



November 2, 2017

## Paylocity Announces First Quarter Fiscal Year 2018 Financial Results

- | **Q1 2018 Total Revenue of \$81.5 million, up 25% year-over-year**
- | **Q1 2018 Recurring Revenue of \$78.9 million, up 26% year-over-year**

ARLINGTON HEIGHTS, Ill., Nov. 02, 2017 (GLOBE NEWSWIRE) -- Paylocity Holding Corporation (Nasdaq:PCTY), a cloud-based provider of payroll and human capital management software solutions, today announced financial results for the first quarter of fiscal year 2018, which ended September 30, 2017.

"Fiscal 2018 is off to a nice start, as we saw 25% top-line revenue growth while also continuing to drive improved leverage across all of our key financial metrics, as we remain committed to scaling the business," said Steve Beauchamp, Chief Executive Officer of Paylocity. "We continue to be focused on investment in product development, announcing today at our annual Client Conference the release of our Compensation Management and Survey modules as we continue to add value to our product suite."

### **First Quarter Fiscal 2018 Financial Highlights**

#### **Revenue:**

- | Total revenue was \$81.5 million, an increase of 25% from the first quarter of fiscal year 2017.
- | Total recurring revenue was \$78.9 million, representing 97% of total revenue and an increase of 26% from the first quarter of fiscal year 2017.

#### **Operating Income (Loss):**

- | GAAP operating income was \$0.5 million, compared to an operating loss of (\$2.5) million in the first quarter of fiscal year 2017.
- | Non-GAAP operating income was \$8.2 million, compared to non-GAAP operating income of \$4.0 million in the first quarter of fiscal year 2017.

#### **Net Income (Loss):**

- | GAAP net income was \$0.5 million. This compares to a net loss of (\$2.6) million for the first quarter of fiscal year 2017. Net income per share was \$0.01 for the first quarter of fiscal year 2018 based on 54.6 million diluted weighted average common shares outstanding. Net loss per share was (\$0.05) for the first quarter of fiscal year 2017, based on 51.2 million basic and diluted weighted average common shares outstanding.
- | Non-GAAP net income was \$8.2 million. This compares to non-GAAP net income of \$4.0 million for the first quarter of fiscal year 2017. Non-GAAP net income per share was \$0.15 for the first quarter of fiscal year 2018, based on 54.6 million diluted weighted average common shares outstanding. Non-GAAP net income per share was \$0.07 for the first quarter of fiscal year 2017, based on 54.2 million pro forma diluted weighted average common shares outstanding.

#### **Adjusted EBITDA:**

- | Adjusted EBITDA, a non-GAAP measure, was \$14.6 million compared to Adjusted EBITDA of \$8.0 million in the first quarter of fiscal year 2017.

#### **Balance Sheet and Cash Flow:**

- | Cash and cash equivalents totaled \$97.4 million at the end of the quarter.
- | Cash flow from operations for the first quarter of fiscal year 2018 was \$8.2 million compared to \$1.9 million for the first quarter of fiscal year 2017.

A reconciliation of GAAP to non-GAAP financial measures has been provided in this press release, including the accompanying tables. An explanation of these measures is also included below under the heading "Non-GAAP Financial Measures."

## **Business Outlook**

Based on information available as of November 2, 2017, Paylocity is issuing guidance for the second quarter and full fiscal year 2018 as indicated below.

### **Second Quarter 2018:**

- | Total revenue is expected to be in the range of \$84.3 million to \$85.3 million.
- | Adjusted EBITDA is expected to be in the range of \$12.5 million to \$13.5 million.
- | Non-GAAP net income is expected to be in the range of \$6.0 million to \$7.0 million, or \$0.11 to \$0.13 per share, based on approximately 55 million diluted weighted average common shares outstanding.

### **Fiscal Year 2018:**

- | Total revenue is expected to be in the range of \$368.5 million to \$370.5 million.
- | Adjusted EBITDA is expected to be in the range of \$74.0 million to \$75.0 million.
- | Non-GAAP net income is expected to be in the range of \$46.0 million to \$47.0 million, or \$0.84 to \$0.85 per share, based on approximately 55 million diluted weighted average common shares outstanding.

We are unable to reconcile these forward-looking non-GAAP financial measures to their directly comparable GAAP financial measures because the information which is needed to complete a reconciliation is unavailable at this time without unreasonable effort.

## **Conference Call Details**

Paylocity will host a conference call to discuss its first quarter fiscal year 2018 results at 4:00 p.m. Central Time today (5:00 Eastern Time). A live audio webcast of the conference call, together with detailed financial information, can be accessed through the company's Investor Relations Web site at <http://www.paylocity.com>. Participants who choose to call in to the conference call can do so by dialing (855) 226-3021 or (315) 625-6892, passcode 97618145. A replay of the call will be available and archived via webcast at [www.paylocity.com](http://www.paylocity.com).

