

Paychex, Inc.

Recommendation **HOLD** ★ ★ ★ ★ ★

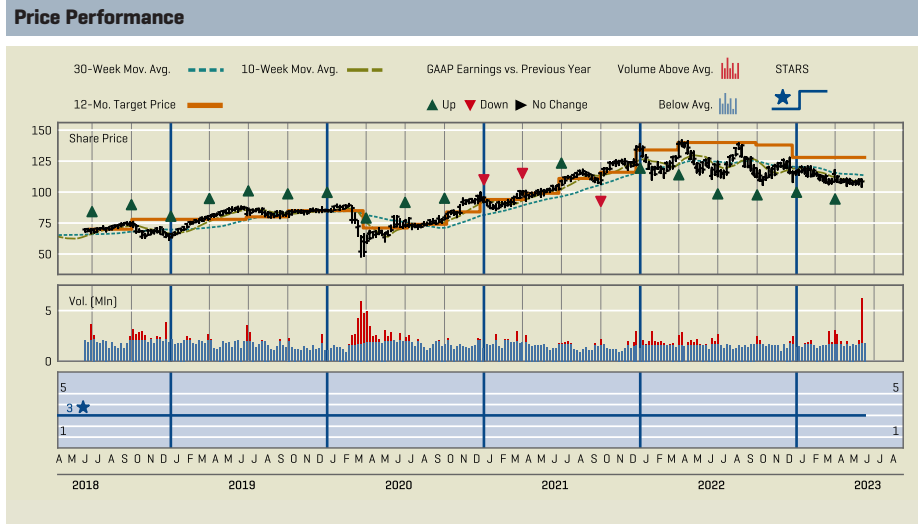
Price USD 111.69 (as of market close Jun 09, 2023) **12-Mo. Target Price** USD 128.00 **Report Currency** USD **Investment Style** Large-Cap Blend

Equity Analyst David Holt

GICS Sector Industrials
Sub-Industry Human Resource and Employment Services

Summary Paychex, Inc. [PAYX] provides HR services, outsourcing, and human capital management [HCM] solutions to small- and medium-sized businesses throughout the U.S.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)							
52-Wk Range	USD 139.47 - 104.09	Oper.EPS2023E	USD 4.30	Market Capitalization[B]	USD 40.26	Beta	0.97
Trailing 12-Month EPS	USD 4.12	Oper.EPS2024E	USD 4.57	Yield [%]	3.19	3-yr Proj. EPS CAGR[%]	7
Trailing 12-Month P/E	27.11	P/E on Oper.EPS2023E	25.97	Dividend Rate/Share	USD 3.56	SPGMI's Quality Ranking	A+
USD 10K Invested 5 Yrs Ago	18,947.0	Common Shares Outstg.[M]	360.00	Trailing 12-Month Dividend	USD 3.26	Institutional Ownership [%]	74.0



Source: CFRA, S&P Global Market Intelligence
Past performance is not an indication of future performance and should not be relied upon as such.
Analysis prepared by **David Holt** on Mar 30, 2023 01:44 AM ET, when the stock traded at **USD 116.03**.

Highlights

- ▶ PAYX entered FY 23 in a position of strength, aided by sales outperformance in Management Solutions and worksite growth in Professional Employer Organizations (PEO). Forward indicators also remain positive but still expect topline growth to normalize, as tailwinds from strong attach rates and pricing in Employer Retention Tax Credit (ERTC) and general employment growth moderate exiting FY 23. We will be monitoring how strong the expected bounce back in Insurance Solutions is, coupled with more details around how strong peak selling season was in future periods – we estimate revenues rise by ~8% in FY 23 and ~6% in FY 24, powered by demand for digital channels [HCM solutions] and ancillary HR services.
- ▶ PAYX continues to balance growth and investments effectively – we project operating margin to widen to 40%-41% in FY 23 and FY 24, from 39.9% in FY 22, as it gets more efficient and expense growth from sales additions abate.
- ▶ Interest on funds (IOF) held for clients will rise to ~\$100M in FY 23 (vs. \$57.7M in FY 22), driven by interest rate increases. For reference, every 25-bp move [up or down] in the federal funds rate results in a \$4M-\$5M net income impact and remains highly accretive to margins.

Investment Rationale/Risk

- ▶ Our rating is Hold – PAYX has held up well in a volatile operating environment, but we suspect the sentiment around a tight labor market and new business formations has been largely worked into estimates following a stretch of positive revisions and multiple expansion following the pandemic. Encouragingly, lower switching activity across SMBs has pushed retention rates to record levels [85%+], but we would watch for any move lower from elevated levels, especially if clients explore more digital-savvy HCM solutions. Going forward, we think more bullish revisions could be partly decided by the rate/pace of recovery in Insurance. We suspect peak selling season went well, with client growth drifting toward the upper-end of 1%-3% ranges.
- ▶ Risks to our rating include any sharp decline in employment trends, unfavorable regulatory outcomes altering the competitive backdrop in key labor markets, and competitive pressures from incumbents (Automatic Data Processing) and emerging peers (Ceridian, Paycom, etc).
- ▶ Our 12-month target of \$128, 28.0x our FY 24 [May] EPS estimate, is near HR services peers and historical avg. – shares remain near fair value and reflect PAYX's industry-best profitability, in our view.

