



Paylocity Announces Fourth Quarter and Fiscal Year 2019 Financial Results

August 8, 2019

- Q4 2019 Total Revenue of \$120.4 million, up 25% year-over-year
- FY 2019 Total Revenue of \$467.6 million, up 26% year-over-year

SCHAUMBURG, Ill., Aug. 08, 2019 (GLOBE NEWSWIRE) -- Paylocity Holding Corporation (Nasdaq: PCTY), a cloud-based provider of [payroll and human capital management software solutions](#), announced today financial results for the fourth quarter and full fiscal year 2019, which ended June 30, 2019.

"We had a great fiscal 2019, which included 26% revenue growth and 28.7% adjusted EBITDA margins, while also generating record free cash flow," said Steve Beauchamp, Chief Executive Officer of Paylocity. "I'm also pleased to announce the release of our Learning Management System, which helps us achieve our target PEPY of \$400, and we are now setting our new target at \$500 PEPY."

Key Recent Achievements

- Q4 2019 Total Revenue of \$120.4 million, up 25% year-over-year
- FY 2019 Total Revenue of \$467.6 million, up 26% year-over-year
- FY 2019 GAAP net income of \$53.8 million, versus net income of \$38.6 million in FY 2018, which includes a non-cash income tax benefit of \$21.8 million, a 40% increase
- FY 2019 Adjusted EBITDA of \$134.0 million or 28.7% of revenue, an increase of 50 basis points from initial FY 2019 guidance in August 2018

Fourth Quarter Fiscal 2019 Financial Highlights

Revenue:

- Total revenue was \$120.4 million, an increase of 25% from the fourth quarter of fiscal year 2018, as adjusted and as presented on a non-GAAP basis in the table below.
- Total recurring revenue was \$116.7 million, representing 97% of total revenue and an increase of 26% from the fourth quarter of fiscal year 2018 total recurring revenue, as adjusted and as presented on a non-GAAP basis in the table below.

Operating Income:

- GAAP operating income was \$9.2 million and Non-GAAP operating income was \$21.4 million in the fourth quarter of fiscal year 2019.

Net Income:

- GAAP net income was \$10.2 million or \$0.18 per share for the three months ended June 30, 2019 based on 55.7 million diluted weighted average common shares outstanding.

Adjusted EBITDA:

- Adjusted EBITDA, a non-GAAP measure, was \$29.9 million in the fourth quarter of fiscal year 2019.

Fiscal Year 2019 Financial Highlights

Revenue:

- Total revenue was \$467.6 million, an increase of 26% from fiscal year 2018, as adjusted and as presented on a non-GAAP basis in the table below.
- Total recurring revenue was \$456.8 million, representing 98% of total revenue and an increase of 26% from fiscal year 2018 total recurring revenue, as adjusted and as presented on a non-GAAP basis in the table below.

Operating Income:

- GAAP operating income was \$56.2 million and non-GAAP operating income was \$100.9 million in fiscal year 2019.

Net Income:

- GAAP net income was \$53.8 million or \$0.97 per share for fiscal year 2019, based on 55.4 million diluted weighted average common shares outstanding.

Adjusted EBITDA:

- Adjusted EBITDA, a non-GAAP measure, was \$134.0 million for fiscal year 2019.

Balance Sheet and Cash Flow:

- Cash, cash equivalents and invested corporate cash totaled \$162.5 million at the end of the year.
- Cash flow from operations for fiscal year 2019 was \$115.0 million compared to \$97.9 million for fiscal year 2018, an increase of 18%.
- Free cash flow, a non-GAAP measure, was \$76.1 million or 16.3% of revenue for fiscal year 2019 compared to \$48.8 million or 12.9% of revenue for fiscal year 2018, an increase of 56% and 340 basis points.

Accounting Update:

We adopted ASC 606 using the modified retrospective method in fiscal 2019, which began on July 1, 2018. Under ASC 606, we will amortize certain sales and implementation expenses over a period of seven years.

