



Payroll • HR • Retirement • Insurance

Third Quarter Highlights and Financial Results Fiscal 2018

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 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. We undertake no obligation to update these forward-looking statements after the date of issuance of this document to reflect events or circumstances after the date of release of this information, or to reflect the occurrence of unanticipated events.

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Paychex Overview

Paychex is a leading provider of integrated human capital management solutions (“HCM”) for payroll, human resources (“HR”), retirement, and insurance services for small- to mid-sized businesses.

- Market capitalization of approximately \$20B - \$25B
- Strong financial position
- Approximately 605,000 payroll clients as of May 31, 2017

Revenue Source

Small Business Payroll

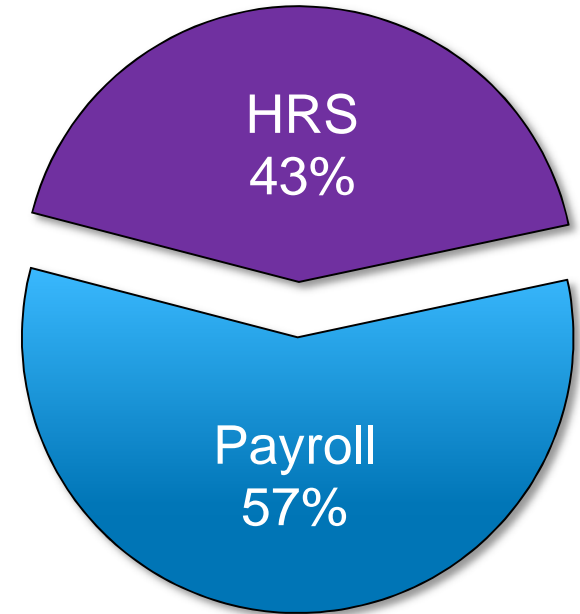
- Small business targets businesses with 1-50 employees

Mid-Market Payroll

- Mid-market targets businesses with 50-1,000 employees
- Growing portfolio of standalone services – expense management; applicant tracking; time and labor

Human Resource Services

- Market leader in complimentary services sold to payroll clients – retirement, insurance, and HR services



As of May 31, 2017

Third Quarter 2018 Highlights

- Results reflect continued solid growth across our major HCM product lines, in particular comprehensive HR outsourcing services, retirement services, and time and attendance solutions.
- This was the highest growth quarter for total revenue growth in the last 6 quarters.
- The combined interest on funds held for clients and corporate investment portfolios benefited from higher interest rates and slightly higher investment balances due to strong calendar year end bonus payments.
- On March 1, 2018, we announced the purchase of Lessor Group, a market-leading provider of payroll and HCM software solutions headquartered in Denmark and serving clients in Northern Europe.
- Our combined Paychex and HROI PEO had a strong quarter, reflecting strong demand for comprehensive outsourced HR.
- Impact of Tax Cuts and Jobs Act (“Tax Reform”) significantly reduced the Federal Corporate tax rate and resulted in 11.7% effective income tax rate for the third quarter. See reconciliation of effective tax rate on slide 9.

Third Quarter 2018 Financial Highlights

- Total revenue up 9%⁽¹⁾
- We paid a one-time bonus to non-management employees, which contributed approximately 2% to the growth in total expenses for the third quarter
- Operating income decreased 5%, largely due to one-time charge following the termination of certain licensing agreements. Adjusted operating income⁽²⁾, which excludes this one-time charge, increased 6%
- Combined interest on funds held for clients and investment income increased 41%
- Cash and total corporate investments of \$826.6 million as of February 28, 2018
- Net income and diluted earnings per share each increased 29%; with the growth rate significantly impacted by Tax Reform
- Adjusted net income⁽²⁾ increased 14% and adjusted diluted earnings per share⁽²⁾ increased 15%

(1) HROI contributed approximately 3% to total revenue growth for the third quarter.