Analyst's Risk Assessment

LOW **MEDIUM** **HIGH**

Our risk assessment considers the company's strong balance sheet and brand recognition in key payroll, human resource, and insurance markets, combined with steady aggregate employment levels and rising interest rates that positively impact interest on funds held for clients. Offsets include the highly crowded payroll solutions space, consisting of traditional payroll processors, and Software-as-a-Service (SaaS) companies, coupled with contractionary (i.e., higher interest rate) environment, which could gradually loosen the labor market, and weigh on new business formations and overall economic growth.

Revenue/Earnings Data

Revenue (Million USD)	1Q	2Q	3Q	4Q	Year
2024	E 1,244	E 1,262	E 1,465	E 1,324	E 5,295
2023	1,206	1,190	1,381	E 1,217	E 4,994
2022	1,083	1,108	1,276	1,144	4,612
2021	932	984	1,112	1,029	4,057
2020	992	991	1,143	915	4,040
2019	863	859	1,070	980	3,772

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2024	E 1.11	E 1.05	E 1.35	E 1.06	E 4.57
2023	1.03	0.99	1.29	E 0.99	E 4.30
2022	0.89	0.91	1.15	0.81	3.77
2021	0.63	0.73	0.96	0.72	3.16
2020	0.71	0.70	0.97	0.61	3.00
2019	0.67	0.65	0.89	0.63	2.84

Fiscal Year ended May 31. EPS Estimates based on CFRA's Operating Earnings; historical earnings are adjusted. In periods where a different currency has been reported, this has been adjusted to match the current quoted currency.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.8900	Apr 28	May 10	May 11	May 25 '23
0.7900	Jan 20	Feb 08	Feb 09	Feb 23 '23
0.7900	Oct 13	Nov 08	Nov 09	Nov 23 '22
0.7900	Jul 14	Aug 10	Aug 11	Aug 25 '22

Dividends have been paid since 1988. Source: Company reports
Past performance is not an indication of future performance and should not be relied as such.
Forecasts are not a reliable indicator of future performance.
Dividends paid in currencies other than the Trading currency have been accordingly converted for display purposes.

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Paychex, Inc.**Business Summary** Mar 30, 2023

CORPORATE OVERVIEW. Paychex [PAYX] is a leading provider of payroll processing, human resources, and benefits services. The company was incorporated in 1979 and began by serving the payroll accounting services of businesses with fewer than 200 employees. As of May 31, 2022, PAYX served over more than 730,000 payroll clients throughout the U.S. and Europe and employed around 16,000 people. The company splits its services revenues into two components: Management Solutions [75% of FY 22 revenues] and Professional Employer Organization and Insurance Solutions [24%]. The remaining ~1% was attributed to Interest on Funds held for Clients.

The Management Solutions business prepares payroll checks; earnings statements; internal accounting records; all federal, state, and local payroll tax returns; and provides collection and remittance of payroll obligations. PAYX's tax filing and payment services provide automatic tax filing and payment, preparation, and submission of tax returns, plus deposit of funds with tax authorities. Employee Payment Services provides a variety of ways for businesses to pay employees. PAYX has shown an ability to expand its client base and increase the use of ancillary services, which we think will lead to consistent growth for its mainstay payroll segment. Additionally, the company also provides clients with a combined package that includes payroll, compliance, benefits, and risk management known as its Administrative Services Organization [ASO] product. PAYX also offers retirement services through a variety of options that include IRAs, 401k, profit sharing, and money purchase plans.

Professional Employer Organization [PEO] and Insurance Solutions provides employee benefits, management, and human resources services. Through licensed subsidiaries [Paychex Business Solutions, HR Outsourcing Holdings, Oasis], the company offers businesses a bundled package that includes payroll, employer compliance, human resource, and employee benefit administration. Paychex also provides insurance through a variety of carriers, allowing employers to expand their employee benefit offerings at an affordable cost. Insurance offerings include property and casualty coverage such as workers' compensation, business-owner policies, commercial auto, and health and benefits coverage, including health, dental, vision, and life.

PAYX leverages its proprietary human capital management [HCM] software-led platform [Paychex Flex] across both services segments. PAYX believes the cloud-based suite of products integrates all services across a flexible platform, aimed at capturing small-to-medium-sized businesses [SMB] demand.