Also as of July 1, 2018, we began recognizing implementation revenue ratably over a period of generally up to 24 months.

In the interest of comparability during this transition year, in the reconciliation table below we are providing revenue for each quarter of fiscal 2018 on a GAAP and non-GAAP, pro-forma basis giving effect to the change in recognition of implementation revenue for fiscal 2018.

Paylocity Holding Corporation
Reconciliation of GAAP to non-GAAP Revenue
(In thousands)

| | Three Months Ended September 30, 2017 | | | Three Months Ended December 31, 2017 | | | Three Months Ended March 31, 2018 | | |
|---|---------------------------------------|--------------------------|------------------|--------------------------------------|--------------------------|-------------------|-----------------------------------|--------------------------|-------------------|
| | As Reported | Non-GAAP Adjustments (8) | As Adjusted | As Reported | Non-GAAP Adjustments (8) | As Adjusted | As Reported | Non-GAAP Adjustments (8) | As Adjusted |
| Revenues: | | | | | | | | | |
| Recurring fees | \$ 77,294 | \$ - | \$ 77,294 | \$ 81,292 | \$ - | \$ 81,292 | \$ 105,857 | \$ - | \$ 105,857 |
| Interest income on funds held for clients | 1,617 | - | 1,617 | 1,783 | - | 1,783 | 2,719 | - | 2,719 |
| Total recurring revenues | 78,911 | - | 78,911 | 83,075 | - | 83,075 | 108,576 | - | 108,576 |
| Implementation services and other | 2,589 | (1,789) | 800 | 2,929 | (1,011) | 1,918 | 4,831 | (2,076) | 2,755 |
| Total Revenue | <u>\$ 81,500</u> | <u>\$ (1,789)</u> | <u>\$ 79,711</u> | <u>\$ 86,004</u> | <u>\$ (1,011)</u> | <u>\$ 84,993</u> | <u>\$ 113,407</u> | <u>\$ (2,076)</u> | <u>\$ 111,331</u> |
| | | | | | | | | | |
| | Three Months Ended June 30, 2018 | | | Twelve Months Ended June 30, 2018 | | | | | |
| | As Reported | Non-GAAP Adjustments (8) | As Adjusted | As Reported | Non-GAAP Adjustments (8) | As Adjusted | | | |
| Revenues: | | | | | | | | | |
| Recurring fees | \$ 89,989 | \$ - | \$ 89,989 | \$ 354,432 | \$ - | \$ 354,432 | | | |
| Interest income on funds held for clients | 2,974 | - | 2,974 | 9,093 | - | 9,093 | | | |
| Total recurring revenues | 92,963 | - | 92,963 | 363,525 | - | 363,525 | | | |
| Implementation services and other | 3,653 | (600) | 3,053 | 14,002 | (5,476) | 8,526 | | | |
| Total Revenue | <u>\$ 96,616</u> | <u>\$ (600)</u> | <u>\$ 96,016</u> | <u>\$ 377,527</u> | <u>\$ (5,476)</u> | <u>\$ 372,051</u> | | | |

(8) As adjusted implementation revenue as if we recognized implementation revenue ratably over a period of up to 24 months for each quarter of fiscal 2018.

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 August 8, 2019, Paylocity is issuing guidance for the first quarter and full fiscal year 2020 as indicated below.

First Quarter 2020:

- Total revenue is expected to be in the range of \$123.5 million to \$124.5 million, which represents 23% - 24% growth over fiscal 2019 first quarter revenue.
- Adjusted EBITDA, a non-GAAP measure, is expected to be in the range of \$28.1 million to \$29.1 million.

Fiscal Year 2020:

- Total revenue is expected to be in the range of \$563.5 million to \$565.5 million, which represents 21% growth over fiscal 2019 total revenue.
- Adjusted EBITDA, a non-GAAP measure, is expected to be in the range of \$161.5 million to \$163.5 million.

