



## Paylocity Announces Fourth Quarter and Full Fiscal Year 2020 Financial Results

August 6, 2020

- **Q4 2020 Recurring & Other Revenue of \$129.3 million, up 13% year-over-year**
- **Q4 2020 Total Revenue of \$130.6 million, up 8% year-over-year**
- **FY 2020 Recurring & Other Revenue of \$546.2 million, up 22% year-over-year**
- **FY 2020 Total Revenue of \$561.3 million, up 20% year-over-year**

SCHAUMBURG, Ill., Aug. 06, 2020 (GLOBE NEWSWIRE) -- Paylocity Holding Corporation (Nasdaq: PCTY), a leading provider of cloud-based HR and payroll software solutions, today announced financial results for the fourth quarter and full fiscal year 2020, which ended June 30, 2020.

"We had a solid fiscal 2020, which included 22% recurring and other revenue growth and a very strong year for our sales team, despite the impact COVID-19 had on macro-economic conditions in the fourth quarter," said Steve Beauchamp, Chief Executive Officer of Paylocity. "I'm proud of the dedication our employees showed in helping our clients navigate through a very uncertain time, coupled with a rapidly changing legislation landscape. We continue to see our commitment to product development pay dividends, with usage of our Learning Management and Community products up significantly during the fourth quarter. We also recently released a number of new product features and resources to help prospects and clients rethink how they recruit, rehire and engage their workforce in this new environment."

### Key Recent Achievements

- FY 2020 Recurring & Other Revenue of \$546.2 million, up 22% year-over-year
- FY 2020 Total Revenue of \$561.3 million, up 20% year-over-year
- FY 2020 GAAP net income of \$64.5 million and \$1.15 per diluted share
- FY 2020 Adjusted EBITDA, a non-GAAP measure, of \$159.8 million or 28.5% of revenue
- Ending FY 2020 cash, cash equivalents and invested corporate cash balance of \$288.0 million
- Acquisition of VidGrid, a leading video platform provider that enables peer-to-peer video learning courses, completed in April 2020

### Fourth Quarter Fiscal 2020 Financial Highlights

#### Revenue:

- Total revenue was \$130.6 million, an increase of 8% from the fourth quarter of fiscal year 2019.
- Recurring & other revenue was \$129.3 million, representing 99% of total revenue and an increase of 13% from the fourth quarter of fiscal year 2019 recurring & other revenue.

#### Operating Income:

- GAAP operating income was \$6.3 million and Non-GAAP operating income was \$21.4 million in the fourth quarter of fiscal year 2020.

#### Net Income:

- GAAP net income was \$5.0 million or \$0.09 per share for the three months ended June 30, 2020 based on 56.0 million diluted weighted average common shares outstanding.

#### Adjusted EBITDA:

- Adjusted EBITDA, a non-GAAP measure, was \$30.8 million in the fourth quarter of fiscal year 2020.

### Fiscal Year 2020 Financial Highlights

#### Revenue:

- Total revenue was \$561.3 million, an increase of 20% from fiscal year 2019.

- Recurring & other revenue was \$546.2 million, representing 97% of total revenue and an increase of 22% from fiscal year 2019 recurring & other revenue.

#### **Operating Income:**

- GAAP operating income was \$66.2 million and non-GAAP operating income was \$122.7 million in fiscal year 2020.

#### **Net Income:**

- GAAP net income was \$64.5 million or \$1.15 per share for fiscal year 2020, based on 55.8 million diluted weighted average common shares outstanding.

#### **Adjusted EBITDA:**

- Adjusted EBITDA, a non-GAAP measure, was \$159.8 million for fiscal year 2020.

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

- Cash, cash equivalents and invested corporate cash totaled \$288.0 million at the end of the year.
- \$100 million outstanding at the end of the year under our credit facility.
- Cash flow from operations for fiscal year 2020 was \$112.7 million compared to \$115.0 million for fiscal year 2019.
- Free cash flow, a non-GAAP measure, was \$70.4 million or 12.5% of revenue for fiscal year 2020.

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 6, 2020, Paylocity is issuing guidance for the first quarter of fiscal year 2021 as indicated below.

#### **First Quarter 2021:**

- Total revenue is expected to be in the range of \$131.5 million to \$135.5 million, which represents 4% - 7% growth over fiscal 2020 first quarter revenue.
- Adjusted EBITDA, a non-GAAP measure, is expected to be in the range of \$18.5 million to \$21.5 million.

