

Wednesday, September 11th



AdChoices 

- [Top Stories](#)
- [Business News](#)
- [Investing](#)
- [Market](#)
- [Money & Finance](#)
- [Technology](#)
- [Small Business](#)
- [Politics](#)
- [Lifestyle](#)
- [Videos](#)

AdChoices 

[A Service Company with Steady Growth](#)

August 30, 2013 8:34 AM

Paychex offers payroll, human resource, and outsourcing services for small to medium-sized businesses. The company's goal of driving growth in clients, revenue, and profits via industry-leading technology and outstanding service is working. But that doesn't mean it's the best investment in its peer group.

Growth and expectations

Paychex aims for product portfolio expansion and acquisitions for growth. For instance, it recently launched mobile apps for smartphones, and added access to flexible spending accounts, as well as health and benefits information.

Paychex is also expanding beyond the United States and Germany, and is now moving into Brazil after forming a joint venture with Semco Partners in order to provide HR services to small businesses. This might not be a major move in regards to geographical expansion, but it may be a sign of things to come. Paychex sees economic growth and opportunity in Latin America, and it's likely to capitalize on that trend going forward. With no long-term debt whatsoever and capital preservation a focus, Paychex is well-managed in a fiscal sense and can afford such growth risks.

Looking back at FY 2013 over 2012, revenue growth is apparent. Payroll Service revenue (payroll processing, payroll tax administration services, regulatory compliance services) improved 2% to \$1.5 billion. Human Resource Services revenue (administrative services, professional employer or organizational services, customer support for employee-related topics) jumped 10% to \$746 million. Total revenue increased 4% to \$2.3 billion.

Looking ahead to FY2014, Paychex expects revenue growth of 3%-4% in Payroll Services, 9%-10% in Human Resource Services, and 5%-6% in Total Services.

Client base totals over the past three fiscal years indicate a positive trend:

- 2011: 564,000
- 2012: 567,000
- 2013: 570,000

Net income also improved by 4% to \$569 million, and diluted EPS increased 3% to \$1.56. Paychex expects net income to grow by 8% to 9% for FY2014.

All of the above is impressive, and considering the company's strong historical track record, future goals look to be attainable barring a complete economic collapse. In addition to the growth vehicles covered above, Paychex is well positioned for the SaaS (software-as-a-service) boom, as it offers human resource management, employee benefits management, time and attendance systems, online expense reporting, and more.

Paychex also launched a report center and report writer (on-demand reporting needs and data extract templates) and a new BuildMyBiz.com (small business and entrepreneur resources). Those looking for health care reform information can also visit Paychexinsurance.com.

Important notes:

- Thanks to advanced technologies and high customer satisfaction, Paychex has managed to retain 81% of its Payroll Services clients.
- 84% of net income is paid to shareholders via dividends

At this point, it might seem as though considering peers of Payche for investment would be a waste of time, but you never want to leave any stone unturned.

Paychex vs. peers

As indicated above, Paychex has seen steady growth, and expectations are solid going forward. However, other companies in the space also have high expectations. For instance, **Automatic Data Processing** expects revenue growth of 7% and EPS growth of 8%-10% in FY2014. This human capital management solutions company also holds the #65 spot on Forbes 2013 "World's Most Innovative Companies" list.

Paychex didn't management to crack that list.

Then there's **Intuit**, which expects FY2014 revenue and EPS growth of 6%-8% and 10%-13%, respectively. For a more specific breakdown, the company's recent realignment is expected to lead to 3%-5% revenue growth in its Consumer Group segment, 10%-12% revenue growth in its Small Business Group segment, and 0%-4% revenue growth in its Professional Tax segment.

If you look at the all-time historical stock performance for these three companies, Intuit is the best long-term performer of the group.



INTU data by YCharts

However, it should be noted that Automatic Data Processing was the most resilient of the three at the height of the Great Recession, mostly due to its larger size, with the stock dropping approximately 20%, versus 30% for Intuit, and 40% for Paychex. All three stocks held up relatively well compared to the carnage seen throughout the broader market at the time.

Currently, all three stocks have similar valuations, with Paychex trading at 25 times earnings, and Automatic Data Processing and Intuit trading at 25 and 22 times earnings, respectively. Paychex does yield 3.60%, compared to 2.40% and 1.10% for Automatic Data Processing and Intuit.

Conclusion

All three companies mentioned in this article are likely to be long-term winners. In all three cases, you have quality management and strong guidance. As far as Paychex goes, the biggest concern doesn't relate to any company-specific matters, but the broader economic environment. Though the stock is somewhat

resilient on a relative basis, nobody aims for losses. With the global economy on questionable ground and the stock market potentially overextended, this might not be the ideal entry point for Paychex. However, an investment in a strong underlying company will almost always work out in the end. If you plan on investing, consider doing so at an incremental pace so you can add to your position if the stock suffers downside moves.

The Motley Fool’s chief investment officer has selected his No. 1 stock for this year. Find out which stock it is in the special free report: “The Motley Fool’s Top Stock for 2013.” Just click here to access the report and find out the name of this under-the-radar company.

Copyright © 1995 – 2013 The Motley Fool, LLC. All rights reserved. The Motley Fool has a *disclosure policy*.



[See full article at Daily Finance](#)

Suggested for you

10 Things To Never Say During Sex...

Hardwick arrest records. Who do you know? You may be surprised! Search anyone!

Have a \$500k portfolio? Ken Fisher, a 27-year Forbes columnist, has a retirement guide for you!

Top 10 Easy-Going Dog Breeds

Kate Upton like you've never seen her before!

Don't buy an annuity until you see our secret to 8% guaranteed* for life.

Vermont-Discover what doctors say about the E-Cigarette craze in the U.S. Is it really that good?

Time for vacation? Cruise ship deals at up to 75% off. Don't miss out...

ADVERTISEMENT

Other articles:

“Robbed” At Home Depot – A Survivor Fighting Back

Pengrowth Keeps Dividend Steady

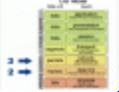
Organovo's Earnings: Patience Is Necessary

Titan International Keeps Dividend Steady

Connect  

Recent Posts

-  [Live Sports Companion Rolls Out New Android App Designed For Tablets](#)
-  [Here Are Some of America's Most Privacy Friendly Companies](#)

-  [Director Nabil Elderkin On How To Direct A Music Video](#)
-  [Apple's 'cheaper' iPhone 5C: What the analysts are saying](#)
-  [Is the Extra Layer Better? Layer 2 Versus Layer 3 Networking](#)
-  [Collecting Arrears: Tips for Collecting the Most From Your Delinquent Notes](#)
-  [Where To Put Your Money When Buying Shoes This Fall](#)
-  [Announcing The 54 Finalists In Our Innovation By Design Awards](#)
-  [Marginal Cost And Benefit: Apple's Addiction To iPhone Profits](#)
-  [Glaxo May Face Generic Advair Sooner Than Expected](#)

AdChoices 

[Disclaimer](#) | [Copyright](#) | [Terms](#) | [Privacy](#) | [Contact](#) | [Advertise](#) | [RSS](#)

©2013 Published by Business News and Journal. All Rights Reserved
Business News and Journal is a leading global, multimedia news and

information company. Our core purpose is to enhance society by creating, collecting and distributing high-quality business news and information. Business News and Journal is a multi-platform news and information media company, delivering high-quality and engaging content across print, digital, social and video platforms. We are an innovator of business news and information, Business News and Journal reflects the pulse of the world and serves as the host for newsworthy conversation – today, tomorrow and for decades to follow.