MARKET PROFILE. Competition in the payroll processing and HR services industry is based on service responsiveness, product quality, including ease of use and accessibility of technology, breadth of service offerings, and price. Currently, the worldwide market for HR professional services totals ~\$140 billion, according to market researcher IDC. The company also competes in the HCM services market, which is highly competitive and fragmented. From 2018 to 2023, IDC expects the market to expand at a CAGR of 9.2%, to nearly \$34 billion.

CORPORATE STRATEGY. PAYX operates primarily in the U.S. and its addressable market consists of SMB companies mainly with fewer than 100 employees. Internal databases suggest that there are more than 8 million addressable businesses in the geographic markets that the company currently serves.

While some of PAYX's biggest competitors are active in all business sizes, PAYX believes a key growth opportunity exists in the human capital management [HCM] business, as it captures demand moving down-market to smaller business.

Indicators of health in this market have traditionally been employment rates, since the revenue generated from customers is generally tied to the number of employees, and interest rates, due to interest generated on funds held, before being paid to the taxing authorities or the client employees.

COMPETITIVE LANDSCAPE. We think the barriers to entry are high, as payroll outsourcing requires a sizable infrastructure to process large numbers of employees. Looking ahead, more companies that specialize in business process outsourcing are moving into HR outsourcing and may infringe on the payroll space. Further, acquisitions are common in this sector, as market leaders have been buying smaller companies to expand their offerings. In late February 2018, PAYX completed its acquisition of Lessor Group, for \$162.5 million. In December 2018, PAYX announced it had closed its acquisition of Oasis Outsourcing for total cash consideration of \$1.2 billion. The company also acquired Flock, a provider HCM software, in October 2021, for an undisclosed amount.

FINANCIAL TRENDS. PAYX has made an aggressive move into cloud HCM solutions, which allow for more favorable metrics, especially when moving down-market to smaller organizations, such as higher revenues per employee, more favorable margins, and lower client acquisition costs when compared to traditional payroll outsourcing. In FY 22, total HR Solutions and PEO client worksite employee count improved by 18% to 1,977,000, as aggregate levels further recovered from lows notched during Covid-19. Client retention also remained strong and near record levels at ~85% in FY 22.

Total Services [Management Solutions + PEO and Insurance] revenue growth in FY 22 was up 14% to \$4.6 billion, accelerating from flattish levels in FY 22. Interest on funds held for clients declined modestly by 3% to \$57.7 million in FY 22. Diluted [GAAP] EPS was \$3.84 in FY 22, an improvement of 26.7% compared to the year prior.

PAYX's balance sheet remains strong, allowing for attractive capital returns to shareholders. As of the end of FY 22, PAYX had \$906 million in outstanding debt, while cash and equivalents stood at \$1.22 billion. During FY 22, PAYX repurchased 1.2 million shares for a total of \$145.2 million and paid total dividends to shareholders in the amount of \$999.6 million.

Corporate information**Investor contact**

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Officers**President, CEO & Director**

J. B. Gibson

Chairman

M. Mucci

Senior VP & CFO

E. Rivera

Senior Vice President of Operations & Customer Experience

E. Roaldsen

VP, Chief Legal & Ethics Officer and Corporate Secretary

S. L. Schaeffer

Board Members

B. T. Golisano

K. A. Price

D. J. Flaschen

K. Wilson

J. B. Gibson

M. Mucci

J. G. Doody

P. A. Joseph

J. M. Tucci

T. F. Bonadio

J. M. Velli

T. Payton

Domicile

Delaware

Auditor

PricewaterhouseCoopers LLP

Founded

1971

Employees

16,000

Stockholders

N/A

Paychex, Inc.

Quantitative Evaluations					Expanded Ratio Analysis					
Fair Value Rank	1	2	3	4	5					
	LOWEST HIGHEST									
Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].										
Fair Value Calculation	USD 91.38	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that PAYX is overvalued by USD 20.31 or 18.18%								
Volatility	LOW	AVERAGE	HIGH							
Technical Evaluation	NEUTRAL	Since December, 2022, the technical indicators for PAYX have been NEUTRAL"								
Insider Activity	UNFAVORABLE	NEUTRAL	FAVORABLE							
					Key Growth Rates and Averages					
					Past Growth Rate [%]			1 Year	3 Years	5 Years
					Net Income	26.91	10.42	11.01		
					Sales	13.68	6.92	7.90		
					Ratio Analysis [Annual Avg.]					
					Net Margin [%]	30.20	28.14	28.26		
					% LT Debt to Capitalization	19.98	20.67	17.06		
					Return on Equity [%]	46.17	41.72	42.57		