(2) Adjusted operating income, adjusted net income, and adjusted diluted earnings per share are non-GAAP measures, which exclude discrete tax items and the one-time charge following the termination of certain licensing agreements. Refer to a reconciliation of non-GAAP measures on slides 10-11 along with further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.

2018 Third Quarter Financial Results

(In Millions, Except Per Share Amounts)

	Three Months Ended February 28, 2018	%	Nine Months Ended February 28, 2018	%
		Change		Change
Payroll Services	\$ 455.0	2%	\$ 1,357.6	1%
HRS Revenue	393.4	17%	1,106.4	13%
Total Service Revenue	848.4	8%	2,464.0	6%
Interest on Funds Held for Clients	18.1	37%	45.8	25%
Total Revenue	\$ 866.5	9%	\$ 2,509.8	7%
Operating Income	\$ 292.5	-5%	\$ 969.7	3%
Net Income	\$ 260.4	29%	\$ 705.2	13%
Diluted Earnings Per Share	\$ 0.72	29%	\$ 1.95	14%
Non-GAAP Measures⁽¹⁾:				
Adjusted Operating Income	\$ 325.1	6%	\$ 1,002.3	7%
Adjusted Net Income	\$ 227.5	14%	\$ 700.8	16%
Adjusted Diluted Earnings Per Share	\$ 0.63	15%	\$ 1.94	17%

(1) Refer to a reconciliation of non-GAAP measures on slides 10-11, along with further discussion in the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q.

2018 Third Quarter Effective Tax Rate

	Three Months Ended February 28, 2018	Nine Months Ended February 28, 2018
Pre-Tax Reform Effective Tax Rate	35.8%	35.8%
<u>Annual Rate Items</u>		
Impact of Tax Reform on Annual Effective Tax Rate	<u>(5.3%)</u>	<u>(5.3%)</u>
Post-Tax Reform Annual Effective Tax Rate	30.5%	30.5%
Catch-up Adjustment for Prior Fiscal Quarters	<u>(12.2%)</u>	<u>N/A</u>
Impact of Tax Reform Before Discrete Items	18.3%	30.5%
<u>Discrete Items</u>		
Revaluation of Net Deferred Tax Liabilities	(7.1%)	(2.1%)
Tax Benefit on Employee Stock-Based Compensation Payments	(0.2%)	(0.9%)
Termination of License Agreements ⁽¹⁾	<u>0.7%</u>	<u>0.2%</u>
Total Discrete Tax Benefit, Net	(6.6%)	(2.8%)
	<hr/>	<hr/>
Post Tax Reform Effective Tax Rate	<u><u>11.7%</u></u>	<u><u>27.7%</u></u>

(1) Reflects the difference between the post Tax Reform Annual Effective Tax Rate of 30.5% and the tax benefit recognized on the charge following the termination of certain license agreements at 24.3%.

Non-GAAP Financial Measures

(In Millions, Except Per Share Amounts)

	Three Months Ended		% Change	Nine Months Ended		% Change
	February 28, 2018	February 28, 2017		February 28, 2018	February 28, 2017	
Operating Income	\$ 292.5	\$ 306.6	-5%	\$ 969.7	\$ 940.7	3%
Non-GAAP Adjustments:						
Termination of License Agreements	\$ 32.6	\$ -		\$ 32.6	\$ -	
Total Non-GAAP Adjustments	\$ 32.6	\$ -		\$ 32.6	\$ -	
Adjusted Operating Income	<u>\$ 325.1</u>	<u>\$ 306.6</u>	6%	<u>\$ 1,002.3</u>	<u>\$ 940.7</u>	7%
Net Income	\$ 260.4	\$ 202.5	29%	\$ 705.2	\$ 622.0	13%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	(0.7)	(3.2)		(8.3)	(17.3)	
Revaluation of Net Deferred Tax Liabilities	(20.8)	-		(20.8)	-	
Change in Annual Effective Income Tax Rate	(36.1)	-		-	-	
Termination of License Agreements, net of tax	24.7	-		24.7	-	
Total Non-GAAP Adjustments	(32.9)	(3.2)		(4.4)	(17.3)	
Adjusted Net Income	<u>\$ 227.5</u>	<u>\$ 199.3</u>	14%	<u>\$ 700.8</u>	<u>\$ 604.7</u>	16%

(1) Adjusted operating income and adjusted net income are non-GAAP measures. Refer to the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q for further details.