We are unable to reconcile forward-looking non-GAAP Adjusted EBITDA to its directly comparable GAAP financial measure 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 fourth quarter and fiscal year 2020 results at 4:30 p.m. Central Time today (5:30 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 [www.paylocity.com](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 3247749. 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 leading provider of cloud-based HR and payroll software solutions headquartered in Schaumburg, IL. Founded in 1997 and publicly traded since 2014, Paylocity offers an intuitive, easy-to-use product suite that helps businesses tackle today's challenges while moving them toward the promise of tomorrow. Known for its unique culture and consistently recognized as one of the best places to work, Paylocity accompanies its clients on the journey to create great workplaces and help people achieve their best through automation, data-driven insights, and engagement. For more information, visit [www.paylocity.com](http://www.paylocity.com).

#### **Non-GAAP Financial Measures**

The company uses certain non-GAAP financial measures in this release, including Adjusted EBITDA, adjusted 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 and other items as described later in this release. Adjusted gross profit is 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 and other items as described later in this release. 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 and other items as described later in this release. 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 and other items as described later in this release, including 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. 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 and acquisition-related costs. 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.

### 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 the ongoing impact of the novel coronavirus disease ("COVID-19") on the U.S. economy, including reductions in interest rates, business disruptions, reductions in employment and an increase in business failures that have occurred or may occur in the future; the continuing impact of COVID-19 on Paylocity's employees and clients and Paylocity's ability to provide services to its clients and respond to their needs; 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-Q filed with the SEC on May 8, 2020. 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, including events relating to the COVID-19 pandemic and its severity, duration and ultimate impact, 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)

|                                                    | As of June 30, |            |
|----------------------------------------------------|----------------|------------|
|                                                    | 2019           | 2020       |
| <b>Assets</b>                                      |                |            |
| Current assets:                                    |                |            |
| Cash and cash equivalents                          | \$ 132,476     | \$ 250,851 |
| Corporate investments                              | 29,314         | 34,556     |
| Accounts receivable, net                           | 4,358          | 4,923      |
| Deferred contract costs                            | 21,677         | 32,332     |
| Prepaid expenses and other                         | 13,895         | 13,188     |
| Total current assets before funds held for clients | 201,720        | 335,850    |
| Funds held for clients                             | 1,394,469      | 1,327,304  |
| Total current assets                               | 1,596,189      | 1,663,154  |
| Capitalized internal-use software, net             | 27,486         | 36,501     |
| Property and equipment, net                        | 70,056         | 66,737     |
| Operating lease right-of-use assets                | —              | 48,658     |

|                                      |                     |                     |
|--------------------------------------|---------------------|---------------------|
| Intangible assets, net               | 10,751              | 13,360              |
| Goodwill                             | 9,590               | 21,655              |
| Long-term deferred contract costs    | 81,422              | 125,711             |
| Long-term prepaid expenses and other | 1,975               | 4,917               |
| Deferred income tax assets           | 6,472               | 4,955               |
| Total assets                         | <u>\$ 1,803,941</u> | <u>\$ 1,985,648</u> |

#### Liabilities and Stockholders' Equity

##### Current liabilities:

|                                                          |                     |                     |
|----------------------------------------------------------|---------------------|---------------------|
| Accounts payable                                         | \$ 3,954            | \$ 1,755            |
| Accrued expenses                                         | 57,625              | 79,881              |
| Total current liabilities before client fund obligations | 61,579              | 81,636              |
| Client fund obligations                                  | 1,394,469           | 1,327,304           |
| Total current liabilities                                | 1,456,048           | 1,408,940           |
| Long-term debt                                           | —                   | 100,000             |
| Deferred rent                                            | 31,263              | —                   |
| Long-term operating lease liabilities                    | —                   | 73,299              |
| Other long-term liabilities                              | 1,723               | 1,747               |
| Deferred income tax liabilities                          | 6,943               | 8,754               |
| Total liabilities                                        | <u>\$ 1,495,977</u> | <u>\$ 1,592,740</u> |