We are unable to reconcile these forward-looking non-GAAP financial measures to their directly comparable GAAP financial measures because the information 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 fourth quarter and fiscal year 2019 results at 4 p.m. Central Time today (5 p.m. Eastern Time). A live audio webcast of the conference call, together with detailed financial information, can be accessed through the company's [Investor Relations website](#). Participants who choose to call in to the conference call can do so by dialing (855) 226-3021 or (315) 625-6892, using passcode 8749097. A replay of the call will be available and archived via webcast at www.paylocity.com.

About Paylocity

Paylocity (NASDAQ: [PCTY](#)) is a leading provider of payroll and human capital management (HCM) software solutions. Paylocity's comprehensive product suite delivers a unified platform for professionals to make strategic decisions in the areas of benefits, core HR, payroll, talent, and workforce management, while cultivating a modern workplace and improving employee engagement. Founded in 1997 and headquartered in Schaumburg, Ill., Paylocity has consistently been recognized nationally for its innovation, culture, and growth. Most recently, Paylocity was honored as #20 on Glassdoor's Best Places to Work Employees' Choice list; highlighted on several G2 Crowd Grid® Reports, including leading Satisfaction scores on 13 HCM software-focused reports; recognized as a top HR performer on the Workforce 100; and ranked #27 on Crain's Fast 50 list of fastest-growing Chicago-area companies, among receiving a number of other national and local awards. For more information about Paylocity, visit www.paylocity.com.

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, non-GAAP net income, non-GAAP net income per share, non-GAAP sales and marketing, non-GAAP total research and development and non-GAAP general and administrative and free cash flow. 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 (benefit), and depreciation and amortization expense, adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises, acquisition-related costs and lease exit costs. 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 is adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises, the amortization of acquired intangibles, lease exit costs and accelerated depreciation expense and acquisition-related costs. 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, the amortization of acquired intangibles, acquisition-related costs and lease exit costs and accelerated depreciation expense. Non-GAAP net income and non-GAAP net income per share are adjusted to eliminate stock-based compensation expense and employer payroll taxes related to stock releases and option exercises, the amortization of acquired intangibles, acquisition-related costs, lease exit costs and accelerated depreciation expense and the income tax effect on these items, the valuation allowance release, excess tax benefit related to employee stock-based compensation payments and the impact of tax reform. 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. Free cash flow is defined as net cash provided by operating activities less capitalized internal-use software costs, purchase of property and equipment and lease allowances used for tenant improvements. 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.

Included in the press release, we also refer to non-GAAP revenue. Effective July 1, 2018, we began recognizing implementation revenue ratably over

a period of generally up to 24 months. To allow investors comparability to prior year results, we have provided comparable information on fiscal 2018 as if we had recognized implementation revenue ratably over a period of up to 24 months during fiscal 2018. However, for periods beginning before adoption, those adjusted financial measures are considered not to be calculated in accordance with GAAP and are thus presented as non-GAAP financial metrics.

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 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 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; risks related to regulatory, legislative and judicial uncertainty in Paylocity's markets, including the potential repeal or replacement of the Affordable Care Act; 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 10, 2018. 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
Consolidated Balance Sheets
(in thousands, except per share data)

