Paycom Software Second Quarter 2026 Quarterly Results Prepared Remarks

James Samford, Head Of Investor Relations – Safe Harbor Language

Thank you, and welcome to Paycom's earnings conference call for the second 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 certain adjusted expenses. 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 Second Quarter Accomplishments

Thanks, James, and thank you to everyone joining our call today. I'll briefly comment on some of our new product launches and achievements so far this year. Then I will pass the call over to our president, Shane Hadlock, and then Bob will review our second-quarter results and full-year guidance. We will then take questions. Let's get started.

We delivered another solid quarter with results coming in ahead of expectations. The benefit of our software's full solution automation, coupled with world-class service, continue to drive industry-leading ROI, which is resonating in the market. With our strong first-half results, we are well-positioned to exceed our initial 2026 plan on both a revenue and profitability basis.

Paycom Expands Capabilities with AI and Automated Decisioning

Demand for automation is increasing, and our platform remains the most intelligent solution in the industry. Thanks to our early focus on data integrity and consolidation, we continue to expand our automation capabilities with AI and automated decisioning to deliver even more value to our clients.

Earlier this year, we announced the release of our Career and Succession Planning solution, and we are seeing solid client adoption. This is another automated product that equips leaders with a solution to more easily identify and develop talent, ensuring organizations are better prepared for the future. With this product, organizations have reliable data to discover workforce talent gaps and assess talent readiness. A client of ours with over 500 employees who was already using our Performance and Paycom Learning products, added Career and Succession Planning, and for the first time they have all key positions and successors identified. They were very pleased with how quickly they could identify leadership gaps and fill them with people who were developed to step into the roles. Clients are thrilled with this new functionality and the automation it creates for career development and succession.

Paycom Releases Asset Management

In July, we released our latest automated product, Asset Management. This solution enables businesses to manage their physical and digital assets, which represent one of their largest budgetary spends, ensuring those investments are deployed, tracked and recovered through our automated software. The launch of Asset Management expands our capabilities into an entirely new multi-billion-dollar TAM that fits perfectly within our software ecosystem. By combining Asset Management with the automated tools already in the Paycom system, we help our clients strengthen the security of their assets, bolster compliance and reduce lost property. Not only can organizations track all of their assets across their locations, but they can also identify the exact resources a position requires, which ensures a consistent deployment and retrieval of all company assets. Even though it was just released a few weeks ago, client feedback has been very strong and they are already adopting this new technology.

Asset Management marks the 45th product we have developed, hosted, distributed and serviced over nearly 28 years in business. We take great pride in our ability to consistently release industry-leading technology that generates tremendous ROI for our clients.

Now, I would like to turn the call over to Shane Hadlock. Prior to his role as our President, he served as our chief client officer, where he was instrumental in increasing retention, driving world-class service, building strong groups of leaders and delivering tremendous automation across the organization. With that, let me turn the call over to Shane.

Shane Hadlock, President and Chief Client Officer

Paycom Increases Platform Scalability and Customization

Thanks, Chad.

We are driving innovation across our industry, and this quarter, we released Project Arc. Project Arc was the largest system-wide release we have had in our company's history. This new release fundamentally changes the way clients and their employees experience Paycom. Clients love the new scalability and customization. This new release gives each user a unique experience, helping them quickly find the information and action items most relevant to them. Our clients say that their managers are raving about how customizable the system is, making it easier for them to do their jobs. One of our clients with a few thousand employees said that they were impressed with the new Arc release because it provides great customization and performance for their employees, managers and organization.

In addition to the new customizable features, Project Arc included significant updates to enhance the performance, scalability and functionality of our software. These changes to system performance and scalability have produced an experience for our clients that is much more efficient. In fact, a client of ours with over 10,000 employees reported their system performance increased by 4x.

Client feedback has been incredible as they are enjoying the benefits of this customization and improved scale, making the industry’s most intelligent solution even more powerful.

Paycom's Award-Winning AI Solution, IWant

Our award-winning AI solution, IWant, continues to accelerate speed-to-value for our clients by providing them with system intelligence that automates events and tasks within the system. For many new employees and new users of our software, utilizing IWant is their first interaction of our software, making it easier than ever to use. As we roll out more AI and automation across the platform, we are driving measurable value for our clients and their employees. IWant has been a game-changer for our clients and the industry.

