leading dividend payout ratio

(In millions)	<u>August 31, 2024</u>	<u>May 31, 2024</u>
Cash, Restricted Cash, & Total Corporate Investments	\$ 1,552.9	\$ 1,554.3
Total Debt, Net of Debt Issuance Costs <sup>(1)</sup>	\$ 817.6	\$ 817.3
Net Cash Position	\$ 735.3	\$ 737.0
Return on Equity	46%	47%
Fiscal Year-to-Date Period Ended:	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Operating Cash Flow <sup>(2)</sup>	\$ 546.1	\$ 693.0
Free Cash Flow <sup>(3)</sup>	\$ 510.5	\$ 654.3
Dividends Paid	\$ 353.4	\$ 321.9
Dividend Coverage Ratio <sup>(4)</sup>	1.4x	2.0x

(1) Excludes operating lease liabilities of \$68.9M and \$68.2M as of August 31, 2024 and May 31, 2024, respectively.

(2) The consolidated statement of cash flows for the three months ended August 31, 2023 includes a revision to previously reported amounts related to the presentation of the cash flows associated with the short-term receivables purchased from the Company's clients under non-recourse arrangements. The revision increased net cash provided by operating activities and decreased net cash provided by investing activities by \$37.2 million each.

(3) In fiscal 2025, the definition of free cash flow was revised to conform more closely to peers. The current definition is net cash provided by operating activities less purchases of property and equipment (which includes internally developed software costs). Historical periods have been revised accordingly.

(4) Dividend coverage ratio is calculated as free cash flow divided by dividends paid.



# Non-GAAP Financial Measures

For the Three Months ended August 31, 2024

(In millions, except per share amounts)

	Three Months Ended		% Change
	August 31,		
	2024	2023	
<b>Net Income</b>	<b>\$ 427.4</b>	<b>\$ 419.2</b>	<b>2%</b>
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments <sup>(1)</sup>	(6.2)	(4.1)	
<b>Adjusted Net Income<sup>(2)</sup></b>	<b>\$ 421.2</b>	<b>\$ 415.1</b>	<b>1%</b>
<b>Diluted EPS<sup>(3)</sup></b>	<b>\$ 1.18</b>	<b>\$ 1.16</b>	<b>2%</b>
Non-GAAP Adjustments:			
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments <sup>(1)</sup>	(0.02)	(0.01)	
<b>Adjusted Diluted EPS<sup>(2)</sup></b>	<b>\$ 1.16</b>	<b>\$ 1.14</b>	<b>2%</b>
<b>Net Income</b>	<b>\$ 427.4</b>	<b>\$ 419.2</b>	<b>2%</b>
Non-GAAP Adjustments:			
Interest Income, Net	(10.3)	(12.1)	
Income Taxes	129.7	129.9	
Depreciation and Amortization Expense	39.0	41.2	
Total Non-GAAP Adjustments	158.4	159.0	
<b>EBITDA<sup>(2)</sup></b>	<b>\$ 585.8</b>	<b>\$ 578.2</b>	<b>1%</b>

(1) Net tax windfall benefits related to employee stock-based compensation payments recognized in income taxes. This item is subject to volatility and will vary based on employee decisions on exercising employee stock options and fluctuations in our stock price, neither of which is within the control of management.

(2) Adjusted net income, adjusted diluted EPS, and EBITDA are non-GAAP financial measures. Refer to our first quarter fiscal 2025 press release for further discussion.

(3) 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.

# Investment Portfolio Results

(\$ in millions)	Three Months Ended August 31,		% Change
	2024	2023	
<b>Average Investment Balances:</b>			
Funds Held For Clients	\$ 4,286.1	\$ 4,156.9	3%
Corporate Cash Equivalents and Investments	\$ 1,619.9	\$ 1,706.7	-5%
<b>Average Rate of Return Earned:</b>			
Funds Held For Clients	3.5%	3.2%	
Corporate Cash Equivalents and Investments	4.9%	5.0%	
<b>Realized Gain/(Loss), Net</b>	\$ 0.0	\$ (0.0)	
<u>End of Period:</u>	<u>August 31, 2024</u>	<u>May 31, 2024</u>	
<b>Unrealized Loss, Net</b>	\$80.4	\$162.5	

***PAYCHEX***<sup>®</sup>

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**The Power of Simplicity**