| | June 30, 2018 | June 30, 2019 |
|--|--------------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 137,193 | \$ 132,476 |
| Corporate investments | 732 | 29,314 |
| Accounts receivable, net | 3,453 | 4,358 |
| Deferred contract costs | — | 21,677 |
| Prepaid expenses and other | 11,248 | 13,895 |
| Total current assets before funds held for clients | 152,626 | 201,720 |
| Funds held for clients | 1,225,614 | 1,394,469 |
| Total current assets | 1,378,240 | 1,596,189 |
| Capitalized internal-use software, net | 21,094 | 27,486 |
| Property and equipment, net | 62,029 | 70,056 |
| Intangible assets, net | 13,002 | 10,751 |
| Goodwill | 9,590 | 9,590 |
| Long-term deferred contract costs | — | 81,422 |
| Long-term prepaid expenses and other | 1,504 | 1,975 |
| Deferred income tax assets, net | 22,140 | 6,472 |
| Total assets | \$ 1,507,599 | \$ 1,803,941 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,990 | \$ 3,954 |
| Accrued expenses | 42,241 | 57,625 |
| Total current liabilities before client fund obligations | 45,231 | 61,579 |
| Client fund obligations | 1,225,614 | 1,394,469 |

| | | |
|--|-----------------------------|-----------------------------|
| Total current liabilities | 1,270,845 | 1,456,048 |
| Deferred rent | 22,812 | 31,263 |
| Other long-term liabilities | 1,118 | 1,723 |
| Deferred income tax liabilities, net | — | 6,943 |
| | <u> </u> | <u> </u> |
| Total liabilities | \$ 1,294,775 | \$ 1,495,977 |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2018 and June 30, 2019 | \$ — | \$ — |
| Common stock, \$0.001 par value, 155,000 shares authorized at June 30, 2018 and June 30, 2019; 52,758 shares issued and outstanding at June 30, 2018 and 53,075 shares issued and outstanding at June 30, 2019 | 53 | 53 |
| Additional paid-in capital | 219,588 | 207,982 |
| Retained earnings (accumulated deficit) | (6,678) | 99,817 |
| Accumulated other comprehensive income (loss) | (139) | 112 |
| Total stockholders' equity | \$ 212,824 | \$ 307,964 |
| Total liabilities and stockholders' equity | \$ 1,507,599 | \$ 1,803,941 |

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

| | For the Three Months Ended June 30, | | For the Years Ended June 30, | |
|---|---|------------|------------------------------------|------------|
| | 2018 | 2019 | 2018 | 2019 |
| Revenues: | | | | |
| Recurring fees | \$ 89,989 | \$ 110,943 | \$ 354,432 | \$ 436,955 |
| Interest income on funds held for clients | 2,974 | 5,717 | 9,093 | 19,881 |
| Total recurring revenues | 92,963 | 116,660 | 363,525 | 456,836 |
| Implementation services and other | 3,653 | 3,713 | 14,002 | 10,797 |
| Total revenues | 96,616 | 120,373 | 377,527 | 467,633 |
| Cost of revenues: | | | | |
| Recurring revenues | 27,298 | 32,409 | 104,009 | 125,211 |
| Implementation services and other | 11,448 | 7,685 | 45,188 | 28,640 |
| Total cost of revenues | 38,746 | 40,094 | 149,197 | 153,851 |
| Gross profit | 57,870 | 80,279 | 228,330 | 313,782 |
| Operating expenses: | | | | |
| Sales and marketing | 26,702 | 31,912 | 95,484 | 112,599 |
| Research and development | 10,418 | 13,443 | 37,645 | 50,329 |
| General and administrative | 25,914 | 25,715 | 79,252 | 94,630 |
| Total operating expenses | 63,034 | 71,070 | 212,381 | 257,558 |
| Operating income (loss) | (5,164) | 9,209 | 15,949 | 56,224 |
| Other income | 337 | 667 | 802 | 1,822 |
| Income (loss) before income taxes | (4,827) | 9,876 | 16,751 | 58,046 |
| Income tax expense (benefit) | (3,274) | (365) | (21,847) | 4,223 |
| Net income (loss) | \$ (1,553) | \$ 10,241 | \$ 38,598 | \$ 53,823 |
| Other comprehensive income (loss), net of tax | | | | |
| Unrealized gains (losses) on securities, net of tax | 32 | 90 | (139) | 251 |
| Total other comprehensive income (loss), net of tax | 32 | 90 | (139) | 251 |
| Comprehensive income (loss) | \$ (1,521) | \$ 10,331 | \$ 38,459 | \$ 54,074 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.03) | \$ 0.19 | \$ 0.74 | \$ 1.02 |
| Diluted | \$ (0.03) | \$ 0.18 | \$ 0.70 | \$ 0.97 |

