UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 31, 2024
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from __________to __________

Commission file number 0-11330

Paychex, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**16-1124166**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
911 Panorama Trail South **Rochester, NY**	**14625-2396**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(585) 385-6666**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**PAYX**	**Nasdaq Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of August 31, 2024, 359,898,021 shares of the registrant’s common stock, $.01 par value, were outstanding.

PAYCHEX, INC.
Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
In millions, except per share amounts

	For the three months ended	
	August 31, 2024	**August 31, 2023**
Revenue:		
Management Solutions	$ 961.7	$ 955.5
PEO and Insurance Solutions	319.3	297.8
Total service revenue	**1,281.0**	**1,253.3**
Interest on funds held for clients	37.5	32.7
Total revenue	**1,318.5**	**1,286.0**
Expenses:		
Cost of service revenue	380.0	360.2
Selling, general and administrative expenses	391.8	389.5
Total expenses	**771.8**	**749.7**
Operating income	**546.7**	**536.3**
Other income, net	10.4	12.8
Income before income taxes	**557.1**	**549.1**
Income taxes	129.7	129.9
Net income	**$ 427.4**	**$ 419.2**
Other comprehensive income/(loss), net of tax	64.8	(23.2)
Comprehensive income	**$ 492.2**	**$ 396.0**
Basic earnings per share	**$ 1.19**	**$ 1.16**
Diluted earnings per share	**$ 1.18**	**$ 1.16**
Weighted-average common shares outstanding	**360.1**	**360.8**
Weighted-average common shares outstanding, assuming dilution	**361.9**	**362.8**

See Notes to Consolidated Financial Statements.

Table of Contents

PAYCHEX, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
In millions, except per share amounts

	August 31, 2024	May 31, 2024
Assets		
Cash and cash equivalents	$ 1,459.6	$ 1,468.9
Restricted cash	54.9	47.8
Corporate investments	38.4	33.9
Interest receivable	22.9	23.3
Accounts receivable, net of allowance for credit losses	1,126.2	1,059.6
PEO unbilled receivables, net of advance collections	553.8	542.4
Prepaid income taxes	—	47.5
Prepaid expenses and other current assets	342.4	321.9
Current assets before funds held for clients	**3,598.2**	**3,545.3**
Funds held for clients	3,763.2	3,706.2
Total current assets	**7,361.4**	**7,251.5**
Long-term corporate investments	—	3.7
Property and equipment, net of accumulated depreciation	417.4	411.7
Operating lease right-of-use assets, net of accumulated amortization	49.5	46.9
Intangible assets, net of accumulated amortization	187.7	194.5
Goodwill	1,884.9	1,882.7
Long-term deferred costs	471.0	477.1
Other long-term assets	117.2	115.0
Total assets	**$ 10,489.1**	**$ 10,383.1**
Liabilities		
Accounts payable	$ 80.9	$ 104.3
Accrued corporate compensation and related items	120.8	135.0
Accrued worksite employee compensation and related items	677.2	662.4
Short-term borrowings	18.9	18.7
Accrued income taxes	73.5	—
Deferred revenue	50.3	50.2
Other current liabilities	478.7	469.8
Current liabilities before client fund obligations	**1,500.3**	**1,440.4**
Client fund obligations	3,843.6	3,868.7
Total current liabilities	**5,343.9**	**5,309.1**
Accrued income taxes	108.6	102.6
Deferred income taxes	95.1	86.0
Long-term borrowings, net of debt issuance costs	798.7	798.6
Operating lease liabilities	49.4	49.0
Other long-term liabilities	243.0	236.8
Total liabilities	**6,638.7**	**6,582.1**
Commitments and contingencies — Note I		
Stockholders' equity		
Common stock, $0.01 par value; Authorized: 600.0 shares; Issued and outstanding: 359.9 shares as of August 31, 2024 and 360.1 shares as of May 31, 2024	3.6	3.6
Additional paid-in capital	1,761.7	1,729.5
Retained earnings	2,165.4	2,213.0
Accumulated other comprehensive loss	(80.3)	(145.1)
Total stockholders' equity	**3,850.4**	**3,801.0**
Total liabilities and stockholders' equity	**$ 10,489.1**	**$ 10,383.1**

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
In millions, except per share amounts

	For the three months ended August 31, 2024							
	Common stock				Accumulated other comprehensive loss			
	Shares	Amount	Additional paid-in capital	Retained earnings	Net unrealized loss on AFS securities	Foreign currency translation	Total accumulated comprehensive loss	Total
Balance as of May 31, 2024	**360.1**	**$ 3.6**	**$ 1,729.5**	**$ 2,213.0**	**$ (120.7)**	**$ (24.4)**	**$ (145.1)**	**$ 3,801.0**
Net income	—	—	—	427.4	—	—	—	427.4
Unrealized gains on securities, net of $20.2 million in tax expense	—	—	—	—	61.8	—	61.8	61.8
Reclassification adjustment for realized gains on securities, net of $0.0 million in tax expense (1)	—	—	—	—	(0.0)	—	(0.0)	(0.0)
Cash dividends declared ($0.98 per share)	—	—	—	(352.8)	—	—	—	(352.8)
Repurchases of common shares (2)	(0.8)	(0.0)	(4.0)	(100.0)	—	—	—	(104.0)
Stock-based compensation costs	—	—	16.5	—	—	—	—	16.5
Foreign currency translation adjustment	—	—	—	—	—	3.0	3.0	3.0
Activity related to equity-based plans	0.6	0.0	19.7	(22.2)	—	—	—	(2.5)
Balance as of August 31, 2024	**359.9**	**$ 3.6**	**$ 1,761.7**	**$ 2,165.4**	**$ (58.9)**	**$ (21.4)**	**$ (80.3)**	**$ 3,850.4**

	For the three months ended August 31, 2023							
	Common stock				Accumulated other comprehensive loss			
	Shares	Amount	Additional paid-in capital	Retained earnings	Net unrealized loss on AFS securities	Foreign currency translation	Total accumulated comprehensive loss	Total
Balance as of May 31, 2023	**360.5**	**$ 3.6**	**$ 1,626.4**	**$ 2,023.1**	**$ (130.3)**	**$ (29.6)**	**$ (159.9)**	**$ 3,493.2**
Net income	—	—	—	419.2	—	—	—	419.2
Unrealized losses on securities, net of $7.6 million in tax benefit	—	—	—	—	(23.9)	—	(23.9)	(23.9)
Reclassification adjustment for realized losses on securities, net of $0.0 million in tax benefit (1)	—	—	—	—	0.0	—	0.0	0.0
Cash dividends declared ($0.89 per share)	—	—	—	(321.4)	—	—	—	(321.4)
Repurchases of common shares (2)	—	—	—	—	—	—	—	—
Stock-based compensation costs	—	—	16.0	—	—	—	—	16.0
Foreign currency translation adjustment	—	—	—	—	—	0.7	0.7	0.7
Activity related to equity-based plans	0.7	0.0	24.0	(20.0)	—	—	—	4.0
Balance as of August 31, 2023	**361.2**	**$ 3.6**	**$ 1,666.4**	**$ 2,100.9**	**$ (154.2)**	**$ (28.9)**	**$ (183.1)**	**$ 3,587.8**

(1) Reclassification adjustments out of accumulated other comprehensive loss for realized gains/(losses), net of tax, on the sale of AFS securities are reflected in interest on funds held for clients and other income, net on the Consolidated Statements of Income and Comprehensive Income.

(2) The Company maintains a program to repurchase $400.0 million of its common stock, with authorization expiring May 31, 2027. The Company previously maintained a program to repurchase up to $400.0 million of its common stock, with an authorization that expired on January 31, 2024. The purpose of these programs is to manage common stock dilution.

See Notes to Consolidated Financial Statements.

Table of Contents

PAYCHEX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
In millions

	For the three months ended	
	August 31, 2024	August 31, 2023 [1]
Operating activities		
Net income	$ 427.4	$ 419.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39.0	41.2
Amortization of premiums and discounts on AFS securities, net	(2.8)	(1.4)
Amortization of deferred contract costs	58.5	57.2
Stock-based compensation costs	16.5	16.0
Benefit from deferred income taxes	(11.0)	(3.2)
Provision for credit losses	7.5	4.3
Net realized (gains)/losses on sales of AFS securities	(0.0)	0.0
Changes in operating assets and liabilities:		
Interest receivable	0.4	1.0
Accounts receivable and PEO unbilled receivables, net	(36.4)	72.4
Prepaid expenses and other current assets	26.3	38.1
Accounts payable and other current liabilities	65.6	104.4
Deferred costs	(51.6)	(62.2)
Net change in other long-term assets and liabilities	8.4	6.6
Net change in operating lease right-of-use assets and liabilities	(1.7)	(0.6)
Net cash provided by operating activities	**546.1**	**693.0**
Investing activities		
Purchases of AFS securities	(1,029.7)	(1,923.5)
Proceeds from sales and maturities of AFS securities	1,013.0	2,200.7
Net purchases of short-term accounts receivable	(45.1)	(37.2)
Purchases of property and equipment	(35.6)	(38.7)
Acquisition of businesses, net of cash acquired	—	(208.0)
Purchases of other assets, net	(12.6)	(6.5)
Net cash used in investing activities	**(110.0)**	**(13.2)**
Financing activities		
Net change in client fund obligations	(25.1)	1,383.5
Net change in short-term borrowings	—	3.8
Dividends paid	(353.4)	(321.9)
Repurchases of common shares	(104.0)	—
Activity related to equity-based plans	(2.5)	4.0
Net cash (used in)/provided by financing activities	**(485.0)**	**1,069.4**
Net change in cash, restricted cash, and equivalents	**(48.9)**	**1,749.2**
Cash, restricted cash, and equivalents, beginning of period	1,897.0	2,134.9
Cash, restricted cash, and equivalents, end of period	**$ 1,848.1**	**$ 3,884.1**
Reconciliation of cash, restricted cash, and equivalents		
Cash and cash equivalents	$ 1,459.6	$ 1,645.9
Restricted cash	54.9	49.8
Restricted cash and restricted cash equivalents included in funds held for clients	333.6	2,188.4
Total cash, restricted cash, and equivalents	**$ 1,848.1**	**$ 3,884.1**

[1] The consolidated statement of cash flows for the three months ended August 31, 2023 includes revisions to previously reported amounts related to the presentations of cash flows associated with short-term receivable purchased from the Company's clients under non-recourse arrangements, net of funding reserves. See Note A for further discussion on the revision.

See Notes to Consolidated Financial Statements.

PAYCHEX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
August 31, 2024

Note A: Description of Business, Basis of Presentation, and Significant Accounting Policies

Description of business: Paychex, Inc. and its wholly owned subsidiaries (collectively, the "Company" or "Paychex") is a leading provider of integrated human capital management ("HCM") solutions for human resources ("HR"), payroll, benefits, and insurance for small- to medium-sized businesses in the United States ("U.S.") and parts of Europe. The Company also has operations in India. Paychex, a Delaware corporation formed in 1979, reports as one segment.

Basis of presentation: The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q ("Form 10-Q") and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statement presentation. The consolidated financial statements include the consolidated accounts of the Company with all intercompany transactions eliminated. Certain disclosures are reported as zero balances due to rounding. In the opinion of management, the information furnished herein reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair statement of the results for the interim period. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related Notes to Consolidated Financial Statements presented in the Company's Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended May 31, 2024 ("fiscal 2024"). Operating results and cash flows for the three months ended August 31, 2024 are not necessarily indicative of the results that may be expected for other interim periods or for the fiscal year ending May 31, 2025 ("fiscal 2025").

Reclassifications: Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported consolidated earnings.

Revision to previously issued financial statements: 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 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. Management concluded that this revision was not material to the financial statements of any previously filed annual or interim periods. This revision is reflected in this Form 10-Q and will be reflected in future filings.