##### Stockholders' equity:

|                                                                                                                                                                                                                |                     |                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Preferred stock, \$0.001 par value, 5,000 authorized, no shares issued and outstanding at June 30, 2019 and June 30, 2020                                                                                      | \$ —                | \$ —                |
| Common stock, \$0.001 par value, 155,000 shares authorized at June 30, 2019 and June 30, 2020; 53,075 shares issued and outstanding at June 30, 2019 and 53,792 shares issued and outstanding at June 30, 2020 | 53                  | 54                  |
| Additional paid-in capital                                                                                                                                                                                     | 207,982             | 227,907             |
| Retained earnings                                                                                                                                                                                              | 99,817              | 164,272             |
| Accumulated other comprehensive income                                                                                                                                                                         | 112                 | 675                 |
| Total stockholders' equity                                                                                                                                                                                     | <u>\$ 307,964</u>   | <u>\$ 392,908</u>   |
| Total liabilities and stockholders' equity                                                                                                                                                                     | <u>\$ 1,803,941</u> | <u>\$ 1,985,648</u> |

#### PAYLOCITY HOLDING CORPORATION

##### Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share data)

|                                              | For the Three Months Ended<br>June 30, |                 | For the Years Ended<br>June 30, |                  |
|----------------------------------------------|----------------------------------------|-----------------|---------------------------------|------------------|
|                                              | 2019                                   | 2020            | 2019                            | 2020             |
| Revenues:                                    |                                        |                 |                                 |                  |
| Recurring and other revenue                  | \$ 114,656                             | \$ 129,264      | \$ 447,752                      | \$ 546,212       |
| Interest income on funds held for clients    | 5,717                                  | 1,325           | 19,881                          | 15,117           |
| Total revenues                               | 120,373                                | 130,589         | 467,633                         | 561,329          |
| Cost of revenues                             | 40,094                                 | 45,875          | 153,851                         | 182,010          |
| Gross profit                                 | 80,279                                 | 84,714          | 313,782                         | 379,319          |
| Operating expenses:                          |                                        |                 |                                 |                  |
| Sales and marketing                          | 31,912                                 | 33,083          | 112,599                         | 145,134          |
| Research and development                     | 13,443                                 | 17,350          | 50,329                          | 62,766           |
| General and administrative                   | 25,715                                 | 27,965          | 94,630                          | 105,248          |
| Total operating expenses                     | 71,070                                 | 78,398          | 257,558                         | 313,148          |
| Operating income                             | 9,209                                  | 6,316           | 56,224                          | 66,171           |
| Other income                                 | 667                                    | (247)           | 1,822                           | 947              |
| Income before income taxes                   | 9,876                                  | 6,069           | 58,046                          | 67,118           |
| Income tax expense (benefit)                 | (365)                                  | 1,119           | 4,223                           | 2,663            |
| Net income                                   | <u>\$ 10,241</u>                       | <u>\$ 4,950</u> | <u>\$ 53,823</u>                | <u>\$ 64,455</u> |
| Other comprehensive income, net of tax       |                                        |                 |                                 |                  |
| Unrealized gains on securities, net of tax   | 90                                     | 777             | 251                             | 563              |
| Total other comprehensive income, net of tax | 90                                     | 777             | 251                             | 563              |
| Comprehensive income                         | <u>\$ 10,331</u>                       | <u>\$ 5,727</u> | <u>\$ 54,074</u>                | <u>\$ 65,018</u> |

Net income per share:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.19 | \$ 0.09 | \$ 1.02 | \$ 1.20 |
| Diluted | \$ 0.18 | \$ 0.09 | \$ 0.97 | \$ 1.15 |

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

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 53,017 | 53,731 | 52,914 | 53,547 |
| Diluted | 55,692 | 55,970 | 55,414 | 55,807 |

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<br>June 30, |          | For the Years Ended<br>June 30, |          |
|----------------------------|----------------------------------------|----------|---------------------------------|----------|
|                            | 2019                                   | 2020     | 2019                            | 2020     |
| Cost of revenues           | \$1,360                                | \$1,605  | \$5,544                         | \$6,217  |
| Sales and marketing        | 2,208                                  | 3,215    | 8,059                           | 14,494   |
| Research and development   | 1,364                                  | 2,299    | 5,844                           | 7,855    |
| General and administrative | 5,286                                  | 6,374    | 21,567                          | 21,798   |
| Total                      | \$10,218                               | \$13,493 | \$41,014                        | \$50,364 |