Weighted-average shares used in computing net income (loss) per share:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 52,699 | 53,017 | 52,425 | 52,914 |
| Diluted | 52,699 | 55,692 | 54,887 | 55,414 |

Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises are included in the above line items:

| | For the Three Months Ended June 30, | | For the Years Ended June 30, | |
|---|---|-----------|------------------------------------|-----------|
| | 2018 | 2019 | 2018 | 2019 |
| Cost of revenue – recurring | \$ 773 | \$ 898 | \$ 3,026 | \$ 3,679 |
| Cost of revenue – implementation services and other | 294 | 462 | 1,522 | 1,865 |
| Sales and marketing | 1,646 | 2,208 | 7,502 | 8,059 |
| Research and development | 1,040 | 1,364 | 4,076 | 5,844 |
| General and administrative | 4,871 | 5,286 | 15,691 | 21,567 |
| Total | \$ 8,624 | \$ 10,218 | \$ 31,817 | \$ 41,014 |

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

| | For the Years Ended June 30, | | |
|--|------------------------------|---------------------|-----------|
| | 2017 ⁽¹⁾ | 2018 ⁽¹⁾ | 2019 |
| Cash flows from operating activities: | | | |
| Net income | \$ 6,718 | \$ 38,598 | \$ 53,823 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Stock-based compensation expense | 26,734 | 30,354 | 38,765 |
| Depreciation and amortization expense | 21,027 | 30,202 | 34,564 |
| Deferred income tax expense (benefit) | 152 | (21,870) | 4,134 |
| Provision for doubtful accounts | 113 | 296 | 283 |
| Net accretion of discounts and amortization of premiums on available-for-sale securities | — | (443) | (2,230) |
| Net realized losses on sales of available-for-sale securities | — | 2 | — |
| Loss on disposal of equipment | 253 | 227 | 454 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (472) | (1,494) | (1,188) |
| Deferred contract costs | — | — | (34,992) |
| Prepaid expenses and other | (2,074) | (2,141) | 389 |
| Accounts payable | 219 | 740 | (75) |
| Accrued expenses | 6,465 | 11,641 | 13,625 |
| Tenant improvement allowance | 2,845 | 11,754 | 7,480 |
| Net cash provided by operating activities | 61,980 | 97,866 | 115,032 |
| Cash flows from investing activities: | | | |
| Purchases of available-for-sale securities and other | — | (196,597) | (250,685) |
| Proceeds from sales and maturities of available-for-sale securities | — | 73,044 | 246,243 |
| Capitalized internal-use software costs | (13,641) | (15,638) | (20,142) |
| Purchases of property and equipment | (21,338) | (21,676) | (11,280) |
| Lease allowances used for tenant improvements | (2,845) | (11,754) | (7,480) |
| Acquisition of business, net of cash and funds held for clients' cash and cash equivalents | — | (6,658) | — |
| Net cash used in investing activities | (37,824) | (179,279) | (43,344) |
| Cash flows from financing activities: | | | |
| Net change in client fund obligations | (297,163) | 281,467 | 168,855 |
| Payment of contingent consideration | — | — | (1,000) |
| Repurchases of common shares | — | — | (34,991) |
| Proceeds from exercise of stock options | 34 | — | 85 |
| Proceeds from employee stock purchase plan | 3,677 | 4,304 | 5,982 |
| Taxes paid related to net share settlement of equity awards | (11,342) | (10,554) | (24,207) |
| Excess tax benefits from stock-based compensation | 447 | — | — |
| Net cash provided by (used in) financing activities | (304,347) | 275,217 | 114,724 |
| Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents | (280,191) | 193,804 | 186,412 |