## **About Paylocity**

Paylocity is a provider of cloud-based payroll and human capital management, or HCM, software solutions. Paylocity's comprehensive and easy-to-use solutions enable its clients to manage their workforces more effectively. Paylocity's solutions help drive strategic human capital decision-making and improve employee engagement by enhancing the human resource, payroll and finance capabilities of its clients. For more information, visit [www.paylocity.com](http://www.paylocity.com).

Source: Paylocity

## **Non-GAAP Financial Measures**

The company uses certain non-GAAP financial measures in this release, including Adjusted EBITDA, adjusted gross profit, adjusted recurring gross profit, non-GAAP operating income (loss), non-GAAP net income (loss), non-GAAP net income (loss) per share, non-GAAP sales and marketing, non-GAAP total research and development and non-GAAP general and administrative. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. We define Adjusted EBITDA as net income (loss) before interest expense, income tax expense, and depreciation and amortization expense, adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises. Adjusted gross profit and adjusted recurring gross profit are adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises and amortization of capitalized internal-use software costs. Non-GAAP operating income (loss) is adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises and the amortization of acquired intangibles. Non-GAAP sales and marketing expense is adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises. Non-GAAP general and administrative expense is adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises and the amortization of acquired intangibles. Non-GAAP net income (loss) and non-GAAP net income (loss) per share are adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises and the amortization of acquired

intangibles. Pro forma diluted weighted average number of common shares are adjusted for the weighted average effect of potentially diluted shares. Non-GAAP total research and development is adjusted for capitalized internal-use software costs and to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises. Please note that other companies may define their non-GAAP financial measures differently than we do. Management presents certain non-GAAP financial measures in this release because it considers them to be important supplemental measures of performance. Management uses these non-GAAP financial measures for planning purposes, including analysis of the company's performance against prior periods, the preparation of operating budgets and to determine appropriate levels of operating and capital investments. Management believes that these non-GAAP financial measures provide additional insight for analysts and investors in evaluating the company's financial and operational performance. Management also intends to provide these non-GAAP financial measures as part of the company's future earnings discussions and, therefore, the inclusion of the non-GAAP financial measures should provide consistency in the company's financial reporting. Non-GAAP financial measures have limitations as an analytical tool. Investors are encouraged to review the reconciliation of the non-GAAP measures to their most directly comparable GAAP measures provided in this release.

### Safe Harbor/forward looking statements

This press release contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included herein regarding Paylocity's future operations, ability to scale its business, future financial position and performance, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "will," "would," "seek" and similar expressions (or the negative of these terms) are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about management's estimates regarding future revenues and financial performance and other statements about management's beliefs, intentions or goals. Paylocity may not actually achieve the expectations disclosed in the forward-looking statements, and you should not place undue reliance on Paylocity's forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results or events to differ materially from the expectations disclosed in the forward-looking statements, including, but not limited to, risks related to regulatory, legislative and judicial uncertainty in Paylocity's markets, including the potential repeal or replacement of the Affordable Care Act; Paylocity's ability to retain existing clients and to attract new clients to enter into subscriptions for its services; Paylocity's ability to sell new products and retain subscriptions for its existing products, such as ACA Compliance, to its new and existing clients; the challenges associated with a growing company's ability to effectively service clients in a dynamic and competitive market; challenges associated with expanding and evolving a sales organization to effectively address new geographies and products and services; Paylocity's reliance on and ability to expand its referral network of third parties; difficulties associated with accurately forecasting revenue and appropriately planning expenses; challenges with managing growth effectively; difficulties in forecasting Paylocity's tax position, including but not limited to the assessment of the need for a valuation allowance against its deferred tax position; continued acceptance of SaaS as an effective method for delivery of payroll and HCM solutions; Paylocity's ability to protect and defend its intellectual property; the risk that Paylocity's security measures are compromised or the unauthorized access to customer data; unexpected events in the market for Paylocity's solutions; changes in the competitive environment in Paylocity's industry and the markets in which it operates; adverse changes in general economic or market conditions; changes in the employment rates of Paylocity's clients and the resultant impact on revenue; and other risks and potential factors that could affect Paylocity's business and financial results identified in Paylocity's filings with the Securities and Exchange Commission (the "SEC"), including its 10-K filed with the SEC on August 11, 2017. Additional information will also be set forth in Paylocity's future quarterly reports on Form 10-Q, annual reports on Form 10-K and other filings that Paylocity makes with the SEC. These forward-looking statements represent Paylocity's expectations as of the date of this press release. Subsequent events may cause these expectations to change, and Paylocity disclaims any obligations to update or alter these forward-looking statements in the future, whether as a result of new information, future events or otherwise.