Company Financials Fiscal year ending May 31										
Per Share Data [USD]	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Tangible Book Value	2.86	2.37	1.84	1.22	3.90	3.45	3.29	3.30	3.30	3.27
Free Cash Flow	3.81	3.18	3.66	3.20	3.13	2.41	2.55	2.18	2.19	1.58
Earnings	3.84	3.03	3.04	2.86	2.75	2.28	2.09	1.85	1.71	1.56
Earnings [Normalized]	3.77	3.04	3.00	2.84	2.55	2.20	2.09	1.85	1.71	1.56
Dividends	2.77	2.52	2.48	2.30	2.06	1.84	1.68	1.52	1.40	1.31
Payout Ratio [%]	71.77	82.80	80.99	79.93	74.41	80.15	80.14	81.76	81.37	83.78
Prices: High	141.92	102.61	90.54	87.75	73.10	63.03	54.78	51.72	45.95	38.66
Prices: Low	99.88	69.96	47.87	61.32	54.20	52.78	41.59	40.10	35.74	29.12
P/E Ratio: High	37.60	33.80	30.20	30.90	28.70	28.60	26.20	28.00	26.90	24.80
P/E Ratio: Low	26.50	23.00	16.00	21.60	21.30	24.00	19.90	21.70	20.90	18.70
Income Statement Analysis [Million USD]										
Revenue	4,612	4,057	4,040	3,772	3,378	3,153	2,952	2,740	2,519	2,326
Operating Income	1,840	1,461	1,460	1,377	1,292	1,254	1,147	1,054	983.00	905.00
Depreciation + Amortization	214.00	221.00	244.00	182.00	138.00	127.00	115.00	107.00	105.00	98.00
Interest Expense	37.00	36.00	39.00	18.00	4.00	2.00	1.00	1.00	1.00	0.00
Pretax Income	1,825	1,434	1,437	1,368	1,300	1,259	1,151	1,060	988.00	911.00
Effective Tax Rate	23.70	23.50	23.60	24.40	23.50	34.40	34.30	36.30	36.50	37.60
Net Income	1,393	1,098	1,098	1,034	994.00	826.00	757.00	675.00	628.00	569.00
Net Income [Normalized]	1,140	895.60	891.10	858.30	812.50	786.90	719.40	662.50	617.60	569.60
Balance Sheet and Other Financial Data [Million USD]										
Cash	1,224	1,032	932.00	713.00	424.00	323.00	352.00	537.00	551.00	506.00
Current Assets	6,582	6,170	5,465	5,678	5,894	5,272	4,864	5,088	5,002	4,833
Total Assets	9,635	9,227	8,551	8,676	7,915	6,834	6,441	6,468	6,370	6,164
Current Liabilities	5,269	4,938	4,427	4,845	5,297	4,725	4,366	4,573	4,439	4,268
Long Term Debt	798.00	797.00	797.00	796.00	N/A	N/A	N/A	N/A	N/A	N/A
Total Capital	3,992	3,874	3,717	3,416	2,357	1,955	1,912	1,786	1,777	1,774
Capital Expenditures	133.00	115.00	127.00	124.00	154.00	94.00	98.00	103.00	84.00	99.00
Cash from Operations	1,506	1,260	1,441	1,272	1,276	960.00	1,018	895.00	881.00	675.00
Current Ratio	1.25	1.25	1.23	1.17	1.11	1.12	1.11	1.11	1.13	1.13
% Long Term Debt of Capitalization	20.00	20.60	21.40	23.30	N/A	N/A	N/A	N/A	N/A	N/A
% Net Income of Revenue	30.20	27.10	27.20	27.40	29.40	26.20	25.60	24.60	24.90	24.50
% Return on Assets	12.19	10.27	10.60	10.37	10.95	11.81	11.10	10.26	9.80	8.95
% Return on Equity	46.20	38.30	40.70	41.60	46.10	42.70	40.90	37.90	35.30	33.70

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Paychex, Inc.

Sector Outlook

CFRA recommends marketweighting the S&P 500 industrials sector. Year to date through May 31, 2023, the S&P 500 Industrials index, which represented 8.2% of the S&P 500 Index, fell 1.7% in price, compared with the 8.9% gain for the S&P 500. In 2022, this sector fell 7.1% versus a 19.4% decline for the S&P 500. There are 18 sub-industry indices in this sector. Aerospace & Defense is the largest, representing 20.3% of the sector's market value, while Data Processing & Outsourced Services is the smallest, accounting for 0.60% of the sector. This sector can be represented by the Industrial Select Sector SPDR ETF [XLI 97 *****].

The cap-weighted average of this sector's component company CFRA STARS [Stock Appreciation Ranking System] is 3.4 out of 5.0, as compared to a cap-weighted average of 3.7 for the S&P 500. In addition, the sector has an average percentage of component issues with favorable investment recommendations. The sub-industries within this sector that currently show the highest average STARS are agricultural & farm machinery, construction & engineering, data processing & outsourced services, diversified support services, environmental & facilities services, and passenger airlines. Those with the lowest average STARS include air freight, cargo ground transportation, industrial conglomerates, rail transportation, and trading companies & distributors.