| | | | |
|---|---------------------|---------------------|---------------------|
| Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of year | 1,326,118 | 1,045,927 | 1,239,731 |
| Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of year | <u>\$ 1,045,927</u> | <u>\$ 1,239,731</u> | <u>\$ 1,426,143</u> |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities | | | |
| Build-out allowances received from landlords | <u>\$ —</u> | <u>\$ 1,956</u> | <u>\$ 1,264</u> |
| Purchase of property and equipment and internal-use software, accrued but not paid | <u>\$ 667</u> | <u>\$ 659</u> | <u>\$ 4,260</u> |
| Supplemental Disclosure of Cash Flow Information | | | |
| Cash paid (refunds received) for income taxes | <u>\$ 28</u> | <u>\$ (53)</u> | <u>\$ 412</u> |
| Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets | | | |
| Cash and cash equivalents | \$ 103,468 | \$ 137,193 | \$ 132,476 |
| Funds held for clients' cash and cash equivalents | 942,459 | 1,102,538 | 1,293,667 |
| Total cash, cash equivalents and funds held for clients' cash and cash equivalents | <u>\$ 1,045,927</u> | <u>\$ 1,239,731</u> | <u>\$ 1,426,143</u> |

(1) Certain amounts have been reclassified to reflect the adoption of Accounting Standards Update (“ASU”) No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force).”