Non-GAAP Financial Measures (Continued)

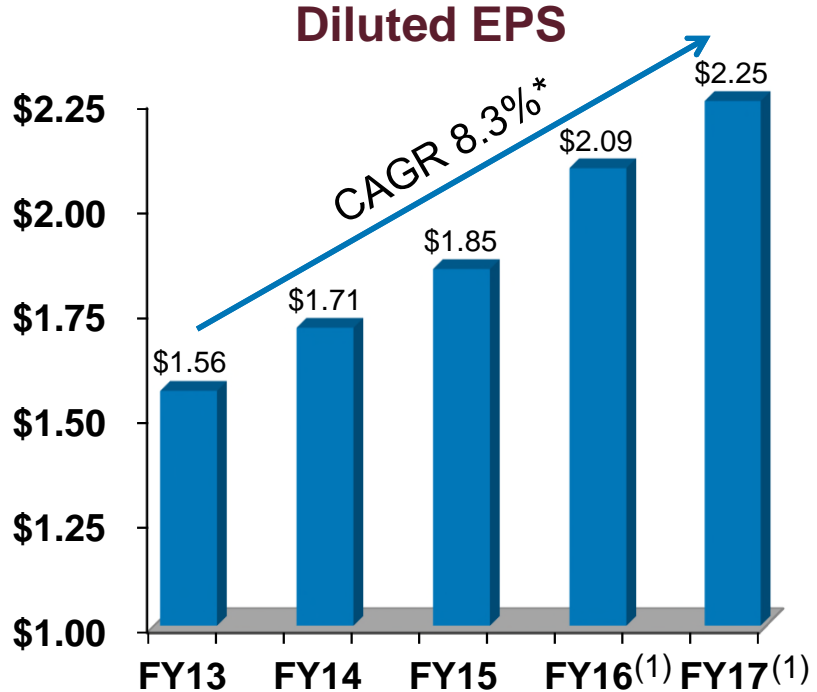
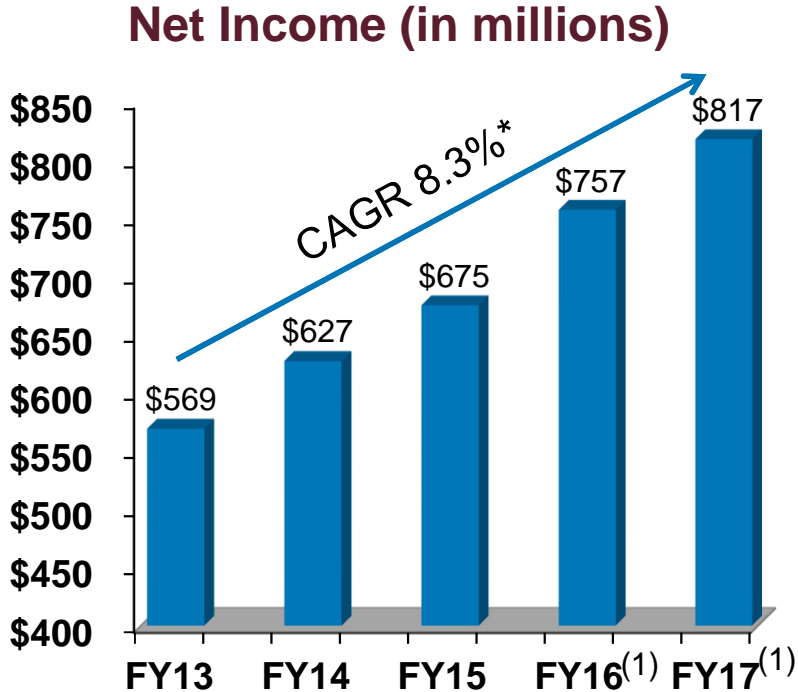
(In Millions, Except Per Share Amounts)

