



# Stock Selection Guide®

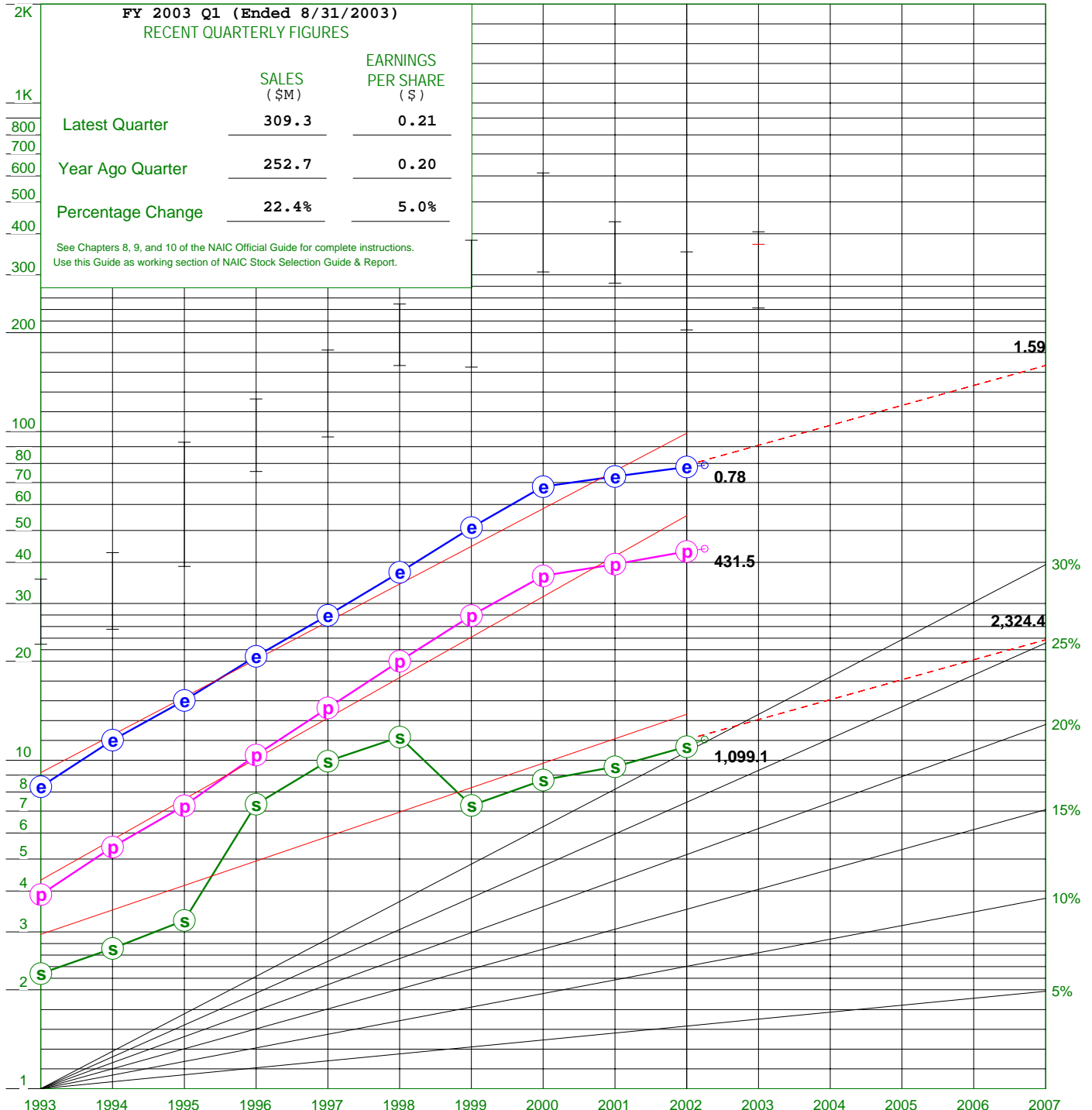
The most widely used aid to good investment judgment

Company PAYCHEX, INC. Date 12/22/03  
 Prepared by MG Data taken from NAIC Data  
 Where traded NASDAQ Major product/service Data Proces

CAPITALIZATION --- Outstanding Amounts		Reference	
Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	377.0	11.8	62.9
Debt (\$M)	0.0	% to Tot.Cap.	0.0
		% Potential Dil.	None

## 1 VISUAL ANALYSIS of Sales, Earnings and Price

PAYX



(1) Historical Sales Growth 18.7 % (3) Historical Earnings Per Share Growth 30.2 %  
 (2) Estimated Future Sales Growth 15.0 % (4) Estimated Future Earnings Per Share Growth 15.0 %

