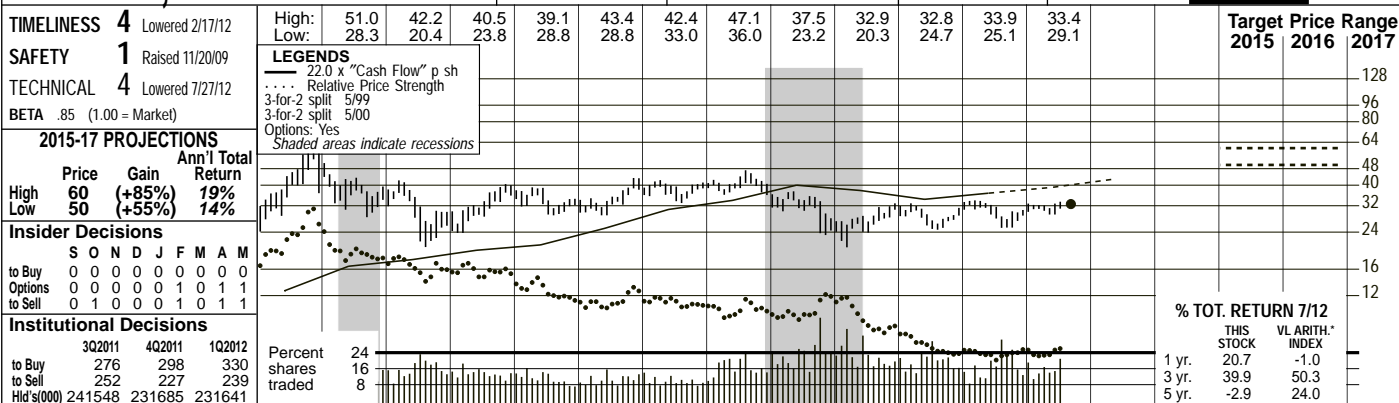


# PAYCHEX, INC. NDQ-PAYX

RECENT PRICE **32.56** P/E RATIO **20.9** (Trailing: 21.6 Median: 29.0) RELATIVE P/E RATIO **1.38** DIV'D YLD **4.1%** VALUE LINE



1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
.94	1.09	1.34	1.62	1.96	2.33	2.54	2.92	3.42	3.82	4.40	4.94	5.73	5.77	5.54	5.76	6.15	6.50	Revenues per sh <sup>A E</sup>	8.10
.19	.26	.33	.44	.58	.75	.81	.89	.95	1.14	1.40	1.54	1.82	1.72	1.56	1.67	1.78	1.95	"Cash Flow" per sh	2.45
.15	.21	.28	.37	.51	.68	.73	.78	.80	.97	1.22	1.35	1.56	1.48	1.32	1.42	1.51	1.65	Earnings per sh <sup>A B</sup>	2.10
.04	.07	.10	.15	.22	.33	.42	.44	.47	.51	.61	.79	1.20	1.24	1.24	1.24	1.27	1.32	Div'ds Decl'd per sh <sup>C</sup>	1.58
.05	.05	.08	.07	.09	.12	.14	.16	.13	.19	.21	.21	.23	.18	.17	.28	.25	.30	Cap'l Spending per sh	.40
.55	.69	.90	1.18	1.52	2.03	2.46	2.86	3.17	3.66	4.35	5.11	3.32	3.72	3.88	4.13	4.42	4.70	Book Value per sh	6.45
347.78	366.25	367.17	369.49	371.77	373.65	375.86	376.70	377.97	378.63	380.30	382.15	360.50	360.98	361.46	362.10	362.60	362.00	Common Shs Outst'g <sup>D</sup>	364.00
42.0	47.9	48.0	54.4	51.5	64.9	50.2	35.0	44.0	33.0	30.7	28.4	24.6	19.2	22.2	20.7	19.6		Avg Ann'l P/E Ratio	26.0
2.63	2.76	2.50	3.10	3.35	3.33	2.74	2.00	2.32	1.76	1.66	1.51	1.48	1.28	1.41	1.31	1.26		Relative P/E Ratio	1.75
.7%	.7%	.7%	.7%	.8%	.7%	1.1%	1.6%	1.3%	1.6%	1.6%	2.1%	3.1%	4.4%	4.2%	4.2%	4.3%		Avg Ann'l Div'd Yield	2.9%