	Three Months Ended		% Change	Nine Months Ended		% Change
	February 28, 2018	February 28, 2017		February 28, 2018	February 28, 2017	
Diluted Earnings Per Share	\$ 0.72	\$ 0.56	29%	\$ 1.95	\$ 1.71	14%
Non-GAAP Adjustments:						
Excess Tax Benefit Related to Employee Stock-Based Compensation Payments	-	(0.01)		(0.02)	(0.05)	
Revaluation of Net Deferred Tax Liabilities	(0.06)	-		(0.06)	-	
Change in Annual Effective Income Tax Rate	(0.10)	-		-	-	
Termination of License Agreements, net of tax	0.07	-		0.07	-	
Total Non-GAAP Adjustments	(0.09)	(0.01)		(0.01)	(0.05)	
Adjusted Diluted Earnings Per Share	\$ 0.63	\$ 0.55	15%	\$ 1.94	\$ 1.66	17%

(1) Adjusted diluted earnings per share is a non-GAAP measure. Refer to the Management's Discussion and Analysis section of our Quarterly Report on Form 10-Q for further details.

Strong Earnings History

* 5-Year CAGR



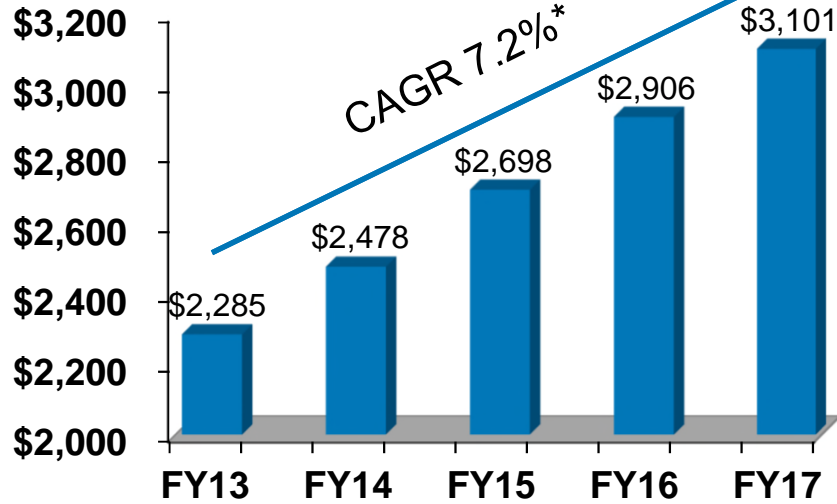
(1) Net income and diluted earnings per share were both impacted by certain net tax benefits recognized during the respective periods. Refer to further discussion in the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

Sustained Performance

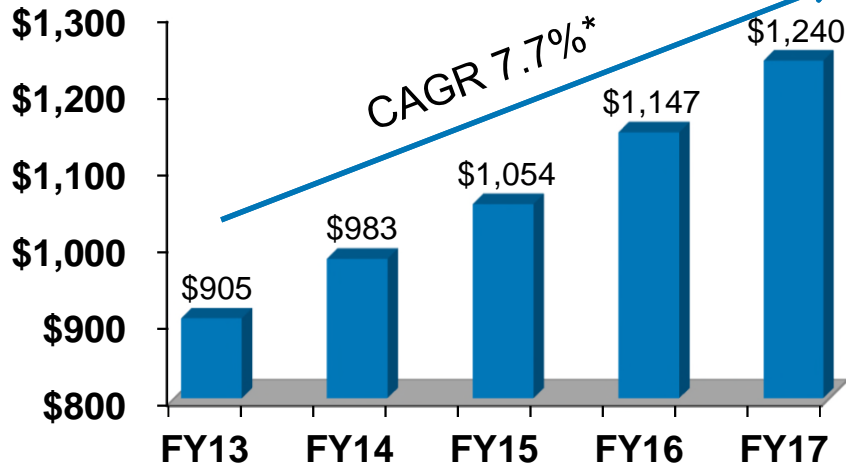
(in millions)