## 2 EVALUATING MANAGEMENT

Company **PAYCHEX, INC.** (PAYX)

12/22/03

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
<b>A</b> % Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	17.4	20.4	22.3	14.1	14.5	17.0	37.8	41.8	41.4	39.3	35.5	UP	
<b>B</b> % Earned on Equity (E/S ÷ Book Value)	26.0	28.1	27.7	30.1	30.7	31.6	33.6	33.5	29.7	27.3	31.2		DOWN

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

Year	PRESENT PRICE		37.150	HIGH THIS YEAR		40.540	LOW THIS YEAR		23.760
	A	B	C	D		E	F	G	H
	HIGH	LOW	Earnings Per Share	Price Earnings Ratio			Dividend Per Share	% Payout F ÷ C X 100	% High Yield F ÷ B X 100
1 1998	24.5	15.9	0.37	65.7	42.6	0.147	39.4	0.9	
2 1999	38.3	15.7	0.51	75.1	30.8	0.220	43.1	1.4	
3 2000	61.3	30.6	0.68	90.1	45.0	0.330	48.5	1.1	
4 2001	43.5	28.3	0.73	59.6	38.8	0.420	57.5	1.5	
5 2002	35.2	20.4	0.78	45.1	26.2	0.440	56.4	2.2	
6 TOTAL		110.9		335.6	183.4		244.9		
7 AVERAGE		22.2		67.1	36.7		49.0		
8 AVERAGE PRICE EARNINGS RATIO			51.9	9 CURRENT PRICE EARNINGS RATIO				47.0	

## 4 Proj. P/E [40.89] Based on Next 4 qtr. EPS [0.91] Current P/E Based on Last 4 qtr. EPS [0.79] EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E  $\frac{67.1}{(3D7 \text{ as adj.})}$  X Estimate High Earnings/Share  $1.59$  = Forecast High Price \$  $47.7$  (4A1)

### B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E  $\frac{36.7}{(3E7 \text{ as adj.})}$  X Estimated Low Earnings/Share  $0.78$  = \$  $9.3$

(b) Avg. Low Price of Last 5 Years =  $22.2$  (3B7)

(c) Recent Severe Market Low Price =  $20.4$

(d) Price Dividend Will Support  $\frac{\text{Present Divd. } 0.480}{\text{High Yield (H) } 0.022}$  =  $22.3$

Selected Estimate Low Price = \$  $22.2$  (4B1)

### C ZONING

$\frac{47.7}{(4A1)}$  High Forecast Price Minus  $\frac{22.2}{(4B1)}$  Low Forecast Price Equals  $\frac{25.5}{(C)}$  Range. 1/3 of Range =  $\frac{6.4}{(4CD)}$

(4C2) Lower 1/3 =  $\frac{22.2}{(4B1)}$  to  $\frac{28.6}{(Buy)}$  Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 =  $\frac{28.6}{(4B1)}$  to  $\frac{41.3}{(Maybe)}$

(4C4) Upper 1/3 =  $\frac{41.3}{(4B1)}$  to  $\frac{47.7}{(4A1) (Sell)}$

Present Market Price of  $37.150$  is in the **Hold** (4C5) Range

### D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1)  $47.7$  Minus Present Price  $37.150$  =  $\frac{10.6}{15.0}$  =  $\frac{0.7}{(4D)}$  To 1

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1)  $47.7$  =  $(\frac{1.284}{(4E)}) \times 100 = (\frac{128.4}{(4E)}) - 100 = \frac{28.4}{(4E)}$  % Appreciation

Relative Value: 90.6% Proj. Relative Value: 78.8%

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A Present Full Year's Dividend \$**  $0.480$   
 Present Price of Stock \$  $37.150$  =  $\frac{0.013}{(5A)} \times 100 = \frac{1.3}{(5A)}$  Present Yield or % Returned on Purchase Price

**B AVERAGE YIELD OVER NEXT 5 YEARS**  
 Avg. Earnings Per Share Next 5 Years  $1.20$  X Avg. % Payout (3G7)  $49.0$  =  $\frac{58.8}{(5B)}$  =  $1.6$  %

### C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

	5 Year Appreciation Potential (4E)		P.A.R.	Tot. Ret.
	$28.4$			
Average Yield (5B)	$5.7$ %		$2.3$ %	$1.6$ %
Average Total Annual Return Over the Next 5 Years (5C)	$1.6$ %		$-2.1$ %	$5.1$ %
	$7.3$ %		$0.2$ %	$6.8$ %

Trailing 4 quarters

# PERT Worksheet-A Graph

Company PAYCHEX, INC. (PAYX)

