



## Paychex Calls Bought as Shares Consolidate After Earnings

Ticker/Price: PAYX (\$85.65)

### Analysis:

**Paychex (PAYX)** multi-month consolidation with 925 ITM March \$80 calls opening \$5.90 to \$6.50 and volume approaching 1300X in the opening hour for \$850K. PAYX has seen March \$82.5, \$80, and \$77.5 puts open as well with most being tied to long stock. PAYX shares are forming a large weekly flag pattern and above \$87 can target a run to \$100 or higher. The \$30B human resources, retirement and insurance services company for small and medium business is trading 25.45X Earnings, 7.77X Sales and 69X FCF with a healthy 2.9% dividend yield. The company has seen strength in their PEO business and announced a \$1.2B deal for Oasis last November which will boost their scale to more than 1.4M worksite employees. PAYX has had issues with margin contraction but reduced investment spending to drive improvement. PAYX forecasts see 10% revenue growth and 9.2% EPS growth for FY20. It recently posted a solid quarter beating estimates and raising the FY20 EPS outlook with tailwinds from a strong labor market. PAYX's CEO on the call notes "We have been investing significantly in the area of sales, marketing, service and technology. These investments are paying dividends as we've seen continued momentum in new sales, efficiencies, in operations and the introduction of new and enhanced products. Paychex is being known much more as a provider of innovative HR technology solutions than ever before. Our investments in demand generation and sales are contributing to solid growth in new sales revenue and in particular, we are pleased with the strong performance of the mid-market space aided by greater attachment of our broad suite of HCM SaaS-based software solutions, such as our time and attendance and HR administration products. We are now in the main selling season. We believe we are well positioned for continued momentum." Analysts have an average target of \$84 on shares and short interest is 3.2% of the float. Jefferies raised its target to \$84 this week noting weaker performance in PEO and Insurance but Management Solutions more important and solid results. Argus on 10/3 boosted its target to \$92 as a suitable core holding with consistent high ROIC, FCF, and a healthy balance sheet with room to grow serving smaller companies. Hedge Fund ownership rose 11% in Q3 filings, Select Equity a top holder.

### Hawk Vision:



**Hawk's Perspective:** PAYX is a quiet quality story and continues to thrive on a great small business environment, not much of a fast moving options name, but a nice yield name to own.

**Confidence Ranking:** \$\$