According to S&P Capital IQ consensus estimates, sector EPS gained 29.2% in 2022 versus the 4.6% gain for the S&P 500, while sector revenues increased 14.6% versus the 11.4% gain recorded by the market on the whole. In addition, 2023 sector EPS are projected to rise 9.5% versus the 0.3% decline seen for the S&P 500, while sector revenues are forecast to be flat versus the 1.9% anticipated gain for the market. For 2024, sector EPS should rise 14.6% compared to the S&P 500's 11.7% increase, with sector revenues gaining 5.0% compared with the market's gain of 4.6%. The sector's price-to-earnings [P/E] ratio is 17.6x, based on consensus next-12-month operating

EPS estimates, versus the S&P 500's forward P/E of 18.8x. S&P Capital IQ also reports that the consensus long-term EPS growth estimate for this sector is 11.5% versus the S&P 500's 12.4%, giving the sector a P/E-to-projected EPS growth rate [PEG] ratio of 1.5x, as compared with the broader market's PEG of 1.5x. This sector pays a dividend yield of 1.9%, versus the yield of 1.7% for the S&P 500.

Finally, the technical outlook for this sector index is positive, based on its trailing 40-week relative strength.

/ Sam Stovall

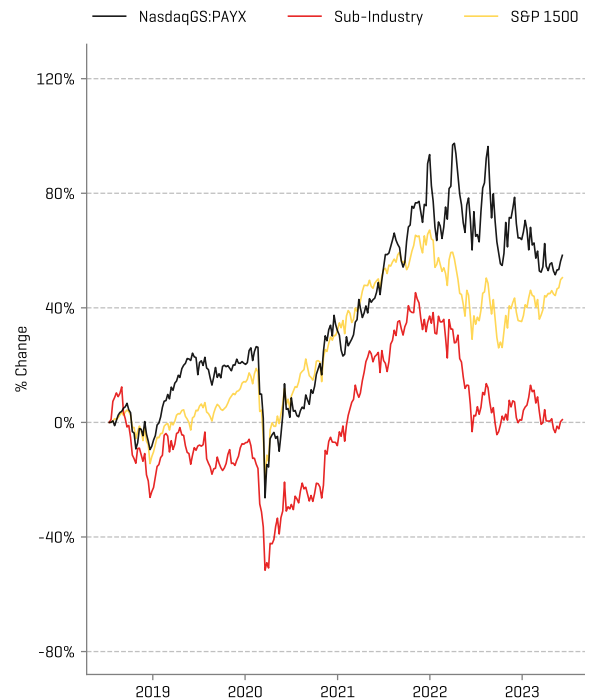
Industry Performance

GICS Sector: Industrials

Sub-Industry: Human Resource and Employment Services

Based on S&P 1500 Indexes

Five-Year market price performance through Jun 10, 2023



NOTE: A sector chart appears when the sub-industry does not have sufficient historical index data.

All Sector & Sub-Industry information is based on the Global Industry Classification Standard [GICS].

Past performance is not an indication of future performance and should not be relied upon as such.

Source: CFRA, S&P Global Market Intelligence

Sub-Industry: Human Resource and Employment Services Peer Group*: Human Resource and Employment Services

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. [M]	30-Day Price Chg. [%]	1-Year Price Chg. [%]	P/E Ratio	Fair Value Calc.	Yield [%]	Return on Equity [%]	LTD to Cap [%]
Paychex, Inc.	PAYX	NasdaqGS	USD	110.96	40,001.0	3.5	-11.7	27.0	91.38	3.2	45.0	18.7
ASGN Incorporated	ASGN	NYSE	USD	72.71	3,588.0	13.4	-24.6	15.0	N/A	N/A	13.1	34.3
Alight, Inc.	ALIT	NYSE	USD	8.99	4,470.0	5.6	6.0	NM	N/A	N/A	-2.7	35.1
Ceridian HCM Holding Inc.	CDAY	NYSE	USD	64.25	10,086.0	11.1	12.9	68.0	N/A	N/A	-1.7	35.0
Insperty, Inc.	NSP	NYSE	USD	125.65	4,802.0	9.5	29.7	24.0	N/A	1.8	243.8	66.6
ManpowerGroup Inc.	MAN	NYSE	USD	76.62	3,864.0	8.9	-13.8	11.0	N/A	3.7	14.2	25.0
Paycom Software, Inc.	PAYC	NYSE	USD	305.01	17,652.0	13.5	-2.2	45.0	303.89	0.5	26.4	2.1
Paycor HCM, Inc.	PYCR	NasdaqGS	USD	23.99	4,235.0	6.7	-9.6	NM	N/A	N/A	-6.8	N/A
Paylocity Holding Corporation	PCTY	NasdaqGS	USD	185.60	10,359.0	9.4	0.6	40.0	129.31	N/A	17.8	N/A
Robert Half International Inc.	RHI	NYSE	USD	72.89	7,727.0	9.0	-20.0	13.0	111.61	2.6	40.1	N/A
TriNet Group, Inc.	TNET	NYSE	USD	97.32	5,782.0	7.6	23.1	18.0	N/A	N/A	44.7	29.7