Restricted cash and restricted cash equivalents: Restricted cash and restricted cash equivalents are recorded at fair value, and consist of cash and cash equivalents, primarily money market securities, included in funds held for clients and cash that is restricted in use to secure commitments for certain workers' compensation insurance policies.

Accounts receivable, net of allowance for credit losses: Accounts receivable balances are shown on the Consolidated Balance Sheets net of the allowance for credit losses of $25.0 million and $21.3 million as of August 31, 2024 and May 31, 2024, respectively. These balances include trade receivables for services provided to clients and receivables purchased from the Company's clients under non-recourse arrangements. Trade receivables were $162.5 million and $141.3 million as of August 31, 2024 and May 31, 2024, respectively. Purchased receivables, at gross, were $988.7 million and $939.6 million as of August 31, 2024 and May 31, 2024, respectively.

The Company is exposed to credit losses through the sale of services, payment of client obligations, and collection of purchased receivables. To mitigate this credit risk, the Company has multiple programs in place to assess and continuously monitor each client's ability to pay for these solutions and support. Credit monitoring programs include, but are not limited to, new client credit reviews, establishing appropriate credit limits, monitoring of credit distressed clients, and early electronic wire and collection procedures. The Company also considers contract terms and conditions, client business type or strategy and may require collateralized asset support or prepayment to mitigate credit risk.

Accounts receivable are written off and charged against the allowance for credit losses when the Company has exhausted all collection efforts without success. The Company estimates its credit losses based on historical loss activity adjusted for current economic conditions and reasonable and supportable forecast factors, when applicable. The provision for the allowance for credit losses and accounts written off were not material for the three months ended August 31, 2024 and August 31, 2023. No single client had a material impact on total accounts receivable as of August 31, 2024 and May 31, 2024 or service revenue and results of operations for the three months ended August 31, 2024 and August 31, 2023.

Professional Employer Organization ("PEO") unbilled receivables, net of advance collections: PEO unbilled receivables, including estimated revenues, offset by advance collections from clients, are recorded as PEO unbilled receivables, net of advance collections on the Company's Consolidated Balance Sheets. As of August 31, 2024 and May 31, 2024, advance collections were $1.7 million and $0.7 million, respectively.

PEO insurance reserves: As part of its PEO solution, the Company offers workers' compensation insurance and health insurance coverage to clients for the benefit of client employees. Workers' compensation insurance is primarily provided under fully insured high deductible workers' compensation insurance policies. Workers' compensation insurance reserves are established to provide for the estimated costs of paying claims up to per occurrence liability limits. These reserves include estimates of certain expenses associated with processing and settling claims. For fiscal 2025 and 2024, the Company has an aggregate maximum liability of $1.0 million for claims exceeding $1.0 million, and once met, the maximum individual claims liability is $1.0 million.

With respect to PEO health insurance coverage, the Company offers various health insurance plans that take the form of either fully insured guaranteed cost plans or fully insured insurance arrangements where the Company retains risk. A reserve for insurance arrangements where the Company retains risk is established to provide for the payment of claims in accordance with the Company's service contract with the carrier. The claims reserve includes estimates for reported losses, plus amounts for those claims incurred but not reported, and estimates of certain expenses associated with processing and settling the claims. The Company's maximum individual claims liability is $0.5 million under its policies covering both fiscal 2025 and fiscal 2024.

In establishing the PEO workers' compensation insurance reserves, the Company uses an independent actuarial estimate of undiscounted future cash payments that would be made to settle claims. Estimating the ultimate cost of future claims is an uncertain and complex process based upon historical loss experience and accepted actuarial methods and assumptions. These reserves are subject to change due to multiple factors, including economic trends, changes in legal liability law, and damage awards, all of which could materially impact the reserves as reported in the consolidated financial statements. Accordingly, final claim settlements may vary from the present estimates, particularly with workers' compensation insurance where those payments may not occur until well into the future. The Company regularly reviews the adequacy of its estimated insurance reserves. Adjustments to previously established reserves are reflected in the results of operations for the period in which the adjustment is identified. Such adjustments could be significant, reflecting any combination of new and adverse or favorable trends.

Stock-based compensation costs: The Company has issued stock-based awards to employees and members of its Board of Directors (the "Board") consisting of stock options, restricted stock units, and restricted stock awards. The Company accounts for all stock-based awards to employees and members of the Board as compensation costs in the consolidated financial statements based on their fair values measured as of the date of grant. These costs are recognized over the requisite service period. Stock-based compensation costs recognized were $16.5 million for the three months ended August 31, 2024, compared with $16.0 million for the three months ended August 31, 2023.

Recently adopted accounting pronouncements: There were no recently adopted accounting pronouncements during the three months ended August 31, 2024 that had a material impact on the Company's consolidated financial statements or disclosures.

Recently issued accounting pronouncements: In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." This ASU expands public entities' segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment's profit or loss and assets. The requirements are effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, and are required to be applied retrospectively. This ASU is applicable to the Company's Annual Report on Form 10-K for the fiscal year ending May 31, 2025, and subsequent interim periods, with early application permitted. The requirements of this ASU are disclosure-related and will not have an impact on the Company's financial condition, results of operations, or cash flows. The Company is currently evaluating the impact of adopting this ASU on its reportable segment disclosures.

In December 2023, the FASB issued ASU No. 2023-09 "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This ASU updates income tax disclosure requirements primarily by requiring specific categories and greater disaggregation within the rate reconciliation and disaggregation of income taxes paid by jurisdiction. This ASU is effective for annual periods beginning after December 15, 2024, and is applicable to the Company's fiscal year beginning June 1, 2025, with early application permitted. The transition method is prospective with the retrospective method permitted. The requirements of this ASU are disclosure-related and will not have an impact on the Company’s financial condition, results of operations, or cash flows. The Company is currently evaluating the impact of adopting this ASU on its income tax disclosures.

Note B: Service Revenue

Service revenue is primarily attributable to fees for providing services to the Company’s clients and is recognized when control of the contracted services is transferred to its clients, in an amount that reflects the consideration it expects to receive in exchange for such services. Insurance Solutions revenue is commissions earned on premiums collected and remitted to insurance carriers. The Company’s contracts generally do not contain specified contract periods and may be terminated by either party with a 30-day notice of termination. Sales and other applicable non-payroll related taxes are excluded from service revenue.

Based upon similar operational and economic characteristics, the Company’s service revenue is disaggregated by Management Solutions and PEO and Insurance Solutions as reported in the Company’s Consolidated Statements of Income and Comprehensive Income. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors.

Management Solutions Revenue

Management Solutions revenue is primarily derived from the Company’s integrated HCM services and HR solutions. Clients can select services on an á la carte basis or as part of various product bundles. The Company’s offerings often leverage the information gathered in its base payroll processing service, allowing it to provide comprehensive services covering the HCM spectrum. Management Solutions revenue is generally recognized over time as services are performed and the client simultaneously receives and controls the benefits from these services.

Revenue earned from delivery service for the distribution of certain client payroll checks and reports is also included in Management Solutions revenue in the Company’s Consolidated Statements of Income and Comprehensive Income. Delivery service revenue is recognized at a point in time following the delivery of payroll checks, reports, quarter-end packages, and tax returns to the Company’s clients.

PEO and Insurance Solutions Revenue

PEO solutions are sold through the Company’s registered and licensed subsidiaries and offer businesses HCM and HR solutions. The Company serves as a co-employer of its clients’ employees, offers health insurance coverage to client employees, and assumes the risks and rewards of workers’ compensation insurance and certain health insurance offerings. PEO Solutions revenue is recognized over time as the services are performed and the client simultaneously receives and controls the benefits from these services. PEO Solutions revenue is reported net of certain pass-through costs billed and incurred, which include payroll wages, payroll taxes, including federal and state unemployment insurance, and health insurance premiums on guaranteed cost benefit plans. For workers’ compensation and health insurance plans where the Company retains risk, revenues and costs are recorded on a gross basis.

PEO pass-through costs netted within the PEO and Insurance Solutions revenue were as follows:

	For the three months ended August 31,	
In millions	**2024**	**2023**
Payroll wages and payroll taxes	$ 6,881.6	$ 6,414.6
State unemployment insurance (included in payroll wages and payroll taxes)	$ 23.0	$ 18.6
Guaranteed cost benefit plans	$ 165.8	$ 162.5

Insurance solutions are sold through the Company’s licensed insurance agency, Paychex Insurance Agency, Inc., which provides insurance through a variety of carriers, allowing companies 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, cyber security, and health and benefits coverage, including health, dental, vision, life and disability. Insurance Solutions revenue reflects commissions earned on remitted insurance services premiums billed and is recognized over time as services are performed and the client simultaneously receives and controls the benefits from these services.

Contract Balances

The timing of revenue recognition for Management Solutions and PEO and Insurance Solutions is consistent with the invoicing of clients as they both occur during the respective client payroll period for which the services are provided. Therefore, the Company does not recognize a contract asset or liability resulting from the timing of revenue recognition and invoicing.

Payments received for certain of the Company's service offerings for set-up fees are considered a material right. Therefore, the Company defers revenue associated with these performance obligations, which exceed one year, and subsequently recognizes them as future services are provided, over approximately three to four years.

Changes in deferred revenue related to material rights that exceed one year were as follows:

	For the three months ended August 31,	
In millions	**2024**	**2023**
Balance, beginning of period	$ 74.9	$ 62.0
Deferral of revenue	7.6	12.9
Recognition of unearned revenue	(9.1)	(7.9)
Balance, end of period	$ 73.4	$ 67.0

Deferred revenue related to material rights is reported in the deferred revenue and other long-term liabilities line items on the Company's Consolidated Balance Sheets. As of August 31, 2024, the Company expects to recognize deferred revenue related to these material rights for the remainder of fiscal 2025 and subsequent fiscal years as follows:

In millions **Year ending May 31,**	**Estimated recognition of unearned revenue**
2025	$ 25.3
2026	26.4
Thereafter	21.7
Total recognition of unearned revenue	$ 73.4

Assets Recognized from the Costs to Obtain and Fulfill Contracts

The Company recognizes an asset for the incremental costs of obtaining a contract with a client if it is expected that the economic benefit and amortization period will be longer than one year. The Company also recognizes an asset for the costs to fulfill a contract with a client if the costs are specifically identifiable, generate or enhance resources used to satisfy future performance obligations, and are expected to be recovered.

Deferred costs to obtain and fulfill contracts are reported in the prepaid expenses and other current assets and long-term deferred costs line items on the Company's Consolidated Balance Sheets. Amortization expense related to costs to obtain and fulfill a contract are included in cost of service revenue and selling, general and administrative expenses in the Company's Consolidated Statements of Income and Comprehensive Income and recognized over the expected economic benefit period.

The Company regularly reviews its deferred costs for potential impairment and did not recognize an impairment loss during the three months ended August 31, 2024 or August 31, 2023.

Changes in deferred costs to obtain and fulfill contracts were as follows:

Costs to obtain contracts:

	For the three months ended August 31,	
In millions	**2024**	**2023**
Balance, beginning of period	$ 609.4	$ 597.5
Capitalization of costs	45.3	55.7
Amortization	(51.8)	(50.6)
Balance, end of period	$ 602.9	$ 602.6

Table of Contents

Costs to fulfill contracts:

In millions	For the three months ended August 31, 2024	2023
Balance, beginning of period	$ 76.6	$ 75.3
Capitalization of costs	6.3	6.5
Amortization	(6.7)	(6.6)
Balance, end of period	$ 76.2	$ 75.2

Note C: Basic and Diluted Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

In millions, except per share amounts	For the three months ended August 31, 2024	August 31, 2023
Basic earnings per share:		
Net income	$ 427.4	$ 419.2
Weighted-average common shares outstanding	360.1	360.8
Basic earnings per share	**$ 1.19**	**$ 1.16**
Diluted earnings per share:		
Net income	$ 427.4	$ 419.2
Weighted-average common shares outstanding	360.1	360.8
Dilutive effect of common share equivalents	1.8	2.0
Weighted-average common shares outstanding, assuming dilution	361.9	362.8
Diluted earnings per share	**$ 1.18**	**$ 1.16**
Weighted-average anti-dilutive common share equivalents	**0.6**	**0.6**

Weighted-average common share equivalents that have an anti-dilutive impact are excluded from the computation of diluted earnings per share.