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

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|---|------------------|-----------------------------|-------------------|
| | 2018 | 2019 | 2018 | 2019 |
| | Reconciliation from gross profit to adjusted gross profit: | | | |
| Gross profit | \$ 57,870 | \$ 80,279 | \$ 228,330 | \$ 313,782 |
| Amortization of capitalized internal-use software costs | 3,957 | 4,067 | 14,315 | 16,921 |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 1,067 | 1,360 | 4,548 | 5,544 |
| Adjusted gross profit | <u>\$ 62,894</u> | <u>\$ 85,706</u> | <u>\$ 247,193</u> | <u>\$ 336,247</u> |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|---|------------------|-----------------------------|-------------------|
| | 2018 | 2019 | 2018 | 2019 |
| | Reconciliation from total recurring revenues to adjusted recurring gross profit: | | | |
| Total recurring revenues | \$ 92,963 | \$ 116,660 | \$ 363,525 | \$ 456,836 |
| Cost of recurring revenues | 27,298 | 32,409 | 104,009 | 125,211 |
| Recurring gross profit | 65,665 | 84,251 | 259,516 | 331,625 |
| Amortization of capitalized internal-use software costs | 3,957 | 4,067 | 14,315 | 16,921 |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 773 | 898 | 3,026 | 3,679 |
| Adjusted recurring gross profit | <u>\$ 70,395</u> | <u>\$ 89,216</u> | <u>\$ 276,857</u> | <u>\$ 352,225</u> |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|--|------------------|-----------------------------|-------------------|
| | 2018 | 2019 | 2018 | 2019 |
| | Reconciliation from operating income (loss) to non-GAAP operating income: | | | |
| Operating income (loss) | \$ (5,164) | \$ 9,209 | \$ 15,949 | \$ 56,224 |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 8,624 | 10,218 | 31,817 | 41,014 |
| Lease exit costs & accelerated depreciation expense (3) | 3,996 | 1,417 | 3,996 | 1,417 |
| Amortization of acquired intangibles | 619 | 563 | 1,695 | 2,251 |
| Acquisition-related costs (1) | - | - | 191 | - |
| Non-GAAP operating income | <u>\$ 8,075</u> | <u>\$ 21,407</u> | <u>\$ 53,648</u> | <u>\$ 100,906</u> |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|-----------------------------------|------------------|-----------------------------------|------------------|
| | 2018 | 2019 | 2018 | 2019 |
| Reconciliation from net income (loss) to non-GAAP net income: | | | | |
| Net income (loss) | \$ (1,553) | \$ 10,241 | \$ 38,598 | \$ 53,823 |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 8,624 | 10,218 | 31,817 | 41,014 |
| Amortization of acquired intangibles | 619 | 563 | 1,695 | 2,251 |
| Acquisition-related costs ⁽¹⁾ | - | - | 191 | - |
| Lease exit costs & accelerated depreciation expense ⁽³⁾ | 3,996 | 1,417 | 3,996 | 1,417 |
| Income tax effect on adjustments ⁽⁴⁾ | (3,310) | (2,196) | (9,425) | (11,617) |
| Valuation allowance release ⁽⁵⁾ | (186) | - | (22,771) | - |
| Excess tax benefit related to employee stock-based compensation payments ⁽⁶⁾ | (814) | (1,189) | (11,787) | (10,541) |
| Impact of tax reform ⁽⁷⁾ | (1,191) | - | 8,626 | - |
| Non-GAAP net income | <u>\$ 6,185</u> | <u>\$ 19,054</u> | <u>\$ 40,940</u> | <u>\$ 76,347</u> |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|---|-----------------------------------|----------------|-----------------------------------|----------------|
| | 2018 | 2019 | 2018 | 2019 |
| Calculation of non-GAAP net income per share: | | | | |
| Non-GAAP net income | \$ 6,185 | \$ 19,054 | \$ 40,940 | \$ 76,347 |
| Diluted weighted-average number of common shares (pro forma for the three months ended June 30, 2018) | 55,354 | 55,692 | 54,887 | 55,414 |
| Non-GAAP net income per share | <u>\$ 0.11</u> | <u>\$ 0.34</u> | <u>\$ 0.75</u> | <u>\$ 1.38</u> |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|---|-----------------------------------|--------|-----------------------------------|--------|
| | 2018 | 2019 | 2018 | 2019 |
| Reconciliation from diluted weighted-average number of common shares as reported to pro forma diluted weighted average number of common shares | | | | |
| Diluted weighted-average number of common shares, as reported | 52,699 | 55,692 | 54,887 | 55,414 |
| Weighted-average effect of potentially dilutive shares | 2,655 | - | - | - |
| Diluted weighted-average number of common shares (pro forma for the three months ended June 30, 2018) | 55,354 | 55,692 | 54,887 | 55,414 |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|-----------------------------------|------------------|-----------------------------------|-------------------|
| | 2018 | 2019 | 2018 | 2019 |
| Reconciliation from net income (loss) to Adjusted EBITDA: | | | | |
| Net income (loss) | \$ (1,553) | \$ 10,241 | \$ 38,598 | \$ 53,823 |
| Interest expense | - | - | - | - |
| Income tax expense (benefit) | (3,274) | (365) | (21,847) | 4,223 |
| Depreciation and amortization expense | 9,562 | 9,351 | 30,202 | 34,564 |
| EBITDA | 4,735 | 19,227 | 46,953 | 92,610 |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 8,624 | 10,218 | 31,817 | 41,014 |
| Acquisition-related costs ⁽¹⁾ | - | - | 191 | - |
| Lease exit costs ⁽²⁾ | 2,336 | 423 | 2,336 | 423 |
| Adjusted EBITDA | <u>\$ 15,695</u> | <u>\$ 29,868</u> | <u>\$ 81,297</u> | <u>\$ 134,047</u> |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|-----------------------------------|-----------|-----------------------------------|------------|
| | 2018 | 2019 | 2018 | 2019 |
| Reconciliation of non-GAAP Sales and Marketing: | | | | |
| Sales and Marketing | \$ 26,702 | \$ 31,912 | \$ 95,484 | \$ 112,599 |