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA-Not Available; NM-Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Paychex, Inc.**Analyst Research Notes and other Company News****March 29, 2023**

03:46 PM ET... CFRA Keeps Hold Opinion on Shares of Paychex, Inc. [PAYX 116.33***]:

PAYX printed FQ3 [Feb-Q] results today that featured quarterly beats and boosted diluted EPS growth to 13%-14% [from 12%-14%] for FY 23. The company also provided a preliminary snapshot for FY 24 that assumes revenue growth will land in the 6%-7% range, coupled with 25 to 50 bps of operating margin expansion -- a key driver of today's share price outperformance. We will be monitoring the planned improvement in PEO Insurance and step-down in pays-per-control (likely in H2) to develop a level of confidence of how achievable FY 24 targets are. FQ3 revenues came in at \$1.38B [+8% Y/Y], edging out consensus by \$32M, as higher attach rates from Employer Retention Tax Credit [ERTC] services added one point of growth and complemented solid performance in Management Solutions [+7% Y/Y]. Diluted EPS also came in at \$1.29, topping consensus by \$0.05. We keep our target of \$128, 28x our FY 24 EPS estimate, aligned with payroll peers. We also lift our FY 23 EPS estimate by \$0.05 to \$4.30 and FY 24's by \$0.08 to \$4.57. / David Holt

December 22, 2022

02:21 PM ET... CFRA Keeps Hold Opinion on Shares of Paychex, Inc. [PAYX 110.07***]:

PAYX printed FQ2 [Nov-Q] results this morning that featured quarterly beats and revised FY 23 growth targets for revenues to ~8% [from 7%-8%] and diluted EPS to 12%-14% [from 11%-12%]. However, assumptions around Professional Employer Organization [PEO] growth were revised downward to 5%-7% [from 9%-10%] due to lower attach rates from health insurance, primarily being influenced by Florida; we suspect changes in PEO [i.e., attach rates in health] and where new sales come in [usually ranging from 1%-3%] during peak selling season will be key swing factors for estimate upside [downside] in FY 23 and FY 24. FQ2 revenues came in at \$1.19B [+7% Y/Y], edging out consensus of \$1.18B, led by Management Solutions [+8% Y/Y], and a boost from Employer Retention Tax Credit [ERTC] services; EPS also came in at \$0.99, clearing consensus by \$0.03. We trim our target to \$128 [down \$10], 28.5x our FY 24 [May] EPS view, aligned with payroll peers. We adjust our FY 23 EPS view to \$4.25 from \$4.21 and keep FY 24's EPS at \$4.49. / David Holt

September 28, 2022

01:32 PM ET... CFRA Keeps Hold Opinion on Shares of Paychex, Inc. [PAYX 116.06***]:

PAYX printed solid FQ1 [Aug-Q] results and boosted adj-EPS growth targets to 11%-12% [from 9%-10%] for FY 23. FQ1 revenues were \$1.21B [+11% Y/Y], compared to the \$1.17B consensus, led by Management Solutions [+12% Y/Y], and adj-EPS also came in at \$1.03, clearing estimates by \$0.06, aided by a lower tax rate [22.9% vs. 24.5% expected] from discrete benefits. We suspect today's more subdued price action is attributed to cautious assumptions around Professional Employer Organizations [PEO], which pushes growth toward the lower end of its maintained range of 8%-10% for FY 23, coupled with added investments that remain a drag on operating margin into FQ2 [-38% vs. 39.5% expected]. Going forward, we will be monitoring progress related to peak selling season and any potential upside related to interest on funds [IOF]. We trim our target by \$2 to \$138, 32.8x our FY 23 [May] EPS estimate, roughly aligned with payroll peers. We also lift our FY 23 EPS estimate to \$4.21 from \$4.10 and FY 24's EPS to \$4.49 from \$4.42. / David Holt

June 29, 2022

12:16 PM ET... CFRA Keeps Hold Opinion on Shares of Paychex, Inc. [PAYX 113.86***]:

PAYX delivered FQ4 [May-Q] beats and FY 23 targets that mostly met estimates, with an expected increase in revenue and adj-EPS of 7%-8% and 9%-10%, respectively. FQ4 revenues were \$1.14B [+11% Y/Y], compared to the \$1.11B expectations, as client growth and strong sales performance in Management Solutions [+12% Y/Y] drove the beat. Adj-EPS came in at \$0.81, edging out expectations by \$0.02. Current assumptions call for a \$30M rise in interest on funds [IOF], or nearly all the expected operating margin expansion expected in FY 23 [i.e., 50 bps] -- we will be monitoring any potential levers that PAYX pulls to drive incremental profitability, especially if the macro backdrop gets increasingly murky and prompts lower worksite employee growth heading into the back half of FY 23. Our price target of \$140 values shares at 34.1x our FY 23 [May] EPS estimate, roughly in line with payroll peers, but above five-year historical averages. We also raise our FY 23 EPS estimate to \$4.10 [from \$3.95] and set FY 24's at \$4.42. / David Holt