CAPITAL STRUCTURE as of 5/31/12					2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Revenues (\$mill) <sup>A E</sup>	2950		
Total Debt None					954.9	1099.1	1294.3	1445.1	1674.6	1887.0	2066.3	2082.8	2000.8	2084.3	2229.8	2350	2350	2350	2350	Operating Margin	44.0%	
Leases, Uncapitalized Annual rentals \$39.4 mill.					41.2%	40.4%	37.8%	41.2%	42.8%	41.1%	44.0%	42.8%	40.5%	42.0%	42.5%	43.0%	43.0%	43.0%	43.0%	Depreciation (\$mill)	130	
No Defined Benefit Pension plan					29.5	43.4	55.8	62.0	66.5	73.4	80.6	85.8	86.4	88.7	97.8	105	105	105	105	Net Profit (\$mill)	760	
Pfd Stock None					274.5	293.5	303.0	368.8	464.9	515.4	576.1	533.5	477.0	515.3	548.0	600	600	600	600	Income Tax Rate	35.0%	
Common Stock 362,758,777 shs. as of 6/30/12					30.5%	32.0%	32.6%	32.5%	31.1%	30.7%	32.6%	34.3%	34.6%	35.0%	36.3%	36.0%	36.0%	36.0%	36.0%	36.0%	Net Profit Margin	25.8%
MARKET CAP: \$11.8 billion (Large Cap)					28.7%	26.7%	23.4%	25.5%	27.8%	27.3%	27.9%	25.6%	23.8%	24.7%	24.6%	25.5%	25.5%	25.5%	25.5%	25.5%	Working Cap'l (\$mill)	650
CURRENT POSITION <sup>E</sup> 2010 2011 5/31/12					778.0	412.7	560.0	753.3	620.5	633.1	404.2	474.3	355.8	416.8	280.4	350	350	350	350	350	Long-Term Debt (\$mill)	Nil
Cash & ST Secs.					924.0	1077.4	1200.0	1385.7	1654.8	1952.2	1196.6	1341.5	1402.0	1496.2	1604.5	1700	1700	1700	1700	1700	Shr. Equity (\$mill)	2350
Receivables					29.7%	27.2%	25.2%	26.6%	28.1%	26.4%	48.1%	39.8%	34.0%	34.4%	34.0%	34.4%	34.0%	34.2%	35.5%	35.5%	Return on Total Cap'l	32.5%
Other					29.7%	27.2%	25.2%	26.6%	28.1%	26.4%	48.1%	39.8%	34.0%	34.4%	34.2%	35.5%	35.5%	35.5%	35.5%	35.5%	Return on Shr. Equity	32.5%
Current Assets					12.7%	11.9%	10.5%	12.7%	14.1%	11.0%	11.2%	6.4%	2.0%	4.4%	5.5%	7.0%	7.0%	7.0%	7.0%	7.0%	Retained to Com Eq	8.0%
Accts Payable					57%	56%	59%	52%	50%	58%	77%	84%	94%	87%	85%	80%	80%	80%	80%	80%	All Div'ds to Net Prof	75%
Debt Due																						
Other																						
Current Liab.																						

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11
change (per sh)	10.0%	8.0%	6.0%
Revenues	11.0%	7.0%	7.0%
"Cash Flow"	11.0%	7.0%	7.0%
Earnings	10.5%	7.0%	7.0%
Dividends	18.0%	18.5%	4.0%
Book Value	9.5%	1.0%	8.5%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) <sup>AE</sup>				Full Fiscal Year
	Aug.31	Nov.30	Feb.28	May 31	
2009	534.1	524.2	528.6	495.9	2082.8
2010	500.2	496.6	507.8	496.2	2000.8
2011	518.3	512.0	531.3	522.7	2084.3
2012	563.1	545.7	569.5	551.5	2229.8
2013	590	570	590	600	2350

Fiscal Year Ends	EARNINGS PER SHARE <sup>AB</sup>				Full Fiscal Year
	Aug.31	Nov.30	Feb.28	May 31	
2009	.41	.39	.36	.32	1.48
2010	.34	.35	.31	.32	1.32
2011	.36	.37	.36	.33	1.42
2012	.41	.39	.37	.34	1.51
2013	.45	.40	.45	.35	1.65

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>CM</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2008	.30	.30	.31	.31	1.22
2009	.31	.31	.31	.31	1.24
2010	.31	.31	.31	.31	1.24
2011	.31	.31	.31	.32	1.25
2012	.32	.32			

**BUSINESS:** Paychex, Inc. is primarily engaged in providing computerized payroll-accounting services, salary deposit services, automatic payroll-tax payment, tax return filing services, as well as various human-resource products and services to more than 567,000 businesses, mostly small- to medium-sized (10 to 200 employees); includes 2,1000 clients located in Germany. The company operates

**Paychex closed out fiscal 2012 with decent results (year ended May 31st).** The top line advanced roughly 6% for the fourth quarter, and about 7% for the full year. This showing was respectable, given the challenging economic climate, the nation's elevated unemployment level, and limited small-business formation. We think the top line will come in at almost \$2.4 billion in fiscal 2013, representing moderate progress.

**Paychex's primary businesses seems to be holding up well.** The Payroll Services segment, which accounts for just under 70% of total revenues, is gradually recovering. Notably, the number of checks processed per client as well as revenues per check are both steadily increasing, which are good signs. Also, the Human Resources Services segment is starting to log more robust advances. This unit should benefit from expanded services in the health and retirement categories.

**Investment income will likely continue to decline.** While no longer a large contributor, the Funds Held for Clients segment now accounts for only 2% of the top line. By comparison, during 2007, this

segment accounted for just over 7% of the top line. Revenues here slipped about 9% in 2012, with heightened weakness in the fourth quarter. Ultimately, as long-term investments have been coming due, they have been reinvested in lower-yielding alternatives. Results won't improve here until interest rates move higher, and that is not likely to happen in this climate.

**The bottom line is firming up a bit.** Paychex's fourth-quarter profit came in slightly higher than we had anticipated. This reflects healthy margins and effective cost controls. We are leaving our 2013 earnings forecast of \$1.65 per diluted share unchanged, suggesting an almost 10% annual increase. Given Paychex's strong finances it may well pursue some acquisitions, which are not currently included in our figures.

**These untimely shares offer investors an attractive dividend yield.** Further, our projections indicate that this stock holds worthwhile appreciation potential for the 3- to 5-year horizon. Conservative investors should note that this issue carries our highest Safety rank.

Adam Rosner August 17, 2012

(A) Fiscal year ends May 31st.	(C) Dividends historically paid in mid-March, May, August, and November. ■ Div'd reinvestment plan available.	(E) Excludes net ENS investments less related liabilities.	Company's Financial Strength	A
(B) Primary earnings until 1996, diluted thereafter. Quarterly egs. may not sum due to rounding. Next earnings report due late Sept.	(D) In millions, adjusted for stock splits.		Stock's Price Stability	95
			Price Growth Persistence	25
			Earnings Predictability	95

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