Table of Contents

Note D: Business Combinations

Effective July 31, 2023, substantially all of the net assets of Alterna Capital Solutions LLC ("Alterna"), were acquired by a wholly owned subsidiary of the Company. Alterna purchases outstanding accounts receivable of their customers under non-recourse arrangements. This acquisition allows the Company to increase and diversify its portfolio of solutions and support serving small- to medium-sized businesses. The acquisition consideration was comprised of a base purchase price of $95.1 million plus immediate settlement of debt totaling $128.9 million, net of $15.7 million in cash and restricted cash acquired. Accounts receivable balances acquired, net of allowance for credit losses, and less amounts due to clients related to funding arrangements, totaled $146.1 million. Management determined that intangible assets related to the client list were $18.9 million to be amortized utilizing an accelerated method of amortization over a weighted average of 8 years. Goodwill in the amount of $46.7 million was recorded as a result of the acquisition, which is tax-deductible. The Company finalized the purchase price allocation for the acquisition of Alterna as of November 30, 2023. The financial results of Alterna are included in the Company's consolidated financial statements from its respective date of acquisition. This acquisition was not material to the Company's results of operations, financial position, or cash flows.

Note E: Other Income, Net

Other income, net, consisted of the following items:

	For the three months ended	
In millions	**August 31, 2024**	**August 31, 2023**
Interest income on corporate investments	$ 19.9	$ 21.5
Interest expense	(9.6)	(9.4)
Other	0.1	0.7
Other income, net	**$ 10.4**	**$ 12.8**

Note F: Funds Held for Clients and Corporate Investments

Funds held for clients and corporate investments were as follows:

	August 31, 2024			
In millions	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Type of issue:				
Funds held for clients' money market securities and other restricted cash equivalents	$ 333.6	$ —	$ —	$ 333.6
AFS securities:				
Asset-backed securities	132.5	0.9	(0.3)	133.1
Corporate bonds	1,422.0	11.5	(12.4)	1,421.1
Municipal bonds	1,059.5	0.8	(61.4)	998.9
U.S. government agency and treasury securities	897.7	4.4	(23.9)	878.2
Total AFS securities	3,511.7	17.6	(98.0)	3,431.3
Other	33.9	4.0	(1.2)	36.7
Total funds held for clients and corporate investments	**$ 3,879.2**	**$ 21.6**	**$ (99.2)**	**$ 3,801.6**

In millions	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	May 31, 2024			
Type of issue:				
Funds held for clients' money market securities and other restricted cash equivalents	$ 380.3	$ —	$ —	$ 380.3
AFS securities:				
Asset-backed securities	135.7	0.1	(1.1)	134.7
Corporate bonds	1,400.3	1.3	(32.8)	1,368.8
Municipal bonds	1,060.1	0.2	(86.9)	973.4
U.S. government agency and treasury securities	896.0	0.1	(43.4)	852.7
Total AFS securities	3,492.1	1.7	(164.2)	3,329.6
Other	32.3	3.2	(1.6)	33.9
Total funds held for clients and corporate investments	**$ 3,904.7**	**$ 4.9**	**$ (165.8)**	**$ 3,743.8**

Included in funds held for clients' money market securities and other restricted cash equivalents as of August 31, 2024 were bank demand deposit accounts, money market funds and U.S. government agency and treasury securities with original maturities of 90 days or less at acquisition.

Included in asset-backed securities as of August 31, 2024 were investment-grade securities primarily collateralized by fixed-rate auto loans and credit card receivables and all have credit ratings of AAA. The primary risk associated with these securities is the collection of the underlying receivables. Collateral on these asset-backed securities has performed as expected through August 31, 2024.

Included in corporate bonds as of August 31, 2024 were investment-grade securities covering a wide range of issuers, industries, and sectors primarily carrying credit ratings of A or better and having maturities ranging from September 15, 2024 through July 23, 2030.

Included in municipal bonds as of August 31, 2024 were general obligation bonds and revenue bonds primarily carrying credit ratings of AA or better and have maturities ranging from September 1, 2024 through August 1, 2032.

A substantial portion of the Company's portfolios are invested in high credit quality securities with ratings of AA or higher, and A-1/P-1 ratings on short-term securities.

The classification of funds held for clients and corporate investments on the Consolidated Balance Sheets was as follows:

In millions	August 31, 2024	May 31, 2024
Funds held for clients	$ 3,763.2	$ 3,706.2
Corporate investments	38.4	33.9
Long-term corporate investments	—	3.7
Total funds held for clients and corporate investments	**$ 3,801.6**	**$ 3,743.8**

Funds held for clients’ money market securities and other restricted cash equivalents is collected from clients before due dates for payroll tax administration services and employee payment services and is invested until remitted to the applicable tax or regulatory agencies or client employees. Based upon the Company’s intent and its contractual obligation to clients, these funds are considered restricted until they are remitted to fund these client obligations.

The Company’s AFS securities reflected net unrealized losses of $80.4 million and $162.5 million as of August 31, 2024 and May 31, 2024, respectively. Included in net unrealized losses as of August 31, 2024 and May 31, 2024, were 675 and 957 AFS securities in an unrealized loss position, representing approximately 67% and 95% of the total securities held, respectively.

Table of Contents

AFS securities in an unrealized loss position for which a credit loss has not been recognized were as follows:

	August 31, 2024					
	Securities in an unrealized loss position for less than twelve months		Securities in an unrealized loss position for more than twelve months		Total	
In millions	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Type of issue:						
Asset-backed securities	$ —	$ 2.4	$ (0.3)	$ 25.0	$ (0.3)	$ 27.4
Corporate bonds	(0.1)	14.4	(12.3)	424.7	(12.4)	439.1
Municipal bonds	(4.3)	59.4	(57.1)	910.1	(61.4)	969.5
U.S. government agency and treasury securities	(0.1)	39.9	(23.8)	530.1	(23.9)	570.0
Total	**$ (4.5)**	**$ 116.1**	**$ (93.5)**	**$ 1,889.9**	**$ (98.0)**	**$ 2,006.0**

	May 31, 2024					
	Securities in an unrealized loss position for less than twelve months		Securities in an unrealized loss position for more than twelve months		Total	
In millions	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
Type of issue:						
Asset-backed securities	$ (0.4)	$ 77.4	$ (0.7)	$ 43.0	$ (1.1)	$ 120.4
Corporate bonds	(8.4)	620.8	(24.4)	647.8	(32.8)	1,268.6
Municipal bonds	(8.0)	102.5	(78.9)	864.7	(86.9)	967.2
U.S. government agency and treasury securities	(6.2)	268.2	(37.2)	547.2	(43.4)	815.4
Total	**$ (23.0)**	**$ 1,068.9**	**$ (141.2)**	**$ 2,102.7**	**$ (164.2)**	**$ 3,171.6**

The Company regularly reviews its investment portfolios to determine if any investment is impaired due to changes in credit risk or other potential valuation concerns. The Company believes the investments held as of August 31, 2024 that had gross unrealized losses of $98.0 million were not impaired due to credit risk or other valuation concerns, and the Company was not required to record a credit loss or an allowance for credit losses on its AFS securities. The Company believes it is probable that the principal and interest will be collected in accordance with contractual terms and that the unrealized losses on these securities were due to changes in interest rates and were not due to increased credit risk or other valuation concerns. A substantial portion of the securities in an unrealized loss position as of August 31, 2024 and as of May 31, 2024 held an AA rating or better. The Company does not intend to sell these investments until the recovery of their amortized cost basis or maturity and further believes that it is not more-likely-than-not that it will be required to sell these investments prior to that time. The Company's assessment that an investment is not impaired due to credit risk or other valuation concerns could change in the future due to new developments or changes in the Company's strategies or assumptions related to any particular investment.

Realized gains and losses on the sale of AFS securities are determined by specific identification of the cost basis of each security. On the Consolidated Statements of Income and Comprehensive Income, realized gains and losses from the funds held for clients portfolio and corporate investments portfolio are included in interest on funds held for clients and other income, net, respectively.

Realized gains and losses from the sale of AFS securities were as follows:

	For the three months ended	
In millions	August 31, 2024	August 31, 2023
Gross realized gains	$ 0.0	$ 0.0
Gross realized losses	(0.0)	(0.0)
Net realized gains/(losses)	**$ 0.0**	**$ (0.0)**

The amortized cost and fair value of AFS securities that had stated maturities as of August 31, 2024 are shown below by expected maturity.

	August 31, 2024	
In millions	Amortized cost	Fair value
Maturity date:		
Due in one year or less	$ 263.7	$ 259.7
Due after one year through three years	1,703.7	1,644.6
Due after three years through five years	1,232.2	1,210.7
Due after five years	312.1	316.3
Total	**$ 3,511.7**	**$ 3,431.3**

Variable rate demand notes ("VRDNs"), when held by the Company, are primarily categorized as due after five years in the table above as the contractual maturities on these securities are typically 20 to 30 years. Although these securities are issued as long-term securities, they are priced and traded as short-term instruments because of the liquidity provided through the tender feature.

Note G: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The accounting standards related to fair value measurements include a hierarchy for information and valuations used in measuring fair value that is broken down into three levels based on reliability, as follows:

- Level 1 valuations are based on quoted prices in active markets for identical instruments that the Company can access at the measurement date.

- Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for the instrument, either directly or indirectly, for substantially the full term of the asset or liability including the following:
  - quoted prices for similar, but not identical, instruments in active markets;
  - quoted prices for identical or similar instruments in markets that are not active;
  - inputs other than quoted prices that are observable for the instrument; or
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

The carrying values of cash and cash equivalents, restricted cash and restricted cash equivalents, accounts receivable, net of allowance for credit losses, PEO unbilled receivables, net of advance collections, accounts payable and short-term borrowings, when used by the Company, approximate fair value due to the short maturities of these instruments. Marketable securities included in funds held for clients and corporate investments consist primarily of securities classified as AFS and are recorded at fair value on a recurring basis.

The Company's financial assets and liabilities measured at fair value on a recurring basis were as follows:

	August 31, 2024			
In millions	Carrying value (Fair value)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Restricted and unrestricted cash equivalents:				
Money market securities	$ 16.9	$ 16.9	$ —	$ —
U.S. government agency and treasury securities	374.9	—	374.9	—
Total restricted and unrestricted cash equivalents	$ 391.8	$ 16.9	$ 374.9	$ —
AFS securities:				
Asset-backed securities	$ 133.1	$ —	$ 133.1	$ —
Corporate bonds	1,421.1	—	1,421.1	—
Municipal bonds	998.9	—	998.9	—
U.S. government agency and treasury securities	878.2	—	878.2	—
Total AFS securities	$ 3,431.3	$ —	$ 3,431.3	$ —
Other	$ 36.7	$ 36.7	$ —	$ —
Liabilities:				
Other long-term liabilities	$ 36.7	$ 36.7	$ —	$ —

	May 31, 2024			
In millions	Carrying value (Fair value)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Restricted and unrestricted cash equivalents:				
U.S. government agency securities	$ 386.4	$ —	$ 386.4	$ —
Money market securities	31.4	31.4	—	—
Total restricted and unrestricted cash equivalents	$ 417.8	$ 31.4	$ 386.4	$ —
AFS securities:				
Asset-backed securities	$ 134.7	$ —	$ 134.7	$ —
Corporate bonds	1,368.8	—	1,368.8	—
Municipal bonds	973.4	—	973.4	—
U.S. government agency and treasury securities	852.7	—	852.7	—
Total AFS securities	$ 3,329.6	$ —	$ 3,329.6	$ —
Other	$ 33.9	$ 33.9	$ —	$ —
Liabilities:				
Other long-term liabilities	$ 33.9	$ 33.9	$ —	$ —

In determining the fair value of its assets and liabilities, the Company predominately uses the market approach. Money market securities, which are cash equivalents, are considered Level 1 investments as they are valued based on quoted market prices in active markets. Cash equivalents also include U.S. government agency and treasury securities with original maturities of 90 days or less which are considered Level 2 investments as they are valued based on similar, but not identical, instruments in active markets. AFS securities, including asset-backed securities, corporate bonds, municipal bonds, U.S. government agency securities, and VRDNs, when held by the Company, are included in Level 2 and are valued utilizing inputs obtained from an independent pricing service. To determine the fair value of the Company's Level 2 AFS securities, the independent pricing service uses a variety of inputs, including benchmark yields, reported trades, non-binding broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, new issue data, and monthly payment information. The Company has not adjusted the prices obtained from the independent pricing service because it believes that they are appropriately valued.