March 30, 2022

12:19 PM ET... CFRA Keeps Hold Recommendation on Shares of Paychex, Inc. [PAYX 136.01***]:

PAYX printed solid FQ3 [Feb-Q] results that featured upped FY 22 targets for revenues to 12%-13% [vs. 10%-11%] and adj-EPS growth to 22.5%-23% [vs. 18%-20%]. Revenues were \$1.28B [+15% Y/Y], compared to the \$1.22B expectations, and FQ3 EPS came in at \$1.15, above expectations by \$0.10, led by an operating margin beat [44.1% vs. 42.2%]. Strong sales performance continues to translate into a broad-based move higher in Management Solutions [+13% Y/Y] and Professional Employer Organization [+21% Y/Y]. PAYX also previewed FY 23 targets for full-year revenue growth of 7% and ~50-bps of operating margin expansion, the likely culprit of today's gain in share price. Still, a volatile macro environment and uncertainty around frequency of rate hikes [and associated uplift on interest on funds] leave us cautiously optimistic and reflect our Hold rating. Our price target of \$140 [up \$6] values shares at 35.4x our FY 23 [May] EPS estimate. We raise our FY 22 EPS view to \$3.74 [from \$3.61] and FY 23 to \$3.95 [from \$3.83]. / David Holt

December 22, 2021

02:10 PM ET... CFRA Keeps Hold Recommendation on Shares of Paychex, Inc. [PAYX 132.53***]:

PAYX printed strong Nov-Q [FQ2] results this morning [12/22/21], highlighted by raised FY 22 business targets for revenue growth to 10%-11% [vs. 8%] and adj-EPS growth to 18%-20% [vs. 12%-14%]. Revenues were \$1.10B [+13% Y/Y], compared to the \$1.06B consensus, and Nov-Q EPS came in at \$0.91, clearing expectations by \$0.11, driven by a healthy operating margin beat [39.7% vs. 36.7%]. Recent sales outperformance implies PAYX's net client base growth can trend toward the upper-end [or slightly above] of historical averages [1%-3%] if client success extends into peak selling season. While some conservatism is still baked into estimates, we suspect meaningful upside will need to be sourced from down-market activity [i.e., smaller businesses with 0 employees], which could be more susceptible to uncontrollable variables [i.e., Omicron]. Our price target of \$134 [up \$18] values shares at 35.1x our FY 23 [May] EPS estimate. We raise our FY 22 EPS estimate to \$3.61 [from \$3.45] and FY 23 to \$3.83 [from \$3.68]. / David Holt

September 30, 2021

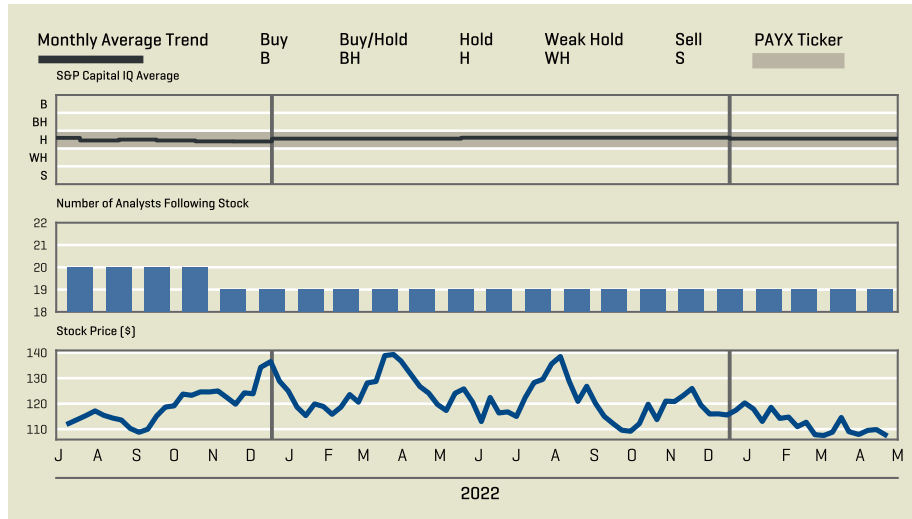
01:43 PM ET... CFRA Keeps Hold Recommendation on Shares of Paychex, Inc. [PAYX 113.75***]:

In the first quarter of PAYX's fiscal 2022-year, revenues and earnings topped expectations, reflecting better employment levels and favorable comparables. Revenues were \$1.08B [+16% Y/Y], topping the \$1.04B consensus. August-Q EPS came in at \$0.89 vs. \$0.63, clearing consensus by \$0.09, aided by a sizable adjusted operating margin beat [40.9% vs 37.8% expected]. PAYX also bumped its FY 22 outlook for revenues to 8% [from 7%] and adj-EPS to 12% to 14% [from 10% to 12%], which was largely attributed to a pick-up in mid-market bookings and should set the company up well for its upcoming selling season, in our opinion. However, during the call, PAYX also cited business activity softened in August when compared to June and July, which we suspect could cap potential upside in pays-per-control metrics for future periods, given its large exposure to small to midsized business [i.e., restaurants and hospitality]. Our target of \$116 [up \$5] values shares at 33.6x our FY 22 [May] EPS estimate of \$3.45 [up from \$3.37]. / David Holt

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

Paychex, Inc.