* 5-Year CAGR

Service Revenue (1)



Operating Income

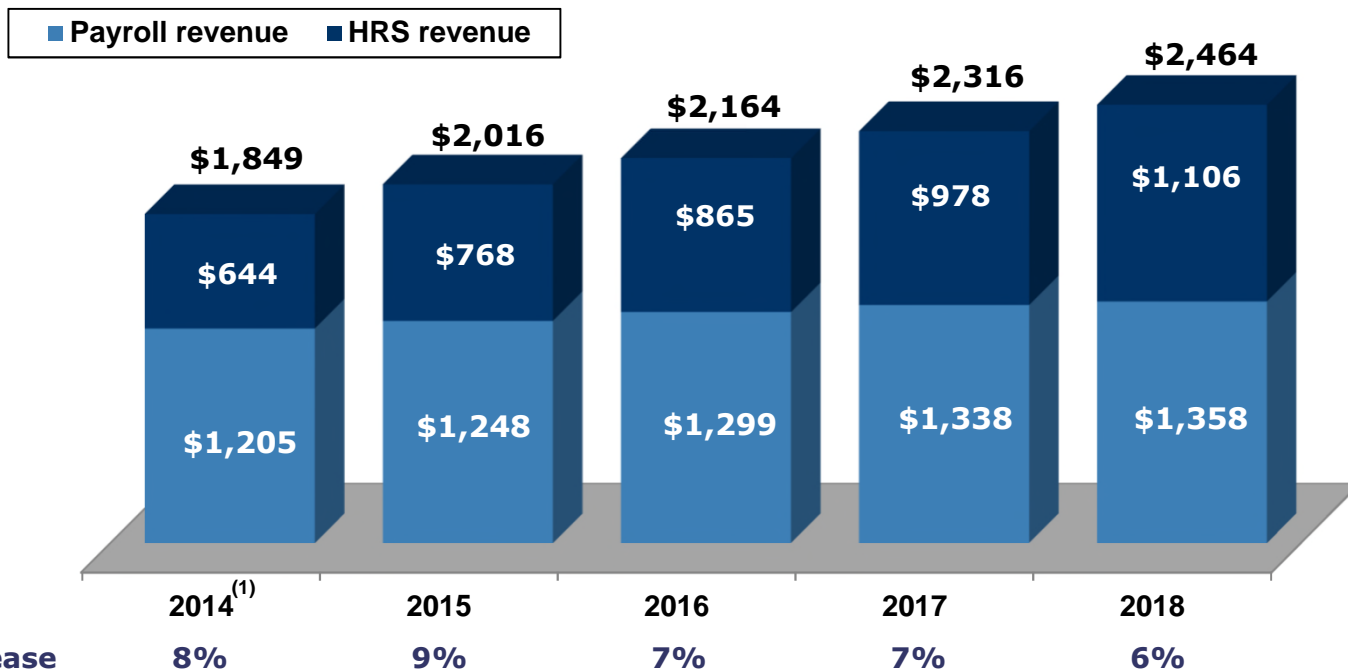


(1) Reflects change to classify certain PEO direct costs as operating expenses rather than a reduction in service revenue starting in FY14.

Total Service Revenue Year to Date

(In millions)

Nine months ended February 28/29



(1) Reflects change to classify certain PEO direct costs as operating expenses rather than a reduction in service revenue during fiscal 2014. Refer to the "Management's Discussion and Analysis" section of Paychex, Inc.'s Form 10-K for the period ended May 31, 2014 for further discussion.

