Paycom Software Third Quarter 2026 Prepared Remarks

James Samford, Head of Investor Relations – Safe Harbor Language

Thank you, and welcome to Paycom's earnings conference call for the third quarter of 2026. Certain statements made on this call that are not historical facts, including those related to our future plans, objectives and expected performance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements represent our outlook only as of the date of this conference call. While we believe any forward-looking statements made on this call are reasonable, actual results may differ materially because the statements are based on our current expectations and subject to risks and uncertainties. These risks and uncertainties are discussed in our filings with the SEC, including our most recent annual report on Form 10-K.
You should refer to and consider these factors when relying on such forward-looking information. Any forward-looking statement made speaks only as of the date on which it is made, and we do not undertake and expressly disclaim any obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Also, during today's call, we will refer to certain non-GAAP financial measures, including adjusted EBITDA, non-GAAP net income, and free cash flow. We use these non-GAAP financial measures to review and assess our performance and for planning purposes. A reconciliation schedule showing GAAP versus non-GAAP results is included in the press release that we issued after the close of the market today and is available on our website at investors.paycom.com. I will now turn the call over to Chad Richison, Paycom's founder and CEO. Chad?

Chad Richison, Founder, CEO and Chairman

Paycom's Third Quarter Accomplishments

Thanks, James, and thank you to everyone joining our call today. I'll briefly comment on current trends and recent achievements. Then I will pass the call over to our president, Shane Hadlock, before Bob reviews our third-quarter results and full-year guidance. We will then take questions. Let's get started.

Third-quarter results continued to demonstrate the strength of our platform, coming in ahead of our expectations. Our focus on full solution automation, world-class service, and ROI achievement is resonating in the market. Thanks to our strong performance year-to-date, we are once again raising our full-year outlook for both revenue and profitability.

Paycom Delivers for its Clients with Decisioning Logic and Full-Solution Automation

We are seeing greater adoption of automation across our client base, as we continue to expand automated decisioning logic and AI capabilities. For any business, AI adoption starts with delivering real value at an affordable cost. Our early investments in data centers, AI technology and GPUs are paying off for our clients and ourselves. Our clients are not paying for tokens on our system. That creates a powerful economic advantage as we continue to deliver more automation at a lower cost, creating greater value for our clients and stronger returns on Paycom's investments.

On the product side, we continue to innovate and drive even more automation. Our clients appreciate the decisioning logic that is built into our platform as it allows them to incorporate their company policies such as PTO, payroll, scheduling, onboarding and more directly into the system. This allows for accurate and consistent decisions that generate tremendous ROI across an organization.

Paycom's Clients Respond Positively to Asset Management

One of the most recent products we launched with built-in decision logic is Asset Management, and the response to this new tool has been excellent. Through our research, we found that companies are buying assets they already own. We have seen companies hiring 50 new employees and then buying 50 new laptops, phones, tools, badges, software licenses and other equipment, while perfectly good ones sit unused in storage and others remain unreturned by former employees.
Our Asset Management platform helps clients track, recover and deploy their assets, reducing unnecessary spending and giving them control over what they already own.

Automation Demand Accelerates

Demand for automation is accelerating, and Paycom continues to lead the industry with the most intelligent platform for automating decisions across any organization. Our ability to develop, release, host, distribute, and service our technology gives us a powerful advantage.

I am very excited about our upcoming product pipeline, which will add even more value to businesses across our large and expanding TAM.

Now, I would like to turn the call over to Shane Hadlock.

Shane Hadlock, President and Chief Client Officer

Paycom Succeeds in 2026 Product Releases

Thanks, Chad.

We delivered excellent third-quarter results, thanks to our dedicated employees and their relentless focus on our clients' success.

Throughout 2026, we released many powerful solutions, and client response to these releases has been incredibly positive.

Paycom's Award-Winning AI Solution, IWant

Our award-winning AI solution, IWant, continues to accelerate speed-to-value for our clients by giving employees, managers and executives immediate access to critical data. IWant is enabled across our client base and has successfully responded to millions of queries. In fact, IWant usage is up approximately 65% today versus the end of 2025. Our AI is creating meaningful value for our clients and without any incremental costs to them. In fact, Forrester found that organizations in the mid-market using IWant can achieve greater than 400% ROI and save as many as 3,600 employee hours, 600 manager hours and 60 executive hours annually.