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

|                                                                                          | For the Years Ended June 30, |           |           |
|------------------------------------------------------------------------------------------|------------------------------|-----------|-----------|
|                                                                                          | 2018                         | 2019      | 2020      |
| Cash flows from operating activities:                                                    |                              |           |           |
| Net income                                                                               | \$ 38,598                    | \$ 53,823 | \$ 64,455 |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                              |           |           |
| Stock-based compensation expense                                                         | 30,354                       | 38,765    | 47,493    |
| Depreciation and amortization expense                                                    | 30,202                       | 34,564    | 37,913    |
| Deferred income tax expense (benefit)                                                    | (21,870)                     | 4,134     | 2,754     |
| Provision for doubtful accounts                                                          | 296                          | 283       | 309       |
| Net accretion of discounts and amortization of premiums on available-for-sale securities | (443)                        | (2,230)   | (1,836)   |
| Net realized losses on sales of available-for-sale securities                            | 2                            | —         | —         |
| Amortization of debt issuance costs                                                      | —                            | —         | 154       |
| Loss on disposal of equipment                                                            | 227                          | 454       | 395       |
| Changes in operating assets and liabilities:                                             |                              |           |           |
| Accounts receivable                                                                      | (1,494)                      | (1,188)   | (732)     |
| Deferred contract costs                                                                  | —                            | (34,992)  | (54,944)  |
| Prepaid expenses and other                                                               | (2,141)                      | 389       | (196)     |
| Accounts payable                                                                         | 740                          | (75)      | (806)     |
| Accrued expenses and other                                                               | 11,641                       | 13,625    | 17,696    |
| Tenant improvement allowance                                                             | 11,754                       | 7,480     | —         |
| Net cash provided by operating activities                                                | 97,866                       | 115,032   | 112,655   |
| Cash flows from investing activities:                                                    |                              |           |           |
| Purchases of available-for-sale securities and other                                     | (196,597)                    | (250,685) | (400,343) |
| Proceeds from sales and maturities of available-for-sale securities                      | 73,044                       | 246,243   | 410,593   |
| Capitalized internal-use software costs                                                  | (15,638)                     | (20,142)  | (25,715)  |
| Purchases of property and equipment                                                      | (21,676)                     | (11,280)  | (16,578)  |
| Lease allowances used for tenant improvements                                            | (11,754)                     | (7,480)   | —         |
| Acquisition of business, net of cash acquired                                            | (6,658)                      | —         | (16,714)  |
| Net cash used in investing activities                                                    | (179,279)                    | (43,344)  | (48,757)  |
| Cash flows from financing activities:                                                    |                              |           |           |
| Net change in client fund obligations                                                    | 281,467                      | 168,855   | (67,165)  |
| Borrowings under credit facility                                                         | —                            | —         | 100,000   |
| Payment of contingent consideration                                                      | —                            | (1,000)   | —         |
| Repurchases of common shares                                                             | —                            | (34,991)  | —         |
| Proceeds from exercise of stock options                                                  | —                            | 85        | —         |
| Proceeds from employee stock purchase plan                                               | 4,304                        | 5,982     | 8,901     |

|                                                                                                                                   |                     |                     |                     |
|-----------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Taxes paid related to net share settlement of equity awards                                                                       | (10,554)            | (24,207)            | (38,943)            |
| Payment of debt issuance costs                                                                                                    | —                   | —                   | (701)               |
| Net cash provided by financing activities                                                                                         | 275,217             | 114,724             | 2,092               |
| Net change in cash, cash equivalents and funds held for clients' cash and cash equivalents                                        | 193,804             | 186,412             | 65,990              |
| Cash, cash equivalents and funds held for clients' cash and cash equivalents—beginning of year                                    | 1,045,927           | 1,239,731           | 1,426,143           |
| Cash, cash equivalents and funds held for clients' cash and cash equivalents—end of year                                          | <u>\$ 1,239,731</u> | <u>\$ 1,426,143</u> | <u>\$ 1,492,133</u> |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities                                                            |                     |                     |                     |
| Build-out allowances received from landlords                                                                                      | <u>\$ 1,956</u>     | <u>\$ 1,264</u>     | <u>\$ —</u>         |
| Purchase of property and equipment and internal-use software, accrued but not paid                                                | <u>\$ 659</u>       | <u>\$ 4,260</u>     | <u>\$ 164</u>       |
| Liabilities assumed for acquisition                                                                                               | <u>\$ —</u>         | <u>\$ —</u>         | <u>\$ 674</u>       |
| Supplemental Disclosure of Cash Flow Information                                                                                  |                     |                     |                     |
| Cash paid for interest                                                                                                            | <u>\$ —</u>         | <u>\$ —</u>         | <u>\$ 438</u>       |
| Cash paid (refunds received) for income taxes                                                                                     | <u>\$ (53)</u>      | <u>\$ 412</u>       | <u>\$ 84</u>        |
| Reconciliation of cash, cash equivalents and funds held for clients' cash and cash equivalents to the Consolidated Balance Sheets |                     |                     |                     |
| Cash and cash equivalents                                                                                                         | \$ 137,193          | \$ 132,476          | \$ 250,851          |
| Funds held for clients' cash and cash equivalents                                                                                 | 1,102,538           | 1,293,667           | 1,241,282           |
| Total cash, cash equivalents and funds held for clients' cash and cash equivalents                                                | <u>\$ 1,239,731</u> | <u>\$ 1,426,143</u> | <u>\$ 1,492,133</u> |