Investment Portfolios Results

	Nine Months Ended		% Change
	February 28, 2018	February 28, 2017	
Average Investment Balances (in billions):			
Funds Held For Clients	\$ 4.0	\$ 4.0	0%
Corporate Investments	\$ 0.9	\$ 0.9	(2%)
Average Rate of Return Earned:			
Funds Held For Clients	1.5%	1.2%	
Corporate Investments	1.3%	1.1%	
Realized Gains, Net (in millions)	\$ 0.1	\$ 0.1	
End of Period:	February 28, 2018	May 31, 2017	
Unrealized (Loss)/Gain, Net (in millions)	\$ (34.9)	\$ 32.0	

Balance Sheet and Cash Flows

(\$ in Millions)

	February 28, 2018	May 31, 2017
Cash & Total Corporate Investments	\$ 826.6	\$ 777.4
Short-term Borrowings	\$ 57.7	\$ -
Return on Equity	45%	42%
	February 28, 2018	February 28, 2017
Fiscal Year-to-Date Period Ended:		
Operating Cash Flow	\$ 988.9	\$ 769.3
Dividends Paid	\$ 538.7	\$ 496.9
Dividend Coverage Ratio ⁽¹⁾	1.3X	1.4X

⁽¹⁾ Ratio is calculated based on free cash flow of \$681.7M and \$694.1M for the fiscal year-to-date ended February 28, 2018 and 2017, respectively.

Fiscal Year 2018 Full Year Outlook⁽¹⁾

	Year-over-Year Growth
Payroll Service Revenue	Approximately 2%
HRS Revenue	13% - 14%
Interest on funds held for clients	20% - 25%
Total Revenue	Approximately 7%
Net Income	Approximately 13%
Adjusted Net Income ⁽²⁾	Approximately 15%
Diluted Earnings per Share	13% - 14%
Adjusted Diluted Earnings per Share ⁽²⁾	15% - 16%
	Anticipated Result
Operating Income, as a Percent of Total Revenue	Approximately 38%
Investment Income, Net	Approximately \$8M
Effective Income Tax Rate	28.5% - 29.0%

(1) Our fiscal 2018 guidance presented was updated to reflect the acquisition of Lessor Group and the impact of Tax Reform.

(2) Adjusted net income and adjusted diluted earnings per share are non-GAAP measures, which exclude the impact of certain discrete tax items and the one-time charge following the termination of certain licensing agreements. Fiscal 2018 growth rates for these non-GAAP measures are based on fiscal 2017 adjusted net income of \$799.0 million and adjusted diluted earnings per share of \$2.20. No assumptions were made in regards to discrete tax items in the last quarter of fiscal 2018 for employee stock-based compensation payments in our fiscal 2018 guidance. Refer to the reconciliation for fiscal 2018 results on the Non-GAAP Financial Measures slides on pages 10-11 of this presentation as well as further discussion in the Management's Discussion and Analysis section of our Annual Report on Form 10-K.

Fiscal Year 2018 Fourth Quarter Outlook

Payroll Service Revenue
HRS Revenue
Total Revenue

Year-over-Year Growth

Approximately 3%
15% - 16%
8% - 9%

Operating Income, as a Percent of Total Revenue
Effective Income Tax Rate

Anticipated Result

35.5% to 36.0%
30.0% - 31.0%

Long-Term Capital Strategy

- Cash deployment
 - Investment for organic growth
 - Strategic acquisitions
 - Return cash to shareholders through dividends and stock repurchase
- In July 2016, the Board of Directors authorized a new stock repurchase plan to purchase up to \$350 million of Paychex common stock, with authorization for this program expiring in May 2019. During the first nine months of fiscal 2018, 1.6 million shares were repurchased for a total of \$94.1 million. \$149.4 million remains available to repurchase shares under the July 2016 authorization.

The logo for PAYCHEX, featuring the word "PAYCHEX" in a bold, blue, sans-serif font. The letter "X" is stylized with a white diagonal slash through it. A registered trademark symbol (®) is located at the top right of the "X".

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