Paycom's GONE Sets Example for Client ROI Achievement

Another example of client ROI achievement is a business that used our product GONE to eliminate $360,000 dollars in unmanaged PTO. This company has hundreds of employees across 73 locations in 12 states. Prior to using GONE, 1/5th of their PTO was approved manually after the day it had already been taken, and the majority of their employees had negative time-off balances. Thanks to GONE, the system makes the decisions, which helps eliminate time theft and ensure the workforce is operating at peak efficiency, driving more to the bottom-line. That's the power of decisioning logic our clients are realizing.

Paycom and its Clients Benefit from Paycom Owning and Operating Its Data Center Infrastructure

Expanding on Chad's comments, owning and operating our data center infrastructure is a significant competitive advantage. We are one of only a handful of companies in the U.S. to operate a Tier IV data center. That infrastructure gives us greater control over our technology and the economics behind it, which increases the ROI our clients realize. This also drives operational efficiencies across R&D and service operations to drive even more internal value.

Paycom Sees Increase in Net Promoter Scores

Strong usage of our products and investments in customer service are resulting in increasing client satisfaction and are driving higher Net Promoter Scores. This is related to the investments we have been making in automation, product innovation and our teams' ability to deliver world-class service.

I am proud of what our teams have achieved this year focusing on strengthening client ROI and expanding the value of our platform.

With that, let me turn the call over to Bob.

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Bob Foster, Chief Financial Officer

Paycom's Third Quarter Earnings Results

Thank you, Shane.

Third-quarter results came in strong, with total revenues of $544 million, up 10% over the comparable prior-year period, and recurring and other revenue of $519 million, up 11% year-over-year.

Our continued focus on process automation and on leveraging our own technology is driving increased productivity across the organization, fundamentally strengthening our business. Our efforts over the last several quarters are driving durable revenue growth, sustainable margins and rapid earnings growth.

GAAP net income in the third quarter was $133 million, or $2.99 per diluted share, based on an average of 44.5 million shares outstanding. Non-GAAP net income increased 37% year over year in the third quarter to $150 million, or $3.37 per diluted share. Diluted non-GAAP EPS increased 74% year over year, reflecting strong earnings growth and the benefits of our capital allocation strategy.

Adjusted EBITDA in the third quarter came in very strong at $268 million, or 49.3% of revenues driven by expanding gross margin and reductions in operating costs. The investments we made in data centers, AI technology and product development processes are paying off and driving our expanding adjusted EBITDA margin. Based on the strength of our year-to-date results, we are raising our outlook for full-year revenue and adjusted EBITDA.

Paycom's Capital Allocation

Turning to capital allocation. We ended the third quarter with approximately 44 million shares outstanding, down nearly 20% from approximately 55 million shares at the end of the third quarter of 2025. During that same time period, we repurchased approximately 11.5 million shares. We bought back $3 million of stock in the third quarter and have $1.65 billion remaining on our buyback authorization as of the end of Q3. During the quarter we paid down $150 million of our balance on our revolving credit facility. We ended the quarter with cash and cash equivalents of $194 million and an outstanding balance of $750 million under our revolving credit facility.

We generated free cash flow of $536 million in the first nine months of 2026 and continue to expect to deliver very strong full year free cash flow. We expect even stronger free cash flow in 2027.

In the third quarter we paid approximately $17 million in cash dividends and on November 2nd, the Board approved our next quarterly dividend of 37.5 cents per share, payable in early December. The average daily balance of funds held for clients was approximately $2.7 billion in the third quarter of 2026, up 7% over the prior year period.

Paycom's Guidance for 2026

Now let me turn to guidance for 2026.

Based on the strength of our year-to-date results, we are increasing our revenue and adjusted EBITDA guidance ranges. We expect total revenues to be between $2.213 billion and $2.218 billion, or approximately 8% year-over-year growth. We now expect full year Recurring and other revenue to be up nearly 9% year-over-year. Included in our total revenue outlook is interest on funds held for clients of approximately $107 million. Full year adjusted EBITDA is now expected to be between $1.069 billion and $1.079 billion, representing an industry leading adjusted EBITDA margin of 48.5% at the midpoint of the range, a full 550 basis points higher than 2025 adjusted EBITDA margin.

For modeling purposes, stock-based comp is expected to be approximately 3% of revenues in 2026, and capex is expected to be approximately 6% of revenues. We expect 2026 GAAP tax rate to be 29% and 2026 non-GAAP tax rate to be approximately 27%.

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We are executing well against our 2026 plan which is flowing through to the bottom line. Our clients are increasingly pleased with our expanding intelligent platform and the value they are achieving. We'd like to thank our employees for their contribution to today's results.