Assets included as other are mutual fund investments, consisting of participants' eligible deferral contributions under the Company's non-qualified and unfunded deferred compensation plans. The related liability is reported as other long-term liabilities. The mutual funds are considered Level 1 investments as they are valued based on quoted market prices in active markets.

The Company’s long-term borrowings are accounted for on a historical cost basis. As of August 31, 2024 and May 31, 2024, the fair value of long-term borrowings, net of debt issuance costs was $397.0 million and $391.8 million for the Senior Notes, Series A, respectively, and $398.6 million and $386.0 million for the Senior Notes, Series B, respectively.

The Company’s long-term borrowings are not traded in active markets, and as a result, its fair values were estimated using a market approach employing Level 2 valuation inputs, including borrowing rates the Company believes are currently available based on loans with similar terms and maturities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note H: Supplemental Information

Property and equipment, net of accumulated depreciation: Depreciation expense was $27.2 million for the three months ended August 31, 2024, compared to $30.4 million for the three months ended August 31, 2023.

Goodwill and intangible assets, net of accumulated amortization: Amortization expense relating to intangible assets was $11.8 million for the three months ended August 31, 2024, compared to $10.8 million for the three months ended August 31, 2023. Goodwill and intangible assets were recorded during the three months ended August 31, 2023 related to the acquisition of Alterna. The goodwill related to this acquisition is included in the Purchased Receivable reporting unit for goodwill impairment testing. Refer to Note D for additional information regarding this acquisition and the impact it had on goodwill and intangible assets. The Company did not recognize an impairment loss as it relates to its goodwill or intangible assets during the three months ended August 31, 2024 or August 31, 2023.

Short-term financing: Outstanding borrowings on the Company’s credit facilities had a weighted-average interest rate of 5.50% and 6.14% as of August 31, 2024 and May 31, 2024, respectively. The unused amount available under these credit facilities as of August 31, 2024 was approximately $2.0 billion.

The credit facilities contain various financial and operational covenants that are usual and customary for such arrangements. The Company was in compliance with all of these covenants as of August 31, 2024.

Letters of credit: The Company had irrevocable standby letters of credit available totaling $165.4 million and $168.5 million as of August 31, 2024 and May 31, 2024, respectively, primarily to secure commitments for certain insurance policies. The letters of credit expire at various dates between October 02, 2024 and August 24, 2025. No amounts were outstanding on these letters of credit as of, or during the three months ended August 31, 2024 and August 31, 2023, or as of May 31, 2024.

Long-term debt: There have been no material changes to the Company's long-term debt agreement or balances subsequent to May 31, 2024. The Company’s long-term debt agreement contains customary representations, warranties, affirmative and negative covenants, including financial covenants that are usual and customary for such arrangements. The Company was in compliance with all of these covenants as of August 31, 2024.

Note I: Commitments and Contingencies

Other commitments: The Company had outstanding commitments under existing workers’ compensation insurance agreements and other legally binding contractual arrangements. The Company also enters into various purchase commitments with vendors in the ordinary course of business and had outstanding commitments to purchase capital assets of approximately $3.9 million as of August 31, 2024 and $2.9 million as of May 31, 2024.

In the normal course of business, the Company makes representations and warranties that guarantee the performance of services under service arrangements with clients. Historically, there have been no material losses related to such guarantees. The Company has also entered into indemnification agreements with its officers, directors, and fiduciaries of certain of our retirement plans, which require the Company to defend and, if necessary, indemnify these individuals for certain pending or future claims as they relate to their services provided to the Company.

The Company currently self-insures the deductible portion of various insured exposures under certain corporate employee and PEO employee health and medical benefit plans. The Company’s estimated loss exposure under these insurance arrangements is recorded in other current liabilities on the Consolidated Balance Sheets. Historically, the amounts accrued have not been material and were not material as of August 31, 2024. The Company also maintains insurance, in addition to its purchased primary insurance policies, for gap coverage for employment practices liability, errors and omissions, warranty liability, theft and embezzlement, cyber threats, and acts of terrorism, as well as capacity for deductibles and self-insured retentions through its captive insurance company.

Contingencies: The Company is subject to various claims and legal matters that arise in the normal course of its business. These include disputes or potential disputes related to breach of contract, tort, employment-related claims, tax claims, statutory, and other matters.

The Company’s management currently believes that resolution of any outstanding legal matters will not have a material adverse effect on the Company’s financial position or results of operations. However, legal matters are subject to inherent uncertainties and there exists the possibility that the ultimate resolution of these matters could have a material adverse impact on the Company’s financial position and results of operations in the period in which any such effects are recorded.

Note J: Income Taxes

The Company’s effective income tax rate was 23.3% and 23.7% for the three months ended August 31, 2024 and August 31, 2023, respectively. Both periods were impacted by the recognition of excess tax benefits related to employee stock-based compensation payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations reviews the operating results of Paychex, Inc. and its wholly owned subsidiaries ("Paychex," the "Company," "we," "our," or "us") for the three months ended August 31, 2024 (the "first quarter"), the prior year period ended August 31, 2023 (the "prior year period"), and our financial condition as of August 31, 2024. The focus of this review is on the underlying business reasons for material changes and trends affecting our revenue, expenses, net income, and financial condition. This review should be read in conjunction with the August 31, 2024 consolidated financial statements and the related Notes to Consolidated Financial Statements (Unaudited) contained in this Quarterly Report on Form 10-Q ("Form 10-Q"). This review should also be read in conjunction with our Annual Report on Form 10-K ("Form 10-K") for the year ended May 31, 2024 ("fiscal 2024"). Forward-looking statements in this Form 10-Q are qualified by the cautionary statement included under the next sub-heading, "Cautionary Note Regarding Forward-Looking Statements."

Cautionary Note Regarding Forward-Looking Statements

Certain written statements made in this Form 10-Q 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 United States ("U.S.") Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by such words and phrases as "expect," "estimate," "intend," "intent," "outlook," "will," "would," "projections," "strategy," "mission," "anticipate," "believe," "could," "may," "target," "potential," "purpose," "design," "might," and other similar words or phrases. Forward-looking statements include, without limitation, all matters that are not historical facts. Examples of forward-looking statements include, among others, statements we make regarding operating performance, events, or developments that we expect or anticipate will occur in the future, including statements relating to our outlook, revenue growth, earnings, earnings-per-share growth, and similar projections.

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 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. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to keep pace with changes in technology or provide timely enhancements to our solutions and support;
- software defects, undetected errors, and development delays for our solutions;
- the possibility of cyberattacks, security vulnerabilities or Internet disruptions, including data security and privacy leaks and data loss and business interruptions;
- the possibility of failure of our business continuity plan during a catastrophic event;
- the failure of third-party service providers to perform their functions;
- the possibility that we may be exposed to additional risks related to our co-employment relationship with our professional employer organization ("PEO") business;
- changes in health insurance and workers' compensation insurance rates and underlying claim trends;
- risks related to acquisitions and the integration of the businesses we acquire;
- our clients' failure to reimburse us for payments made by us on their behalf;
- the effect of changes in government regulations mandating the amount of tax withheld or the timing of remittances;
- our failure to comply with covenants in our debt agreements;
- changes in governmental regulations, laws, and policies;
- our ability to comply with U.S. and foreign laws and regulations;
- our compliance with data privacy and artificial intelligence laws and regulations;
- our failure to protect our intellectual property rights;
- potential outcomes related to pending or future litigation matters;
- the impact of macroeconomic factors on the U.S. and global economy, and in particular on our small- and medium-sized business clients;
- volatility in the political and economic environment, including inflation and interest rate changes;
- our ability to attract and retain qualified people; and

• the possible effects of negative publicity on our reputation and the value of our brand.

Any of these factors, as well as other factors discussed in our Form 10-K for fiscal 2024 or in our other periodic filings with the Securities and Exchange Commission (“SEC”), could cause our actual results to differ materially from our anticipated results. The information provided in this Form 10-Q is based upon the facts and circumstances known as of the date of this report, and any forward-looking statements made by us in this Form 10-Q 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 filing this Form 10-Q with the SEC to reflect events or circumstances after such date, or to reflect the occurrence of unanticipated events.

Our investor presentation regarding the financial results for the first quarter is available and accessible on our Paychex Investor Relations portal at https://investor.paychex.com. Information available on our website is not a part of, and is not incorporated into, this Form 10-Q. We intend to make future investor presentations available exclusively on our Paychex Investor Relations portal.

Overview

We are an industry-leading human capital management (“HCM”) company delivering a full suite of technology and advisory services in human resources (“HR”), employee benefit solutions, insurance and payroll processing for small- to medium-sized businesses and their employees across the U.S. and parts of Europe.

We offer a full range of integrated HCM solutions from hire to retire for businesses and their employees. Clients may choose from a breadth of solutions that cover the spectrum of the employee life cycle, but we also allow integrations with popular HR, accounting, point-of-sale, and productivity applications available on the market today.

We support our small-business clients by utilizing our proprietary, robust, software as a service (“SaaS”) Paychex Flex® platform and the Company’s SurePayroll® SaaS-based solutions. Our medium-sized clients generally have more complex payroll and employee benefit needs, though with the environment of increasing regulations, we believe the need for HR outsourcing services has been moving down-market. Any of our clients on Paychex Flex can opt for the integrated suite of HCM solutions, which allows clients to choose the service and software solutions that will meet the needs of their businesses.

Our portfolio of technology, HR advisory, and employee benefits-related solutions is disaggregated into two categories, (1) Management Solutions and (2) PEO and Insurance Solutions, as discussed under the heading “Description of Solutions” in Part I, Item 1 of our Form 10-K for fiscal 2024.

Our mission is to be the leading provider of HR, employee benefits, insurance, and payroll solutions by being an essential partner to small- and medium-sized businesses across the U.S. and parts of Europe. Our strategy focuses on providing industry-leading, integrated technology; delivering superior customer experiences; expanding our leadership in HR; growing our client bases; and engaging in strategic acquisitions. We believe that successfully executing this strategy will lead to strong, long-term financial performance.

We maintain industry-leading margins by managing our personnel costs and expenses while continuing to invest in our business, particularly in sales and marketing and leading-edge technology. We believe these investments are critical to our success. Looking to the future, we believe that investing in our solutions, people, and digital capabilities will position us to capitalize on opportunities for long-term growth.

We closely monitor the evolving challenges and needs of small- and mid-sized businesses, and proactively aid our clients in navigating macroeconomic challenges, legislative changes, and other complexities they may face. Through our unique blend of innovative technology solutions, backed by our extensive compliance and HR expertise, we help clients more effectively hire, develop, and retain top talent in this challenging workforce environment. Our ongoing investments in our platforms have prepared us well for the demands of the current business and regulatory environments, allowing us to adapt while maintaining strong solutions and support delivery, resulting in high levels of client satisfaction and retention.