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

|                                                                                                            | Three months Ended<br>June 30, |                  | For the year Ended<br>June 30, |                   |
|------------------------------------------------------------------------------------------------------------|--------------------------------|------------------|--------------------------------|-------------------|
|                                                                                                            | 2019                           | 2020             | 2019                           | 2020              |
| <b>Reconciliation from gross profit to adjusted gross profit:</b>                                          |                                |                  |                                |                   |
| Gross profit                                                                                               | \$ 80,279                      | \$ 84,714        | \$ 313,782                     | \$ 379,319        |
| Amortization of capitalized internal-use software costs                                                    | 4,067                          | 5,188            | 16,921                         | 19,261            |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 1,360                          | 1,605            | 5,544                          | 6,217             |
| Adjusted gross profit                                                                                      | <u>\$ 85,706</u>               | <u>\$ 91,507</u> | <u>\$ 336,247</u>              | <u>\$ 404,797</u> |

|                                                                                                            | Three months Ended<br>June 30, |                  | For the year Ended<br>June 30, |                   |
|------------------------------------------------------------------------------------------------------------|--------------------------------|------------------|--------------------------------|-------------------|
|                                                                                                            | 2019                           | 2020             | 2019                           | 2020              |
| <b>Reconciliation from operating income to non-GAAP operating income:</b>                                  |                                |                  |                                |                   |
| Operating income                                                                                           | \$ 9,209                       | \$ 6,316         | \$ 56,224                      | \$ 66,171         |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 10,218                         | 13,493           | 41,014                         | 50,364            |
| Other items <sup>(1)</sup>                                                                                 | 1,417                          | 738              | 1,417                          | 3,685             |
| Amortization of acquired intangibles                                                                       | 563                            | 835              | 2,251                          | 2,523             |
| Non-GAAP operating income                                                                                  | <u>\$ 21,407</u>               | <u>\$ 21,382</u> | <u>\$ 100,906</u>              | <u>\$ 122,743</u> |

|                                                                                                            | Three months Ended<br>June 30, |                  | For the year Ended<br>June 30, |                   |
|------------------------------------------------------------------------------------------------------------|--------------------------------|------------------|--------------------------------|-------------------|
|                                                                                                            | 2019                           | 2020             | 2019                           | 2020              |
| <b>Reconciliation from net income to non-GAAP net income:</b>                                              |                                |                  |                                |                   |
| Net income                                                                                                 | \$ 10,241                      | \$ 4,950         | \$ 53,823                      | \$ 64,455         |
| Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises | 10,218                         | 13,493           | 41,014                         | 50,364            |
| Amortization of acquired intangibles                                                                       | 563                            | 835              | 2,251                          | 2,523             |
| Other items <sup>(1)</sup>                                                                                 | 1,417                          | 738              | 1,417                          | 3,685             |
| Income tax effect on adjustments <sup>(2)</sup>                                                            | (3,385)                        | (2,223)          | (22,158)                       | (16,389)          |
| Non-GAAP net income                                                                                        | <u>\$ 19,054</u>               | <u>\$ 17,793</u> | <u>\$ 76,347</u>               | <u>\$ 104,638</u> |

**Calculation of non-GAAP net income per share:**

Non-GAAP net income  
Diluted weighted-average number of common shares  
Non-GAAP net income per share

| Three months Ended<br>June 30, |           | For the year Ended<br>June 30, |            |
|--------------------------------|-----------|--------------------------------|------------|
| 2019                           | 2020      | 2019                           | 2020       |
| \$ 19,054                      | \$ 17,793 | \$ 76,347                      | \$ 104,638 |
| 55,692                         | 55,970    | 55,414                         | 55,807     |
| \$ 0.34                        | \$ 0.32   | \$ 1.38                        | \$ 1.87    |