| | | | | |
|--|-----------|-----------|-----------|------------|
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 1,646 | 2,208 | 7,502 | 8,059 |
| Non-GAAP Sales and Marketing | \$ 25,056 | \$ 29,704 | \$ 87,982 | \$ 104,540 |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | 2018 | 2019 | 2018 | 2019 |
| Reconciliation of non-GAAP Total Research and Development: | | | | |
| Research and Development | \$ 10,418 | \$ 13,443 | \$ 37,645 | \$ 50,329 |
| Capitalized internal-use software costs | 4,196 | 5,436 | 15,638 | 20,142 |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 1,040 | 1,364 | 4,076 | 5,844 |
| Non-GAAP Total Research and Development | \$ 13,574 | \$ 17,515 | \$ 49,207 | \$ 64,627 |

| | Three months Ended June 30, | | For the year Ended June 30, | |
|--|-----------------------------|-----------|-----------------------------|-----------|
| | 2018 | 2019 | 2018 | 2019 |
| Reconciliation of non-GAAP General and Administrative: | | | | |
| General and Administrative | \$ 25,914 | \$ 25,715 | \$ 79,252 | \$ 94,630 |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 4,871 | 5,286 | 15,691 | 21,567 |
| Amortization of acquired intangibles | 619 | 563 | 1,695 | 2,251 |
| Lease exit costs & accelerated depreciation expense ⁽³⁾ | 3,996 | 1,417 | 3,996 | 1,417 |
| Acquisition-related costs ⁽¹⁾ | - | - | 191 | - |
| Non-GAAP General and Administrative | \$ 16,428 | \$ 18,449 | \$ 57,679 | \$ 69,395 |

| | For the year Ended June 30, | |
|---|-----------------------------|------------|
| | 2018 | 2019 |
| Reconciliation of Free Cash Flow: | | |
| Net cash provided by operating activities | \$ 97,866 | \$ 115,032 |
| Capitalized internal-use software costs | (15,638) | (20,142) |
| Purchases of property and equipment | (21,676) | (11,280) |
| Lease allowances used for tenant improvements | (11,754) | (7,480) |
| Free Cash Flow | \$ 48,798 | \$ 76,130 |

⁽¹⁾ *Acquisition-related costs*: Includes legal, accounting and other professional fees as well as various other costs directly associated with acquisitions.

⁽²⁾ *Lease exit costs*: Includes the acceleration of rent and other expenses associated with the remaining lease term on our previous headquarters as a result of the transition to the Company's new headquarters in Schaumburg, Illinois.

⁽³⁾ *Lease exit costs and accelerated depreciation expense*: Includes the lease exit costs outlined above in item (2) as well as accelerated depreciation expense related to property and equipment as a result of the transition to the Company's new headquarters in Schaumburg, Illinois.

⁽⁴⁾ *Income tax effect on adjustments*: Includes the income tax effect on non-GAAP net income adjustments related to stock-based compensation expense and employer payroll taxes related to stock release and option exercises, amortization of acquired intangibles, acquisition-related costs and lease exit costs and accelerated depreciation expense.

⁽⁵⁾ *Valuation allowance release*: We established a valuation allowance on all of our net deferred tax assets except for deferred tax liabilities associated with indefinite-lived intangible assets during fiscal 2014, given that we determined that it was more likely than not that we would not recognize the benefits of its net operating loss carryforwards prior to their expiration. As a result of our improving financial performance, including net income in fiscal 2017 and fiscal 2018 and other factors, we released our valuation allowance against net deferred tax assets, resulting in a one-time, non-cash increase to net income.

⁽⁶⁾ *Excess tax benefit related to employee stock-based compensation payments*: Net federal and state tax windfall or shortfall benefits related to employee stock-based compensation payments.

(7) *Impact of tax reform:* On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Act) was signed into law. During fiscal 2018 we recorded an increase in our income tax provision due to the enactment of the Act. This increase to the provision for income taxes related to a reduction in net deferred tax assets, and is excluded from our non-GAAP financial measures because it is an expense that we do not consider part of ongoing operations.

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Source: Paylocity