Table of Contents

First Quarter Business Highlights

Highlights compared to the prior year period are as follows:

In millions, except per share amounts	For the three months ended August 31, 2024	August 31, 2023	Change[2]
Total service revenue	$ 1,281.0	$ 1,253.3	2 %
Total revenue	$ 1,318.5	$ 1,286.0	3 %
Operating income	$ 546.7	$ 536.3	2 %
Net income	$ 427.4	$ 419.2	2 %
Adjusted net income[1]	$ 421.2	$ 415.1	1 %
Diluted earnings per share	$ 1.18	$ 1.16	2 %
Adjusted diluted earnings per share[1]	$ 1.16	$ 1.14	2 %
Dividends paid to stockholders	$ 353.4	$ 321.9	10 %

(1) Adjusted net income and adjusted diluted earnings per share are not U.S. generally accepted accounting principle ("GAAP") measures. Refer to the "Non-GAAP Financial Measures" section of this Item 2 for a discussion of non-GAAP measures and a reconciliation to the U.S. GAAP measures of net income and diluted earnings per share.
(2) Percentage changes are calculated based on unrounded numbers.

For further analysis of our results of operations for the first quarter and prior year period, and our financial position as of August 31, 2024, refer to the tables and analysis in the "Results of Operations" and "Liquidity and Capital Resources" sections of this Item 2.

RESULTS OF OPERATIONS

Summary of Results of Operations:

In millions, except per share amounts	For the three months ended August 31, 2024	August 31, 2023	Change[1]
Revenue:			
Management Solutions	$ 961.7	$ 955.5	1 %
PEO and Insurance Solutions	319.3	297.8	7 %
Total service revenue	**1,281.0**	**1,253.3**	**2 %**
Interest on funds held for clients	37.5	32.7	15 %
Total revenue	**1,318.5**	**1,286.0**	**3 %**
Total expenses	771.8	749.7	3 %
Operating income	**546.7**	**536.3**	**2 %**
Other income, net	10.4	12.8	(19) %
Income before income taxes	**557.1**	**549.1**	**1 %**
Income taxes	129.7	129.9	— %
Effective income tax rate	23.3 %	23.7 %	
Net income	**$ 427.4**	**$ 419.2**	**2 %**
Diluted earnings per share	**$ 1.18**	**$ 1.16**	**2 %**

(1) Percentage changes are calculated based on unrounded numbers.

Total revenue increased to $1.3 billion for the first quarter, reflecting an increase of 3% compared to the prior year period. Excluding the impact of the expiration of the Employee Retention Tax Credit ("ERTC") program and one less payroll processing day as compared with the prior year quarter, revenue growth was 7%. The changes in revenue as compared to the prior year period were primarily driven by the following factors:

- ***Management Solutions revenue:*** $961.7 million for the first quarter, reflecting an increase of 1%:
  - 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; and
  - Lower revenue from ancillary services, primarily due to the expiration of our ERTC Service.

- ***PEO and Insurance Solutions revenue:*** $319.3 million for the first quarter, reflecting an increase of 7%:
  - Growth in the number of average PEO worksite employees; and
  - Increase in PEO insurance revenues.

- ***Interest on funds held for clients:*** $37.5 million for the first quarter, reflecting an increase of 15%, primarily due to higher average interest rates and average investment balances.

We invest in highly liquid, investment-grade fixed income securities and do not utilize derivative instruments to manage interest rate risk.

Details regarding our combined funds held for clients and corporate cash equivalents and investment portfolios were as follows:

$ in millions	**For the three months ended August 31, 2024**	**August 31, 2023**	**Change[1]**
Average investment balances:			
Funds held for clients	$ 4,286.1	$ 4,156.9	3 %
Corporate cash equivalents and investments	1,619.9	1,706.9	(5) %
Total	$ 5,906.0	$ 5,863.8	1 %
Average interest rates earned (exclusive of net realized gains):			
Funds held for clients	3.5 %	3.2 %	
Corporate cash equivalents and investments	4.9 %	5.0 %	
Combined funds held for clients and corporate cash equivalents and investments	3.9 %	3.7 %	
Total net realized gains/(losses)	$ 0.0	$ (0.0)	

[1] Percentage changes are calculated based on unrounded numbers.

$ in millions	**August 31, 2024**	**May 31, 2024**
Net unrealized losses on available for sale (“AFS”) securities [1]	$ (80.4)	$ (162.5)
Federal Funds rate [2]	5.50 %	5.50 %
Total fair value of AFS securities	$ 3,431.3	$ 3,329.6
Weighted-average duration of AFS securities in years [3]	2.6	2.7
Weighted-average yield-to-maturity of AFS securities [3]	3.1 %	3.0 %

[1] The net unrealized loss on our investment portfolio was approximately $49.3 million as of September 27, 2024. Refer to Note F in the Notes to Consolidated Financial Statements and the "Market Risk Factors" caption contained in this Form 10-Q for more information regarding AFS securities held in an unrealized loss position.

[2] The Federal Funds rate was in the range of 5.25% to 5.50% as of August 31, 2024 and as of May 31, 2024. Effective September 19, 2024, the Federal Reserve decreased the Federal Funds rate to a range of 4.75% to 5.00%.

[3] These items exclude the impact of variable rate demand notes (“VRDNs”) as they are tied to short-term interest rates.

Total expenses: The following table summarizes the total combined cost of service revenue and selling, general and administrative expenses for the period below:

In millions	**For the three months ended August 31, 2024**	**August 31, 2023**	**Change[1]**
Compensation-related expenses	$ 451.3	$ 455.3	(1) %
PEO direct insurance costs	130.3	110.2	18 %
Depreciation and amortization	39.0	41.2	(5) %
Other expenses	151.2	143.0	6 %
Total expenses	$ 771.8	$ 749.7	3 %

[1] Percentage changes are calculated based on unrounded numbers.

Total expenses increased 3% to $771.8 million for the first quarter compared to the prior year period. Total expenses increased as a result of the following:

- ***PEO direct insurance costs:*** $130.3 million for the first quarter, reflecting an increase of 18%, related to growth in average worksite employees and PEO insurance revenues.
- ***Other expenses:*** $151.2 million for the first quarter, reflecting an increase of 6%, primarily related to continued investment in technology, sales, and marketing.

Operating income: Operating income increased 2% to $546.7 million for the first quarter. Operating income was impacted by the expiration of the ERTC program and one less payroll processing day as compared with the prior year quarter.

Operating margin (operating income as a percentage of total revenue) was as follows:

	For the three months ended	
	August 31, 2024	**August 31, 2023**
Operating margin	41.5 %	41.7 %

Other income, net: Other income, net decreased 19% to $10.4 million for the first quarter, primarily as a result of lower average investment balances on our corporate investments.

Income taxes: Our effective income tax rate was 23.3% for the first quarter, compared to 23.7%, for the prior year period. Both periods were impacted by the recognition of excess tax benefits related to employee stock-based compensation payments.

Non-GAAP Financial Measures: Adjusted net income, adjusted diluted earnings per share, and earnings before interest, taxes, depreciation, and amortization ("EBITDA") are summarized as follows:

	For the three months ended		
$ in millions	**August 31, 2024**	**August 31, 2023**	**Change**
Net income	$ 427.4	$ 419.2	2 %
Non-GAAP adjustments:			
Excess tax benefits related to employee stock-based compensation payments[1]	(6.2)	(4.1)	
Adjusted net income	$ 421.2	$ 415.1	1 %
Diluted earnings per share[2]	$ 1.18	$ 1.16	2 %
Non-GAAP adjustments:			
Excess tax benefits related to employee stock-based compensation payments[1]	(0.02)	(0.01)	
Adjusted diluted earnings per share	$ 1.16	$ 1.14	2 %
Net income	$ 427.4	$ 419.2	2 %
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	
EBITDA	$ 585.8	$ 578.2	1 %

[1] Excess tax 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] 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.

In addition to reporting net income and diluted earnings per share, which are U.S. GAAP measures, we present adjusted net income, adjusted diluted earnings per share, and EBITDA, which are non-GAAP measures. We believe these additional measures are indicators of our core business operations' performance period over period. Adjusted net income, adjusted diluted earnings per share, and EBITDA are not calculated through the application of U.S. GAAP and are not required forms of disclosure by the SEC. As such, they should not be considered a substitute for the U.S. GAAP measures of net income and diluted earnings per share, and, therefore, they should not be used in isolation, but in conjunction with the U.S. GAAP measures. The use of any non-GAAP measure may produce results that vary from the U.S. GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position as of August 31, 2024 remained strong with cash, restricted cash, and total corporate investments of $1.6 billion. Short-term borrowings of $18.9 million and long-term borrowings of $800.0 million were outstanding as of August 31, 2024. Our unused capacity under our unsecured credit facilities was approximately $2.0 billion as of August 31, 2024. Our primary source of cash is our ongoing operations, which was $546.1 million for the first quarter. Our positive cash flows have allowed us to support our business, and pay dividends. We currently anticipate that corporate cash, corporate restricted cash, and total corporate investments as of August 31, 2024, along with projected operating cash flows and available short-term financing, will support our business operations, capital purchases, primarily investment in our technology solutions, share repurchases, dividend payments, and the servicing of long-term debt for the foreseeable future.

Table of Contents

For client funds liquidity, we have the ability to borrow on our unsecured credit facilities or use corporate liquidity when necessary to meet short-term funding needs related to client fund obligations. Historically, we have borrowed, typically on an overnight basis, to settle short-term client fund obligations, rather than liquidate previously collected client funds invested in our long-term AFS portfolio. We believe that our investments in an unrealized loss position as of August 31, 2024 were not impaired due to increased credit risk or other valuation concerns, nor has any event occurred subsequent to that date to indicate any change in our assessment. We do not intend to sell these investments until recovery of their amortized cost basis or maturity and further believe that it is not more-than-likely that we would be required to sell these investments prior to that time.

Financing

Short-term financing: We maintain committed and unsecured credit facilities and irrevocable letters of credit as part of our normal and recurring business operations. The purpose of these credit facilities is to meet short-term funding requirements, finance working capital needs, and for general corporate purposes. We typically borrow on an overnight or short-term basis under our credit facilities. Refer to Note M of the Notes to Consolidated Financial Statements contained in Item 8 of our Form 10-K for fiscal 2024 for further discussion of our credit facilities.

Details of our credit facilities as of August 31, 2024 were as follows:

$ in millions	Expiration Date	Maximum Amount Available	August 31, 2024 Outstanding Amount	August 31, 2024 Available Amount
Credit facilities:				
JP Morgan Chase Bank, N.A. (“JPM”)	April 12, 2029	$ 1,000.0	$ -	$ 1,000.0
JPM	September 17, 2026	$ 750.0	-	750.0
PNC Bank, National Association (“PNC”)	February 6, 2026	$ 250.0	18.9	231.1
Total Lines of Credit Outstanding and Available			$ 18.9	$ 1,981.1

Amounts outstanding under the PNC credit facility as of August 31, 2024 remain outstanding as of the date of this report.

Details of borrowings under each credit facility during the first quarter were as follows:

	For the three months ended August 31, 2024		
	Credit Facility		
$ in millions	$1 Billion JPM	$750 Million JPM	$250 Million PNC
Number of days borrowed	—	—	92
Maximum amount borrowed	$ —	$ —	$ 19.0
Weighted-average amount borrowed	$ —	$ —	$ 18.6
Weighted-average interest rate	— %	— %	6.07 %

We primarily use short-term borrowings to settle client fund obligations, rather than liquidating previously collected client funds invested in our long-term AFS investment portfolio.

Subsequent to August 31, 2024, we borrowed twice, on an overnight basis, $333.5 million on a weighted-average basis under our PNC and JPM credit facilities.

We expect to have access to the amounts available under our current credit facilities to meet our ongoing financial needs. However, if we experience reductions in our operating cash flows due to any of the risk factors outlined in, but not limited to, Item 1A in our Form 10-K for fiscal 2024 and other SEC filings, we may need to adjust our capital, operating and other discretionary spending to realign our working capital requirements with the capital resources available to us. Furthermore, if we determine the need for additional short-term liquidity, there is no assurance that such financing, if pursued and obtained, would be adequate or on terms acceptable to us.