**PAYLOCITY HOLDING CORPORATION**  
**Unaudited Consolidated Balance Sheets**  
**(in thousands, except per share data)**

	<b>June 30, 2017</b>	<b>September 30, 2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 103,468	\$ 97,399
Accounts receivable, net	2,040	2,565
Prepaid expenses and other	14,879	13,494
Total current assets before funds held for clients	120,387	113,458
Funds held for clients	942,459	941,989

Total current assets	1,062,846	1,055,447
Long-term prepaid expenses	1,535	1,323
Capitalized internal-use software, net	17,394	17,979
Property and equipment, net	40,756	44,968
Intangible assets, net	8,907	8,548
Goodwill	6,003	6,003
	<u>1,137,441</u>	<u>1,134,268</u>
<b>Total assets</b>	<b>\$ 1,137,441</b>	<b>\$ 1,134,268</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,046	\$ 1,864
Accrued expenses	30,301	26,728
	<u>32,347</u>	<u>28,592</u>
Total current liabilities before client fund obligations	32,347	28,592
Client fund obligations	942,459	941,989
	<u>974,806</u>	<u>970,581</u>
Total current liabilities	974,806	970,581
Deferred rent	14,621	14,529
Deferred income tax liabilities, net	401	438
	<u>989,828</u>	<u>985,548</u>
Total liabilities	\$ 989,828	\$ 985,548
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2017 and September 30, 2017	\$ —	\$ —
Common stock, \$0.001 par value, 155,000 shares authorized at June 30, 2017 and September 30, 2017; 51,738 shares issued and outstanding at June 30, 2017 and 52,075 shares issued and outstanding at September 30, 2017	52	52
Additional paid-in capital	192,837	193,406
Accumulated deficit	(45,276)	(44,733)
Accumulated other comprehensive loss	—	(5)
Total stockholders' equity	\$ 147,613	\$ 148,720
Total liabilities and stockholders' equity	<u>\$ 1,137,441</u>	<u>\$ 1,134,268</u>

**PAYLOCITY HOLDING CORPORATION**  
**Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss)**  
(in thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2016</b>	<b>2017</b>
Revenues:		
Recurring fees	\$ 61,920	\$ 77,294
Interest income on funds held for clients	717	1,617
Total recurring revenues	62,637	78,911
Implementation services and other	2,385	2,589
Total revenues	<u>65,022</u>	<u>81,500</u>
Cost of revenues:		
Recurring revenues	19,103	24,091
Implementation services and other	9,256	10,868
Total cost of revenues	<u>28,359</u>	<u>34,959</u>
Gross profit	<u>36,663</u>	<u>46,541</u>
Operating expenses:		

Sales and marketing	18,011	21,180
Research and development	7,301	8,895
General and administrative	13,858	15,951
<b>Total operating expenses</b>	<b>39,170</b>	<b>46,026</b>
Operating income (loss)	(2,507)	515
Other income	39	109
<b>Income (loss) before income taxes</b>	<b>(2,468)</b>	<b>624</b>
Income tax expense	100	81
<b>Net income (loss)</b>	<b>\$ (2,568)</b>	<b>\$ 543</b>
<b>Other comprehensive loss, net of tax</b>		
Unrealized losses on securities, net of tax	—	(5)
<b>Total other comprehensive loss, net of tax</b>	<b>—</b>	<b>(5)</b>
<b>Comprehensive income (loss)</b>	<b>\$ (2,568)</b>	<b>\$ 538</b>
<b>Net income (loss) per share:</b>		
Basic	\$ (0.05)	\$ 0.01
Diluted	\$ (0.05)	\$ 0.01
<b>Weighted-average shares used in computing net income (loss) per share:</b>		
Basic	51,231	51,893
Diluted	51,231	54,610

Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises for each of the three months ended September 30 are included in the above line items:

	<b>Three months ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
Cost of revenue — recurring	\$605	\$737
Cost of revenue — implementation services and other	348	444
Sales and marketing	1,597	2,051
Research and development	900	1,097
General and administrative	2,721	2,966
<b>Total stock-based compensation expense and employer payroll taxes related to stock releases and option exercises</b>	<b>\$6,171</b>	<b>\$7,295</b>

**PAYLOCITY HOLDING CORPORATION**  
**Unaudited Consolidated Statements of Cash Flows**  
(in thousands)

	<b>Three Months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (2,568)	\$ 543
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation expense	5,813	6,606
Depreciation and amortization expense	4,268	6,673
Deferred income tax expense	78	37