Analysts Recommendations



	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	2	10	2	2
Buy/Hold	2	10	2	1
Hold	12	60	11	13
Weak hold	3	15	3	2
Sell	1	5	1	1
No Opinion	0	0	0	0
Total	20	100	19	19

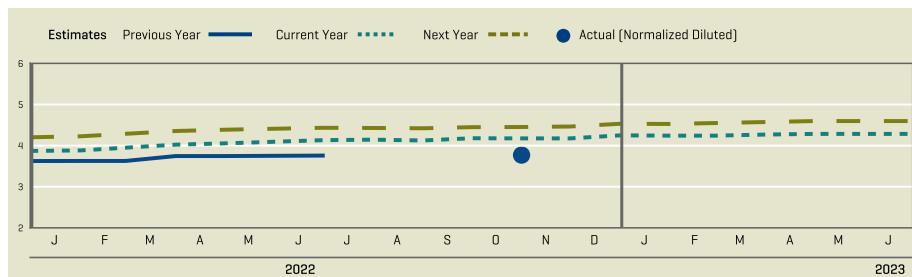
Wall Street Consensus Opinion

Hold

Wall Street Consensus vs. Performance

For fiscal year 2023, analysts estimate that PAYX will earn USD 4.28. For fiscal year 2024, analysts estimate that PAYX's earnings per share will grow by 7.33% to USD 4.60.

Wall Street Consensus Estimates



Fiscal Year	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2024	4.60	4.81	4.35	18	24.13
2023	4.28	4.46	4.21	18	25.90
2024 vs. 2023	▲ 7%	▲ 8%	▲ 3%	N/A%	▼ -7%
Q4'24	1.05	1.16	0.97	10	105.26
Q4'23	0.97	1.02	0.94	15	114.49
Q4'24 vs. Q4'23	▲ 9%	▲ 14%	▲ 3%	▼ -33%	▼ -8%

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Paychex, Inc.

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs [American Depositary Receipts], and ADSs [American Depositary Shares] based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark [e.g., a regional index [MSCI AC Asia Pacific Index, MSCI AC Europe Index or S&P 500® Index]], based on a 12-month time horizon. STARS was designed to help investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

[also known as **S&P Capital IQ Earnings & Dividend Rankings**] - Growth and S&P Capital IQ Earnings & Dividend Rankings stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A	Above	C	Lowest
B+	Average	D	In Reorganization
NC	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus [average] EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

Abbreviations Used in Equity Research Reports

CAGR	- Compound Annual Growth Rate
CAPEX	- Capital Expenditures
CY	- Calendar Year
DCF	- Discounted Cash Flow
DDM	- Dividend Discount Model
EBIT	- Earnings Before Interest and Taxes
EBITDA	- Earnings Before Interest, Taxes, Depreciation & Amortization
EPS	- Earnings Per Share
EV	- Enterprise Value
FCF	- Free Cash Flow
FFO	- Funds From Operations
FY	- Fiscal Year
P/E	- Price/Earnings
P/NAV	- Price to Net Asset Value
PEG Ratio	- P/E-to-Growth Ratio
PV	- Present Value
R&D	- Research & Development
ROCE	- Return on Capital Employed
ROE	- Return on Equity
ROI	- Return on Investment
ROIC	- Return on Invested Capital
ROA	- Return on Assets
SG&A	- Selling, General & Administrative Expenses
SOTP	- Sum-of-The-Parts
WACC	- Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months.

★★★★★ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months.

★★★★★ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months.

★★★★★ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the MSCI AC Europe Index and the MSCI AC Asia Pacific Index, respectively.

Paychex, Inc.

Disclosures

Stocks are ranked in accordance with the following ranking methodologies:

STARS Stock Reports:

Qualitative STARS rankings are determined and assigned by equity analysts. For reports containing STARS rankings refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative rankings are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative rankings refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of March 31, 2023

Ranking	North America	Europe	Asia	Global
Buy	38.0%	36.5%	50.6%	40.3%
Hold	52.7%	49.8%	39.4%	49.4%
Sell	9.4%	13.6%	10.0%	10.4%
Total	100.0%	100.0%	100.0%	100.0%

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Paychex, Inc.

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