Letters of credit: As of August 31, 2024, we had irrevocable standby letters of credit available totaling $165.4 million, primarily to secure commitments for certain insurance policies. The letters of credit expire at various dates between October 02, 2024 and August 24, 2025. No amounts were outstanding on these letters of credit during the first quarter or as of August 31, 2024.

Long-term financing: We have borrowed $800.0 million through the issuance of long-term private placement debt. Refer to Note N of the Notes to Consolidated Financial Statements contained in Item 8 of our Form 10-K for fiscal 2024 for further discussion on our long-term financing.

Other commitments: We had outstanding commitments under existing workers' compensation insurance agreements and legally binding contractual arrangements. We also entered into various purchase commitments with vendors in the ordinary course of business and had outstanding commitments to purchase approximately $3.9 million of capital assets as of August 31, 2024. In addition, we are involved in three limited partnership agreements to contribute a maximum of $30.0 million to venture capital funds in the financial technology sector. As of August 31, 2024, we have contributed approximately $23.6 million of the total funding commitment.

In the normal course of business, we make representations and warranties that guarantee the performance of services under service arrangements with clients. Historically, there have been no material losses related to such guarantees. We have also entered into indemnification agreements with our officers, directors, and fiduciaries of certain of our retirement plans, which require us to defend and, if necessary, indemnify these individuals for certain pending or future legal claims as they relate to their services provided to us.

We currently self-insure the deductible portion of various insured exposures under certain corporate and PEO employee health and medical benefit plans. Our estimated loss exposure under these insurance arrangements is recorded in other current liabilities on our Consolidated Balance Sheets. Historically, the amounts accrued have not been material and were not material as of August 31, 2024. We also maintain corporate insurance coverage in addition to our purchased primary insurance policies for gap coverage for employment practices liability, errors and omissions, warranty liability, theft and embezzlement, cyber threats, and acts of terrorism; and capacity for deductibles and self-insured retention through our captive insurance company.

Operating, Investing, and Financing Cash Flow Activities

Primary sources of cash, restricted cash, and equivalents are through collections for services rendered to our customers and interest earned on funds held for clients and corporate investments. Primary uses of cash include employee compensation and contractual obligations related to business operations, cash dividends paid, share repurchases, purchases of property and equipment, and acquisitions.

Our investment portfolio incorporates both corporate cash and funds held for clients. Interest rates, market conditions, and our volatile cash flows are among several factors influencing our investment strategy directing the mix between long-term and VRDN AFS securities compared to short-term restricted cash and cash equivalents held in the portfolio. A portfolio strategy that favors larger balances held in restricted cash and cash equivalents will impact our investing activities due to the offsetting activity in the purchases and sales or maturities of AFS investments.

Our cash flows include certain activities that are short-term in nature and have an impact on short-term cash flows due to timing of collection and settlement of obligations as follows:

- ***PEO receivables and worksite-employee ("WSE") accrued compensation:*** PEO receivables and WSE accrued compensation fluctuate based on either/both: (1) the timing of the payroll cut-off date and the Company's month-end close, and (2) the timing of when cash is collected from the customer, and it is remitted to either the WSE for wages earned or applicable tax or regulatory agencies for payroll taxes. PEO accounts receivable collections and compensation payments to WSEs and applicable tax or regulatory agencies are settled through our corporate cash and the fluctuations impact our operating activities.
- ***Client fund obligations:*** Client fund obligations liability will vary based on the timing of when cash is collected from the clients and when it is remitted to employees of the clients utilizing employee payment services or applicable tax or regulatory agencies for payroll tax administration services. Collections from clients are typically remitted from one to 30 days after receipt, with some items extending to 90 days. Fluctuations in client fund obligations impact financing activities.

Summarized cash operating, investing, and financing cash flow information for the first quarter and the prior period:

In millions	For the three months ended August 31, 2024	August 31, 2023 (1)	Change
Net cash provided by operating activities	$ 546.1	$ 693.0	$ (146.9)
Net cash used in investing activities	(110.0)	(13.2)	(96.8)
Net cash (used in)/provided by financing activities	(485.0)	1,069.4	(1,554.4)
Net change in cash, restricted cash, and equivalents	$ (48.9)	$ 1,749.2	$ (1,798.1)
Cash dividends per common share	$ 0.98	$ 0.89	

The changes in our cash flow for the first quarter compared to the prior year period were primarily the result of the following key drivers:

Operating Cash Flow Activities

Fiscal 2025

- Net income attributable to the reasons discussed in the "Results of Operations" section of this Item 2;
- Net increase in accrued income taxes due to the timing of our first quarter tax installment, which historically is settled during our second fiscal quarter; offset by
- Net changes in PEO assets and liabilities as a result of the timing of cash collected and the settlement of payroll taxes; and
- A net decrease in accrued corporate compensation primarily due to the settlement of fiscal 2024 year-end bonuses, offset by an increase in accrued payroll due to the timing of processing.

Fiscal 2024

- Net income attributable to the reasons discussed in the "Results of Operations" section of this Item 2;
- Net increase in accrued income taxes due to the timing of our first quarter tax installment, which historically is settled during our second fiscal quarter;
- Net changes in PEO assets and liabilities as a result of the timing of cash collected and the settlement of payroll taxes; and
- A net increase in refunds owed to our PEO clients related to tax benefits allowed under the Coronavirus Aid, Relief, and Economic Security Act; offset by
- A net decrease in accrued corporate compensation primarily due to the settlement of fiscal 2023 year-end bonuses.

Investing Cash Flow Activities

Fiscal 2025

- Cash used to develop and enhance our client facing internal-use software and the acquisition of third-party customer lists;
- Net purchases of short-term accounts receivable due to an increase in our client base, the timing of cash collections on outstanding receivables and cash settlement of the related reserve; and
- Net purchases of AFS securities related to investment in our long-term portfolio.

Fiscal 2024

- Cash used for the acquisition of Alterna Capital Solutions, LLC and settlement of its outstanding debt at closing. Refer to Note D of the Notes to Consolidated Financial Statements for additional discussion of this transaction;

- Cash used to develop and enhance our client facing internal-use software and the acquisition of third-party customer lists; and
- Net purchase of short-term accounts receivable due to an increase in our client base, and funding to existing client base, and the timing of net cash collections; offset by
- Net sales from AFS securities primarily due to a shift from investing in VRDNs to reinvesting in cash and cash equivalents due to more favorable interest rates. Our VRDN holdings were $11.3 million at August 31, 2023 compared to $344.1 million at May 31, 2023.

Financing Cash Flow Activities

Fiscal 2025

- Dividends paid at $0.98 per share. The payment of future dividends is dependent on our future earnings and cash flow and is subject to the discretion of our Board of Directors (the "Board");
- Cash used to repurchase 0.8 million shares of our common stock at a weighted average price of $125.50 per share during the first quarter. All repurchased shares were retired upon acquisition; and
- Decrease in client fund obligations related to the timing of collections and remittances of client funds.

Fiscal 2024

- Increase in client fund obligations related to the timing of collections and remittances of client funds. The accrual balance as of May 31, 2023 was impacted by the deferral of semi-weekly payroll tax payments due to the Memorial Day holiday; offset by
- Dividends paid at $0.89 per share. The payment of future dividends is dependent on our future earnings and cash flow and is subject to the discretion of our Board.

MARKET RISK FACTORS

Changes in interest rates and interest rate risk: Funds held for clients are primarily comprised of short-term funds and AFS securities. Corporate investments are primarily comprised of AFS securities. As a result of our investing activities, we are exposed to changes in interest rates that may materially affect our results of operations and financial position. Changes in interest rates will impact the earnings potential of future investments and will cause fluctuations in the fair value of our long-term AFS securities. We follow an investment strategy of protecting principal and optimizing liquidity. A substantial portion of our portfolios is invested in high credit quality securities with ratings of AA or higher, and A-1/P-1 ratings on short-term securities. We invest predominantly in corporate bonds; municipal bonds; U.S. government agency securities; and VRDNs when available in the market. We limit the amounts that can be invested in any single issuer and invest primarily in short- to intermediate-term instruments whose fair value is less sensitive to interest rate changes. We manage the AFS securities to a benchmark duration of two and one-half to three and three-quarters years.

During the first quarter, our primary short-term investment vehicles were U.S. government agency discount notes and bank demand deposit accounts. We have no exposure to high-risk or non-liquid investments. We have insignificant exposure to European investments. We have not and do not utilize derivative financial instruments to manage our interest rate risk.

During the first quarter, the average interest rate earned on our combined funds held for clients and corporate cash equivalents and investment portfolios was 3.9% compared to 3.7% for the prior year period. When interest rates are falling, the full impact of lower interest rates will not immediately be reflected in net income due to the interaction of short- and long-term interest rate changes. During a falling interest rate environment, earnings will decrease from our short-term investments, and over time, decrease from our longer-term AFS securities. Earnings from AFS securities, which as of August 31, 2024 had an average duration of 2.6 years, would not reflect decreases in interest rates until the investments are sold or mature and the proceeds are reinvested at lower rates.

The amortized cost and fair value of AFS securities that had stated maturities as of August 31, 2024 are shown below by expected maturity.

In millions	August 31, 2024 Amortized cost	August 31, 2024 Fair value
Maturity date:		
Due in one year or less	$ 263.7	$ 259.7
Due after one year through three years	1,703.7	1,644.6
Due after three years through five years	1,232.2	1,210.7
Due after five years	312.1	316.3
Total	**$ 3,511.7**	**$ 3,431.3**

VRDNs, when held by us, are primarily categorized as due after five years in the table above as the contractual maturities on these securities are typically 20 to 30 years. Although these securities are issued as long-term securities, they are priced and traded as short-term instruments because of the liquidity provided through the tender feature.

As of August 31, 2024, the Federal Funds rate was in the range of 5.25% to 5.50%. Effective September 19, 2024, the Federal Reserve decreased the Federal Funds rate to a range of 4.75% to 5.00%. There continues to be uncertainty in the changing market and economic conditions, including the possibility of additional measures that could be taken by the Federal Reserve and other government agencies related to the overall macroeconomic environment. We will continue to monitor the market and economic conditions.

Calculating the future effects of changing interest rates involves many factors. These factors include, but are not limited to:

- governmental action to address inflation and/or intervene to support financial markets;
- daily interest rate changes;
- seasonal variations in investment balances;
- actual duration of short-term and AFS securities;
- the proportion of taxable and tax-exempt investments;
- changes in tax-exempt municipal rates versus taxable investment rates, which are not synchronized or simultaneous; and
- financial market volatility and the resulting effect on benchmark and other indexing interest rates.

Subject to these factors and under normal financial market conditions, a 25-basis-point change in taxable interest rates generally affects our tax-exempt interest rates by approximately 19 basis points. Under normal financial market conditions, the impact to earnings from a 25-basis-point change in short-term interest rates would be approximately $5.0 million to $5.5 million, after taxes, for a twelve-month period. Such a basis point change may or may not be tied to changes in the Federal Funds rate.

Our total investment portfolio (funds held for clients and corporate cash equivalents and investments) is expected to average approximately $6.2 billion for the year ending May 31, 2025. Our anticipated allocation is approximately 45% invested in short-term securities and VRDNs with an average duration of less than 30 days and 55% invested in AFS securities, with an average duration of two and one-half to three and three-quarters years.

The combined funds held for clients and corporate AFS securities reflected net unrealized losses of $80.4 million as of August 31, 2024 and $162.5 million as of May 31, 2024. During the first quarter, the net unrealized loss on our investment portfolios ranged from a loss of $162.5 million to a loss of $75.8 million. These fluctuations were driven by changes in market rates of interest. The net unrealized loss on our investment portfolio was approximately $49.3 million as of September 27, 2024.