Provision for doubtful accounts	(3)	4
Net accretion of discounts and amortization of premiums on available-for-sale securities	—	(108)
Loss on disposal of equipment	28	31
Changes in operating assets and liabilities:		
Accounts receivable	(73)	(529)
Prepaid expenses and other	1,289	(305)
Accounts payable	85	(101)
Accrued expenses	(7,034)	(6,304)
Tenant improvement allowance	—	1,656
Net cash provided by operating activities	<u>1,883</u>	<u>8,203</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities from funds held for clients	—	(58,844)
Proceeds from sales of available-for-sale securities from funds held for clients	—	421
Net change in funds held for clients' cash and cash equivalents	468,674	59,001
Capitalized internal-use software costs	(2,887)	(3,751)
Purchases of property and equipment	(2,952)	(2,693)
Lease allowances used for tenant improvements	—	(1,466)
Net cash provided by (used in) investing activities	<u>462,835</u>	<u>(7,332)</u>
Cash flows from financing activities:		
Net change in client fund obligations	(468,674)	(470)
Taxes paid related to net share settlement of equity awards	(4,542)	(6,470)
Net cash used in financing activities	<u>(473,216)</u>	<u>(6,940)</u>
Net Change in Cash and Cash Equivalents	(8,498)	(6,069)
Cash and Cash Equivalents—Beginning of Period	86,496	103,468
Cash and Cash Equivalents—End of Period	<u>\$ 77,998</u>	<u>\$ 97,399</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Purchase of property and equipment and internal-use software, accrued but not paid	<u>\$ 1,781</u>	<u>\$ 4,317</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes, net of refunds	<u>\$ 16</u>	<u>\$ 53</u>

Paylocity Holding Corporation  
Reconciliation of GAAP to non-GAAP Financial Measures  
(In thousands except per share data)

	<b>Three months Ended September 30, 2016 2017</b>	
<b>Reconciliation from gross profit to adjusted gross profit:</b>		
Gross profit	\$36,663	\$46,541
Amortization of capitalized internal-use software costs	1,684	3,389
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	953	1,181
Adjusted gross profit	<u>\$39,300</u>	<u>\$51,111</u>
	<b>Three months Ended September 30, 2016 2017</b>	
<b>Reconciliation from total recurring revenues to adjusted recurring gross profit:</b>		
Total recurring revenues	\$62,637	\$78,911
Cost of recurring revenues	19,103	24,091
Recurring gross profit	<u>43,534</u>	<u>54,820</u>

Amortization of capitalized internal-use software costs	1,684	3,389
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	605	737
Adjusted recurring gross profit	<u>\$45,823</u>	<u>\$58,946</u>
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Reconciliation from operating income (loss) to non-GAAP operating income:</b>		
Operating income (loss)	\$ (2,507)	\$ 515
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	6,171	7,295
Amortization of acquired intangibles	381	359
Non-GAAP operating income	<u>\$ 4,045</u>	<u>\$ 8,169</u>
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Reconciliation from net income (loss) to non-GAAP net income:</b>		
Net income (loss)	\$ (2,568)	\$ 543
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	6,171	7,295
Amortization of acquired intangibles	381	359
Non-GAAP net income	<u>\$ 3,984</u>	<u>\$ 8,197</u>
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Reconciliation from diluted weighted-average number of common shares as reported to pro forma diluted weighted average number of common shares</b>		
Diluted weighted-average number of common shares, as reported	51,231	54,610
Weighted-average effect of potentially dilutive shares	2,946	-
Pro forma diluted weighted-average number of common shares	<u>54,177</u>	<u>54,610</u>
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Calculation of non-GAAP net income per share:</b>		
Non-GAAP net income	\$ 3,984	\$ 8,197
Pro forma diluted weighted-average number of common shares	<u>54,177</u>	<u>54,610</u>
Non-GAAP net income per share	<u>\$ 0.07</u>	<u>\$ 0.15</u>
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Reconciliation from net income (loss) to Adjusted EBITDA:</b>		
Net income (loss)	\$ (2,568)	\$ 543
Interest expense	-	-
Income tax expense	100	81
Depreciation and amortization expense	4,268	6,673
EBITDA	<u>1,800</u>	<u>7,297</u>
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	6,171	7,295

Adjusted EBITDA	\$ 7,971	\$14,592
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Reconciliation of non-GAAP Sales and Marketing:</b>		
Sales and Marketing	\$18,011	\$21,180
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	1,597	2,051
Non-GAAP Sales and Marketing	\$16,414	\$19,129
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Reconciliation of non-GAAP Total Research and Development:</b>		
Research and Development	\$ 7,301	\$ 8,895
Capitalized internal-use software costs	2,887	3,751
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	900	1,097
Non-GAAP Total Research and Development	\$ 9,288	\$11,549
	<b>Three months Ended September 30,</b>	
	<b>2016</b>	<b>2017</b>
<b>Reconciliation of non-GAAP General and Administrative:</b>		
General and Administrative	\$13,858	\$15,951
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises	2,721	2,966
Amortization of acquired intangibles	381	359
Non-GAAP General and Administrative	\$10,756	\$12,626

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