I am proud of our team and all the work we have accomplished over the course of the year to drive efficiency and client satisfaction. Across the board, we have great talent at Paycom, especially in the leadership team. We have a deep and experienced bench with institutional knowledge and a competitive mindset that sets us apart.

Paycom's Recent Awards

I would like to thank our employees for their contributions to an excellent first half of 2026 and the robust results year to date. We are building strong momentum on a variety of new products, to further automate businesses. During the quarter, our product and culture received several accolades. Paycom earned the 2026 Top Rated Award from TrustRadius, which reflects strong client satisfaction across multiple HR and payroll categories. I was also pleased to see Paycom was named to Newsweek's Greatest Workplaces in Tech and our sales organization was included in Selling Power's 60 Best Companies to Sell For. These awards highlight our differentiated product set, client satisfaction and elite sales program. This is an exciting time to be part of Paycom.

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

Bob Foster, Chief Financial Officer

Paycom's Second Quarter Earnings Results

Thank you, Shane.

Second quarter results were strong with total revenue of $531 million, up 10% over the comparable prior-year period, and recurring and other revenue of $505 million, up 11% year-over-year. Revenue strength in the quarter was broad-based reflecting consistent product demand conditions and increased client satisfaction. Our focus on process automation and leveraging our own technology is driving increased productivity across the organization that is fundamentally strengthening our business. Our efforts over the last several quarters are driving sustainable margin expansion and earnings growth.

GAAP net income increased 20% in the second quarter to $107 million, or $2.34 per diluted share, based on an average of 46 million shares outstanding. Non-GAAP net income for the second quarter was $128 million, or $2.78 per diluted share.

Adjusted EBITDA in the second quarter came in at $235 million representing a 320-basis point year-over-year margin expansion to 44.2%. Based on the strength of our results in the first half, we are well positioned to deliver industry leading EBITDA margins, record Free Cash Flow and accelerated earnings per share growth in 2026.

We continued to identify what we view as a valuation disconnect in the market during the second quarter and opportunistically repurchased approximately 2.6 million shares of common stock, or approximately 6% of our shares outstanding, for a total of $346 million. Over the first six months of the year, we reduced shares outstanding by 20% by repurchasing nearly 11 million shares of common stock, returning approximately $1.4 billion to stockholders. We ended the second quarter with approximately 44 million shares outstanding, and $1.66 billion remaining on our buyback authorization. We also paid approximately $18 million in cash dividends during the second quarter. On August 3rd, the Board approved our next quarterly dividend of 37.5 cents per share, payable in early September.

Turning to the balance sheet. We continue to enjoy a very strong liquidity position. We ended the quarter with cash and cash equivalents of $198 million and have drawn down a total of $900 million on our $2.1 billion revolving credit facility to support our year-to-date stock repurchases. The average daily balance of funds held for clients was approximately $2.9 billion in the second quarter of 2026, up 9% over the prior year period.

Now let me turn to guidance for 2026.

Paycom's Guidance for 2026

Based on the strength of our first half results, and more visibility heading into the second half, we can confidently increase our revenue and adjusted EBITDA guidance ranges. We expect total revenues to be between $2.197 billion and $2.212 billion, or between 7% and 8% year-over-year growth. We now expect full year Recurring and Other revenue to be up 8% to 9% year over year. Included in total revenue outlook is interest on funds held for clients of approximately $105 million, which assumes current rates hold for the remainder of the year. Finally, as we continue to benefit from the impact of our automation initiatives, full year adjusted EBITDA is now expected to be between $1.007 billion and $1.022 billion, representing a record adjusted EBITDA margin of 46% at the midpoint of the range.

Our strong first half results have bolstered our conviction in our 2026 plan and in our full-solution automation strategy. We are executing well across the organization. Our clients are increasingly pleased with our platform and their ROI achievement, and we continue to opportunistically return value to stockholders through our capital allocation strategy. We'd like to thank our employees for their commitment to our vision and their contribution to our strong first half results.