As of August 31, 2024 and May 31, 2024, we had $3.4 billion and $3.3 billion, respectively, invested in AFS securities at fair value. The weighted-average yield-to-maturity was 3.1% as of August 31, 2024 and 3.0 % as of May 31, 2024. The weighted-average yield-to-maturity excludes AFS securities tied to short-term interest rates, such as VRDNs, when held. Assuming a hypothetical decrease in longer-term interest rates of 25 basis points, the resulting potential increase in fair value for our portfolio of AFS securities as of August 31, 2024, would be in a range of approximately $20.0 million to $25.0 million. Conversely, a corresponding increase in interest rates would result in a comparable decrease in fair value. This hypothetical decrease or increase in the fair value of the portfolio would be recorded as an adjustment to the portfolio's recorded value, with an offsetting amount recorded in stockholders' equity. These fluctuations in fair value would have no related or immediate impact on our results of operations unless any declines in fair value are due to credit related concerns and an impairment loss is recognized.

We are also exposed to interest rate risk through the use of our credit facilities as outlined in the Liquidity and Capital Resources section of this Form 10-Q. If interest rates were to increase, or we increase the frequency or amounts borrowed under these credit facilities, we could experience additional interest expense and a corresponding decrease in earnings.

Credit risk: We are exposed to credit risk in connection with our investments in AFS securities through the possible inability of the borrowers to meet the terms of their bonds. We regularly review our investment portfolios to determine if any investment is impaired due to increased credit risk or other valuation concerns and we believe that the investments we held as of August 31, 2024 were not impaired as a result of the previously discussed reasons. While $2.0 billion of our AFS securities had fair values that were below amortized cost, we believe that it is probable that the principal and interest will be collected in accordance with the contractual terms, and that the gross unrealized losses of $98.0 million were due to changes in interest rates and were not due to increased credit risk or other valuation concerns. A substantial portion of the AFS securities in an unrealized loss position as of August 31, 2024 and May 31, 2024 had an AA rating or better. We do not intend to sell these investments until the recovery of their amortized cost basis or maturity, and further believe that it is not more-likely-than-not that we will be required to sell these investments prior to that time. Our assessment that an investment is not impaired due to increased credit risk or other valuation concerns could change in the future due to new developments, including changes in our strategies or assumptions related to any particular investment.

We have some credit risk exposure relating to our purchase of client accounts receivable under non-recourse arrangements. There is also credit risk exposure relating to our trade accounts receivable. This credit risk exposure is diversified amongst multiple client arrangements and all such arrangements are regularly reviewed for potential write-off. No single client was material in respect to total accounts receivable, service revenue, or results of operations as of August 31, 2024.

Market risk: We have an ongoing monitoring system for financial institutions we conduct business with and maintain cash balances at large well-capitalized (as defined by their regulators) financial institutions. We closely monitor market conditions and take appropriate measures, when necessary, to minimize potential risk exposure to our client's and our cash and investment balances.

CRITICAL ACCOUNTING ESTIMATES

Our critical accounting policies are described in Item 7 of our Form 10-K for fiscal 2024, filed with the SEC on July 11, 2024. On an ongoing basis, we evaluate the critical accounting policies and estimates used to prepare our consolidated financial statements, including, but not limited to, those related to:

- revenue recognition;
- assets recognized from the costs to obtain and fulfill contracts;
- PEO insurance reserves;
- goodwill and other intangible assets;
- impairment of long-lived assets;
- stock-based compensation costs; and
- income taxes.

There have been no material changes in these aforementioned critical accounting policies and estimates.

NEW ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements: Refer to Note A of the Notes to Consolidated Financial Statements (Unaudited) contained in Item 1 of this Form 10-Q for a discussion of recently adopted accounting pronouncements.

Recently issued accounting pronouncements: Refer to Note A of the Notes to Consolidated Financial Statements (Unaudited) contained in Item 1 of this Form 10-Q for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information called for by this item is provided under the caption "Market Risk Factors" under Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Item 4. Controls and Procedures

Disclosure Controls and Procedures: Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures: As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that as of August 31, 2024, the end of the period covered by this report, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting: The Company also carried out an evaluation of the internal control over financial reporting to determine whether any changes occurred during the fiscal quarter ended August 31, 2024. Based on such evaluation, there have been no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter ended August 31, 2024, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company maintains a program to repurchase up to $400.0 million of the Company's common stock with authorization that expires on May 31, 2027. The purpose of this program is to manage common stock dilution. Shares repurchased under this program during the first quarter were as follows:

In millions, except per share amounts	Total number of shares purchased	Average price paid per share	Total dollars	Approximate dollar value of shares that may yet be purchased under the programs
June 1, 2024 - June 30, 2024	—	$ —	$ —	$ 400.0
July 1, 2024 - July 31, 2024	—	—	—	$ 400.0
August 1, 2024 - August 31, 2024	0.8	125.50	104.0	$ 296.0
Total for the period	0.8	$ 125.50	$ 104.0	$ 296.0

Item 5. Other Information

During the three months ended August 31, 2024, none of our directors or officers (as defined by Rule 16a-1 under the Exchange Act), adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any "non-Rule 10b5-1 trading arrangement" (as defined by Item 408(c) of Regulation S-K).

Item 6. Exhibits

INDEX TO EXHIBITS

	Exhibit number	Description
* #	10.1	Paychex, Inc. 2002 Stock Incentive Plan (as amended and restated effective October 15, 2020) Form of 2024-2027 Performance Restricted Stock Unit Award Agreement
*	31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	101.INS	Inline XBRL Instance Document– the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
*	101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
*	104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Exhibit filed or furnished with this report
# Management contract or compensatory plan

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PAYCHEX, INC.

Date:	October 01, 2024	/s/ John B. Gibson John B. Gibson President, Chief Executive Officer and Director (Principal Executive Officer)
Date:	October 01, 2024	/s/ Robert L. Schrader Robert L. Schrader Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	October 01, 2024	/s/ Christopher Simmons Christopher Simmons Vice President, Controller and Treasurer (Principal Accounting Officer)

PAYCHEX, INC.
2002 STOCK INCENTIVE PLAN

(as amended and restated effective October 15, 2020)

PERFORMANCE RESTRICTED STOCK UNIT AWARD NOTICE

Participant:	[ ]
Type of Award:	Performance Restricted Stock Units
Target Number of Performance Restricted Stock Units:	[ ]
Date of Grant:	July [ ], 2024
Performance Period:	June 1, 2024 through May 31, 2027
Vesting Date:	July [ ], 2027
Retention Multiple:	[Fill-in 6x for CEO, 4x for President; 3x for SVPs; 2x for VPs]

This Award Notice serves to notify you that the Compensation & Leadership Committee (the “Committee”) of the Board of Directors of Paychex, Inc. (the “Company”) hereby grants to you, under the Company’s 2002 Stock Incentive Plan, as amended and restated effective October 15, 2020 (the “Plan”), an award (the “Award”) of Performance Restricted Stock Units (the “Units”), on the terms and conditions set forth in the attached Performance Restricted Stock Unit Award Agreement and the Plan, covering the number of shares of the Company’s $.01 par value common stock (the “Common Stock”) at the target level of performance equal to the Target Number of Performance Restricted Stock Units set forth above.

Stock Retention Requirement. For purposes of the Award, during the term of your employment by the Company, the Committee has established a target of ownership of Common Stock with a value of your annual base salary times the Retention Multiple set forth above. Stock that counts toward satisfaction of this target includes, but is not limited to, stock purchased by you on the open market, stock obtained through stock option exercise, restricted shares (other than restricted shares the vesting of which has some type of performance metric), restricted stock units (other than restricted stock units the vesting of which has some type of performance metric), stock obtained through grants of restricted stock or restricted stock units, stock owned (indirectly) through a qualified retirement plan maintained by the Company, stock owned jointly with your spouse, and stock beneficially owned by a trust for the benefit of you, your spouse and/or your children. Notwithstanding the terms of the Performance Restricted Stock Unit Award Agreement, until you reach the established stock ownership target, you will be required to retain the shares of Common Stock that you receive when the shares represented by this Award vest, except that you may sell sufficient shares to satisfy your tax obligations as set forth in Section 10 of the Award Agreement. Once you have achieved the target ownership, the number of shares of Common Stock associated with your target ownership amount will be determined based on the stock price at that time, and unless otherwise prohibited by agreement, policy, law or otherwise, you may thereafter sell, gift or otherwise transfer any vested shares of Common Stock received under the Award so long as after such sale, gift or other transfer you will continue to own the number of shares of Common Stock associated with your target ownership amount. The Company shall be authorized to add a legend regarding this restriction on transfer to any certificate representing the shares of Common Stock under the Award.

PAYCHEX, INC.

PAYCHEX, INC.
2002 STOCK INCENTIVE PLAN

(as amended and restated effective October 15, 2020)

PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

1.Grant of Performance Restricted Stock Units. This Performance Restricted Stock Unit Award Agreement (the "Award Agreement") sets forth the terms and conditions of the award (the "Award") of Performance Restricted Stock Units (the "Units") granted to you by the Compensation & Leadership Committee (the "Committee") of the Board of Directors of Paychex, Inc. (the "Company") under the Company's 2002 Stock Incentive Plan, as amended and restated effective October 15, 2020 (the "Plan"), as described on your Award Notice. The Award is subject to all of the provisions of the Plan, which is hereby incorporated by reference and made a part of this Award Agreement. The capitalized terms used in this Award Agreement, and not otherwise defined herein, are defined in the Plan.

2.Components, Target Number of Performance Restricted Stock Units and rTSR Modifier. The Award consists of two components: (a) the Service Revenue Growth component; and (b) the Operating Income Growth component, each of which shall represent fifty percent (50%) of the Target Number of Performance Restricted Stock Units. The Award also includes a Relative Total Shareholder Return ("rTSR") Modifier.

3.Determination of Number of Units.

(a)*Service Revenue Growth and Operating Income Growth Components*. As soon as practicable after the last day of the Performance Period, the Committee shall determine the number of Units that have become eligible to vest, if any, each as of the last day of the Performance Period, as follows:

(i)the Units eligible to vest under the Service Revenue Growth metric shall be determined based upon the Company's Service Revenue Growth for each fiscal year included in the Performance Period, as determined by the Committee, and the Service Revenue Growth matrix and description attached hereto as Exhibit A; and

(ii)the Units eligible to vest under the Operating Income Growth metric shall be determined based upon the Company's Operating Income Growth for each fiscal year included in the Performance Period, as determined by the Committee, and the Operating Income Growth matrix and description attached hereto as Exhibit A.

(b)*rTSR Modifier*. As soon as practicable after the last day of the Performance Period, the Committee shall determine the rTSR Modifier as of the last day of the Performance Period based upon the TSR of the Company and the Peer Group, and the rTSR Modifier matrix and description attached hereto as Exhibit A.

(c)*Number of Units*. The Number of Units will be equal to the sum of the Units eligible to vest under the Service Revenue Growth metric and the Units eligible to vest under the Operating Income Growth metric determined under Section 3(a), multiplied by the rTSR Modifier determined under Section 3(b); provided, however, the Number of Units may not exceed two hundred percent (200%) of the Target Number of Performance Restricted Stock Units.

(d)*Committee's Determinations Final*. The Committee's determination of the Service Revenue Growth, the Operating Income Growth, rTSR Modifier, the Number of Units pursuant to this Award Agreement shall be final, binding and conclusive upon you and all persons claiming under or through you.

4.Vesting of Number of Units.

(a)*Continued Employment Required*. Subject to the terms set forth in this Award Agreement and the Plan, the Number of Units will vest based on your continuous full-time employment with the Company through the Vesting Date as set forth on your Award Notice. Whether and as of what date your full-time employment with the Company shall terminate if you are granted a leave of absence or commence any other break in employment intended by your employer to be temporary, shall be determined by the Committee in its sole discretion. Except as otherwise provided by Section 4(b), 4(c) or 4(d), if your continuous full-time employment with the Company terminates before the Vesting Date for any reason, then the Award shall be forfeited and cancelled immediately.