**Reconciliation from net income to Adjusted EBITDA:**

Net income  
Interest expense  
Income tax expense (benefit)  
Depreciation and amortization expense  
EBITDA  
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises  
Other items <sup>(3)</sup>  
Adjusted EBITDA

| Three months Ended<br>June 30, |           | For the year Ended<br>June 30, |            |
|--------------------------------|-----------|--------------------------------|------------|
| 2019                           | 2020      | 2019                           | 2020       |
| \$ 10,241                      | \$ 4,950  | \$ 53,823                      | \$ 64,455  |
| -                              | 405       | -                              | 695        |
| (365)                          | 1,119     | 4,223                          | 2,663      |
| 9,351                          | 10,081    | 34,564                         | 37,913     |
| 19,227                         | 16,555    | 92,610                         | 105,726    |
| 10,218                         | 13,493    | 41,014                         | 50,364     |
| 423                            | 738       | 423                            | 3,685      |
| \$ 29,868                      | \$ 30,786 | \$ 134,047                     | \$ 159,775 |

**Reconciliation of non-GAAP Sales and Marketing:**

Sales and Marketing  
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises  
Non-GAAP Sales and Marketing

| Three months Ended<br>June 30, |           | For the year Ended<br>June 30, |            |
|--------------------------------|-----------|--------------------------------|------------|
| 2019                           | 2020      | 2019                           | 2020       |
| \$ 31,912                      | \$ 33,083 | \$ 112,599                     | \$ 145,134 |
| 2,208                          | 3,215     | 8,059                          | 14,494     |
| \$ 29,704                      | \$ 29,868 | \$ 104,540                     | \$ 130,640 |

**Reconciliation of non-GAAP Total Research and Development:**

Research and Development  
Capitalized internal-use software costs  
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises  
Acquisition-related costs <sup>(4)</sup>  
Non-GAAP Total Research and Development

| Three months Ended<br>June 30, |           | For the year Ended<br>June 30, |           |
|--------------------------------|-----------|--------------------------------|-----------|
| 2019                           | 2020      | 2019                           | 2020      |
| \$ 13,443                      | \$ 17,350 | \$ 50,329                      | \$ 62,766 |
| 5,436                          | 6,502     | 20,142                         | 25,715    |
| 1,364                          | 2,299     | 5,844                          | 7,855     |
| -                              | 228       | -                              | 228       |
| \$ 17,515                      | \$ 21,325 | \$ 64,627                      | \$ 80,398 |

**Reconciliation of non-GAAP General and Administrative:**

General and Administrative  
Stock-based compensation expense and employer payroll taxes related to stock releases and option exercises  
Amortization of acquired intangibles  
Other items <sup>(1)</sup>  
Non-GAAP General and Administrative

| Three months Ended<br>June 30, |           | For the year Ended<br>June 30, |            |
|--------------------------------|-----------|--------------------------------|------------|
| 2019                           | 2020      | 2019                           | 2020       |
| \$ 25,715                      | \$ 27,965 | \$ 94,630                      | \$ 105,248 |
| 5,286                          | 6,374     | 21,567                         | 21,798     |
| 563                            | 835       | 2,251                          | 2,523      |
| 1,417                          | 510       | 1,417                          | 3,457      |
| \$ 18,449                      | \$ 20,246 | \$ 69,395                      | \$ 77,470  |

**Reconciliation of Free Cash Flow:**

Net cash provided by operating activities  
Capitalized internal-use software costs  
Purchases of property and equipment  
Lease allowances used for tenant improvements

| For the year Ended<br>June 30, |            |
|--------------------------------|------------|
| 2019                           | 2020       |
| \$ 115,032                     | \$ 112,655 |
| (20,142)                       | (25,715)   |
| (11,280)                       | (16,578)   |
| (7,480)                        | -          |

Free Cash Flow

\$ 76,130 \$ 70,362

(1) Represents nonrecurring costs including lease exit and acquisition-related costs and the settlement of a certain legal matter and related litigation costs during the year ended June 30, 2020 and lease exit costs and accelerated depreciation expense during the year ended June 30, 2019.

(2) 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 releases and option exercises, excess deductible federal and state tax windfall on stock-based compensation, and amortization of acquired intangibles and other items.

(3) Represents nonrecurring costs including lease exit and acquisition-related costs and settlement of a certain legal matter and related litigation costs during the year ended June 30, 2020 and lease exit costs incurred during June 30, 2019.

(4) Acquisition-related costs recorded in Research and Development.



Source: Paylocity