(b)*Termination Due to Death or Disability*. If your employment terminates before the Vesting Date due to death or Disability, then you or your estate shall be entitled to receive payment of the Target Number of Performance Restricted Stock Units, which will be paid to you pursuant to Section 6(b). Notwithstanding the terms of the Plan, for purposes of this Award Agreement, the term "Disability" means a condition whereby you are unable to perform the essential functions of your position with reasonable accommodations by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted for a continuous period of not less than six months, all as verified by a physician acceptable to, or selected by, the Company.

(c)*Retirement On or After One-Year Anniversary*. If your employment terminates before the Vesting Date due to Retirement on or after the one-year anniversary of the Date of Grant, then you shall be entitled to receive payment of the Number of Units, as determined after the end of the Performance Period, which will be paid to you pursuant to Section 6(c). Notwithstanding the terms of the Plan, for purposes of this Award, the term "Retirement" means retirement from the Company at age sixty (60) or later with ten (10) or more years of employment (full-time or part-time) with the Company.

(d)*Change in Control Termination*. Notwithstanding the terms of the Paychex, Inc. Change in Control Plan (the "CIC Plan"), if your employment is terminated before the Vesting Date without Cause during the twelve (12)-month period following a Change in Control, and you execute (and do not subsequently revoke) a general release of all claims in favor of the Company, its subsidiaries, affiliates, officers, directors, successors and assigns in the form attached to the CIC Plan as Exhibit A within twenty-one (21) days following your receipt of notice that such release shall be required, then you shall be entitled to receive payment of the Target Number of Performance Restricted Stock Units, which will be paid to you pursuant to Section 6(d). Notwithstanding the terms of the Plan, for purposes of this Section 4(d), the term "Cause" and "Change in Control" have the meanings given such terms by the CIC Plan.

5.Nature of Units. The Units represent book-keeping entries only and constitute the Company's unfunded and unsecured promise to issue Shares to you on a future date. As a holder of Units, you have no rights other than the rights of a general creditor of the Company.

6.Issuance of Shares.

(a)*Ordinary Course*. Except as otherwise provided by Section 6(b) or (c), the Company shall issue a certificate or certificates representing a number of Shares equal to the Number of Units that have vested as promptly as practicable following the Vesting Date, but in no event later than March 15th of the calendar year immediately following the calendar year in which the Performance Period ends.

(b)*Death or Disability*. If your employment terminates due to death or Disability before the Vesting Date, the Company will issue a certificate or certificates representing the Target Number of Performance Restricted Stock Units as promptly as practicable following the date of your termination of employment due to death or Disability, but in no event later than March 15th of the calendar year immediately following the calendar year that includes the date of your termination of employment due to death or Disability.

(c)*Retirement On or After One-Year Anniversary*. If your employment terminates due to Retirement on or after the one-year anniversary of the Date of Grant and before the Vesting Date, the Company will issue a certificate or certificates representing a number of Shares equal to the Number of Units that have vested as promptly as practicable following the Vesting Date, but in no event later than March 15th of the calendar year immediately following the calendar year in which the Performance Period ends.

(d)*Change of Control Termination*. If your employment is terminated before the Vesting Date without Cause within the twelve (12)-month period following a Change of Control, and you execute the general release required by Section 4(d), the Company will issue a certificate or certificates representing the Target Number of Performance Restricted Stock Units that have vested as promptly as practicable following the date of your termination of employment, but in no event later than March 15th of the calendar year immediately following the calendar year that includes the date of your termination of employment.

7.Rights as a Stockholder. Prior to the issuance of Shares to you pursuant to Section 6, you will not have any of the rights of a stockholder with respect to the Shares to be issued on vesting of the Units, including, but not limited to, the right to vote (in person or by proxy) such Shares at any meeting of stockholders of the Company.

8.Restrictions on Transfer of Units. Units may not, except as otherwise provided in the Plan, be sold, assigned, transferred, pledged or encumbered in any way, whether by operation of law or otherwise, except by will or the laws of descent and distribution. The Shares may be issued during your lifetime only to you, or after your death to your designated beneficiary, or, in the absence of such beneficiary, to your duly qualified personal representative.

9.Restrictions on Issuance of Shares. If at any time the Company determines that listing, registration or qualification of the Shares covered by the Award upon any securities exchange or under any state or federal law, or the approval of any governmental agency, is necessary or advisable as a condition to the Award or the issuance of certificate(s) for Shares hereunder, such Award or issuance may not be made in whole or in part unless and until such listing, registration, qualification or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

10.Withholding. The vesting of the Award is conditioned upon your making arrangements satisfactory to the Company for the payment to the Company of the amount of all taxes required by any governmental authority to be withheld and paid over by the Company or any Affiliate to the governmental authority on account of such vesting. The payment of such withholding taxes to the Company may be made (i) by you in cash or by check, (ii) subject to the consent of the Company and in accordance with any guidelines established by the Committee, by the Company retaining the number of the Shares that would otherwise be delivered to you upon vesting that have an aggregate Fair Market Value (at the time retained by the Company) equal to the amount of withholding taxes (using your minimum required tax withholding rate or such other rate that the Company determines will not trigger a negative accounting impact to the Company) required to be paid, or (iii) by the Company or any Affiliate withholding such taxes from any other compensation owed to you by the Company or any Affiliate. Unless you make arrangements prior to vesting to pay withholding taxes in cash or by check, or to have such withholding taxes withheld from other compensation owed to you by the Company or any Affiliate, then at the time of vesting, the Company shall have the right to retain the number of the Shares that would otherwise be delivered to you upon vesting that have an aggregate Fair Market Value (at the time retained by the Company) equal to the amount of withholding taxes (using your minimum required tax withholding rate or such other rate that the Company determines will not trigger a negative accounting impact to the Company) required to be paid.

11.Limitation of Rights. Neither the Plan, the granting of the Award, the Award Notice nor this Award Agreement gives you any right to remain in the employment of the Company or any Affiliate.

12.Non-competition, Non-solicitation, Confidentiality, and Detrimental Conduct. In consideration for the Award, you agree that during your employment and for a period of twelve (12) months following termination of employment for any reason, you will not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer, board member, director, or in any other individual or representative capacity, engage or attempt to engage in any activity that is competitive to the business of the Company and would involve, or is likely to involve, the use or disclosure of Paychex's Trade Secrets (as defined below) within the geographic and substantive area or areas of responsibility assigned to you during the last twenty-four (24) months of employment. In addition, you agree that for a period of eighteen (18) months following the termination of employment for any reason, you will not directly or indirectly, solicit Company clients, prospects or referral resources, including but not limited to accountants, banks, and consultants, with which you had substantial personal involvement during your employment; nor will you recruit or hire, or attempt to recruit or hire, any other employee of Company or its affiliates, or induce or attempt to induce any employee of Company to terminate employment with Company. You also agree and acknowledge that during the course of your employment with the Company, you will obtain, have access and be privy to nonpublic, confidential, and proprietary information important to the Company's business solely as a result of your employment with the Company, including but not limited to, sales and marketing strategies, price lists, client lists, client confidential information, referral sources, and goodwill ("Trade Secrets"). You hereby recognize and agree that Paychex's Trade Secrets are confidential, proprietary and highly valued protectable interests. You agree that during and after employment, you shall not divulge or make use of any Trade Secrets, directly or indirectly, personally or on behalf of any other person, business, corporation, or entity without prior written consent of the Company. This Agreement does not, however, limit your ability to communicate with any federal governmental agency or otherwise participate in any investigation or proceeding that may be conducted by any federal governmental agency, including providing documents or other information, without notice to the Company. You further agree that you will not, during your employment, engage in conduct which is detrimental to the Company, including violation of the Company's Code of Business Ethics and Conduct, criminal conduct, fraud, or willful misconduct. These covenants are not intended to, and do not, limit in any way the rights and remedies provided to the Company under the Plan, other agreements with you, or under common or statutory law. If on the Date of Grant, you primarily work from a US state in which any of the terms of the non-competition or non-solicitation restrictions set forth in this Section 12 are deemed to be illegal or invalid, then such terms are hereby deemed void to the extent required by such applicable state law and shall not be considered part of this Award Agreement so long as you primarily work in any such state, but the remaining terms set forth in this Section 12 which are not deemed illegal or invalid shall continue to apply.

13.Repayment of Financial Gain.

(a)If you fail to comply with Section 12 of this Award Agreement, the Company may cancel any unvested portion of this Award and recover from you the total number or vesting date value of Shares whose vesting date occurred pursuant to this Award during the 24-month period preceding your breach of any covenant in Section 12 of this Award Agreement. The total number or value of the vested Shares shall include the amount of any dividends paid to you during the twenty-four (24)-month period specified above and shall not be reduced for the payment of applicable taxes or other amounts.

(b)If you fail to comply with Section 12 of this Award Agreement, upon demand by the Company, you will repay the Company in accordance with the terms of Section 13(a), and the Company shall be entitled to offset the amount of any such repayment obligation against any amount owed to you by the Company. The remedies set forth in this Section are in addition to any other remedies the Company may have, at law or equity, for your violation of the terms of this Award Agreement.

14.Rights of Company and Affiliates. This Award Agreement does not affect the right of the Company or any Affiliate to take any corporate action whatsoever, including without limitation its right to recapitalize, reorganize or make other changes in its capital structure or business, merge or consolidate, issue bonds, notes, Shares or other securities, including preferred stock, or options therefor, dissolve or liquidate, or sell or transfer any part of its assets or business.

15.Plan Controls. In the event of any conflict among the provisions of the Plan and this Award Agreement, the provisions of the Plan will be controlling and determinative.

16.Amendment. Except as otherwise provided by the Plan, the Company may only alter, amend or terminate the Award with your consent.

17.Governing Law. This Award Agreement shall be governed by and construed in accordance with the laws of the State of Florida, except as superseded by applicable federal law, without giving effect to its conflicts of law provisions. All parties consent to exclusive personal jurisdiction in Florida courts and agree that venue shall be Pinellas County (St. Pete).

18.Section 409A. The Award is intended to be exempt from Section 409A of the Internal Revenue Code of 1986, as amended, and the treasury regulations promulgated and other official guidance issued thereunder (collectively, "Section 409A"), under the short-term deferral exception described in Section 1.409A-1(b)(4) of the Treasury Regulations, and the Plan and this Award Agreement shall be interpreted and administered consistent with such intention.

19.Dodd-Frank Clawback. Notwithstanding any provision of this Award Agreement to the contrary, this Award Agreement (and any shares of Stock or other amounts payable hereunder) are subject to reduction, cancellation, repayment, forfeiture or recoupment in accordance with any clawback policy adopted by the Company, including, but not limited to, the Paychex, Inc. Policy for the Recovery of Erroneously Awarded Compensation, each as in effect or as may be adopted and/or modified from time to time by the Company in its discretion, and any clawback requirements imposed under applicable laws, rules and regulations (including Section 10D of the Exchange Act, Rule 10D-1 under the Exchange Act and Rule 5608 of The Nasdaq Stock Market Listing Rules).

* * *

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, JOHN B. GIBSON, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Paychex, Inc.;

2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c)Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 01, 2024

/s/ John B. Gibson
President, Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, ROBERT L. SCHRADER, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Paychex, Inc.;

2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a)Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c)Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a)All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 01, 2024

/s/ Robert L. Schrader
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Paychex, Inc. (the “Company”) on Form 10-Q for the period ended August 31, 2024, as filed with the Securities and Exchange Commission (“SEC”) on the date hereof (the “Report”), I, JOHN B. GIBSON, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC upon request.

Date: October 01, 2024

/s/ John B. Gibson
John B. Gibson
President, Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Paychex, Inc. (the “Company”) on Form 10-Q for the period ended August 31, 2024, as filed with the Securities and Exchange Commission (“SEC”) on the date hereof (the “Report”), I, ROBERT L. SCHRADER, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC upon request.

Date: October 01, 2024

/s/ Robert L. Schrader
Robert L. Schrader
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)