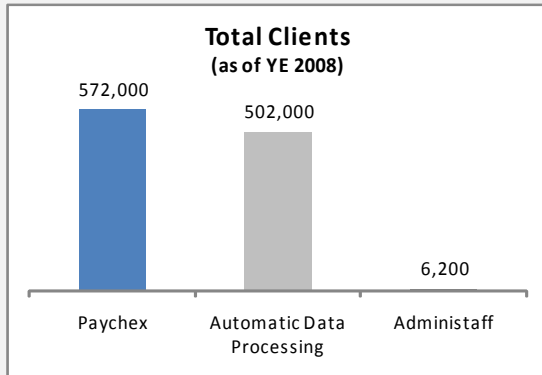


Recommendation: **BUY**

### Bigger Is Better: Economies of Scale Allow Paychex to Weather the Recession



Company: Paychex Inc.  
Ticker: NASDAQ: PAYX  
Headquarters: Rochester, NY

Price Target: \$ 33.00  
Current Price (5/1/09): \$ 26.93  
52 Week Range: \$20.31 - 37.47

	Comps	PAYX
Market Cap (M):	8,670.5	9,721.7
Debt to Equity (YE08):	0.2	0.0
Cash per Share (YE08):	5.25	1.36
Oper. Margin (ttm):	15.8	39.8
Price/Earnings (2011):	14.2	13.6
TEV/EBITDA (2011):	7.7	8.1
Dividend Yield (%):	1.9	4.6

	Comps	PAYX
ROA (ttm):	7.4	9.6
ROE (ttm):	22.8	44.7
ROIC (ttm):	42.4	96.4

**Comparables:** Administaff, Automatic Data Processing, Intuit

## RECOMMENDATION

We place a **BUY** on Paychex shares.

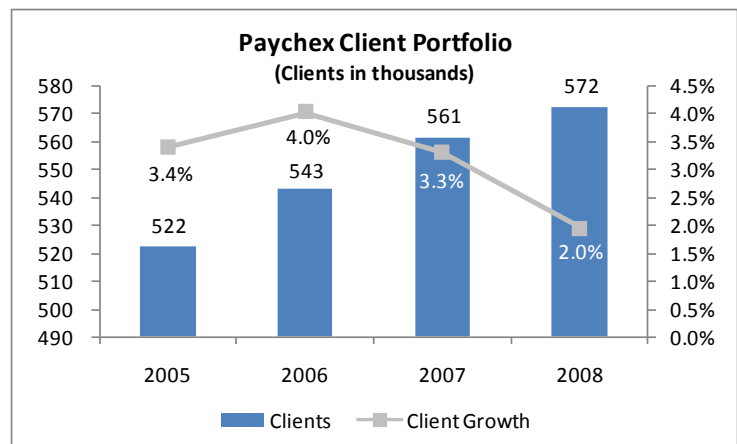
## INVESTMENT THESIS

- Paychex has a “fortress balance sheet” with nearly \$500 million in cash and short-term investments and no debt. Furthermore, its 4.6% dividend yield is well-protected as cash flows should exceed dividend payouts by at least \$85 million in FY2009, which we expect to be the company’s worst year for the foreseeable future.
- Paychex’s unique value proposition has permitted it to raise prices on its products throughout this recession, allowing it to sustain its high margins in spite of a tough business climate. We expect operating margins to expand from 39% in FY2009 to 43% in FY2013.
- Paychex earns a portion of its revenue from interest on funds held for clients. This provides the company with a natural hedge on inflation. If inflation rises in the future, Paychex will profit from higher interest rates on its short-term investments.

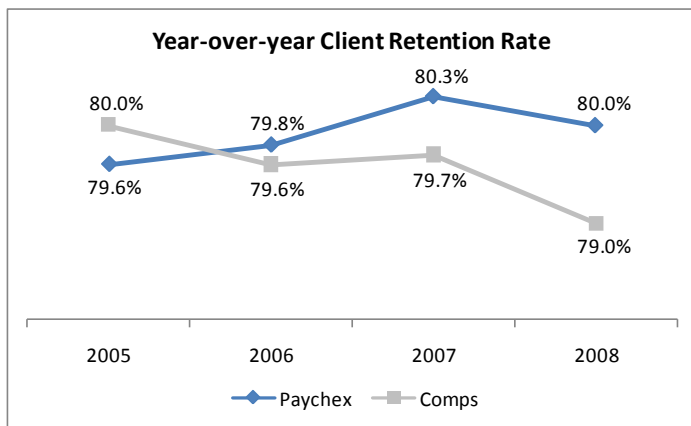
## COMPANY OVERVIEW

Paychex is a provider of payroll and human resource services for small- to medium-sized companies in the United States. The company currently has 572,000 clients with more than 100 offices nationwide.

The company earns revenue by processing paychecks, submitting employee taxes, and handling human resource functions, such as retirement services and health and benefit services. It also earns interest on funds held for clients before distributing the cash to client company employees and tax or regulatory agencies.



Paychex has consistently grown its client base, but more importantly, it has retained its existing clients during the same period, a testament to its focus on superior customer service.



Note: Other competitors do not publicly report retention rates.

Though Paychex has a distinct focus on small- to medium-sized businesses, it offers products and services to larger companies that require more sophisticated payroll and benefit needs through its Major Market Services business.

Paychex's Service Lines	
<b>Payroll</b>	<b>Human Resources</b>
Processing	Retirement plans
Employee payments	Workers' compensation
Tax administration	Health benefits
New hire reporting	Time and attendance

The company's products include Paychex Online, a secure Internet site that offers online timesheets, benefits reports, and general ledger reporting; Taxpay, an online program allowing Paychex to file employee tax returns for clients and manage compliance and reporting requirements; and HR Online, a comprehensive web-based human resource management system.

### SERVICE AND INTEREST REVENUE

Payroll services, which accounted for 75% of service revenue in 2008, have grown consistently at a 9% compound annual growth rate since 2004. We expect payroll services to generate about \$1.46 billion in 2009. Paychex's human resources revenue has been the primary growth driver in the past four years, growing at a compound annual rate of 24% since 2004. We forecast human resources revenue to top \$470 million.

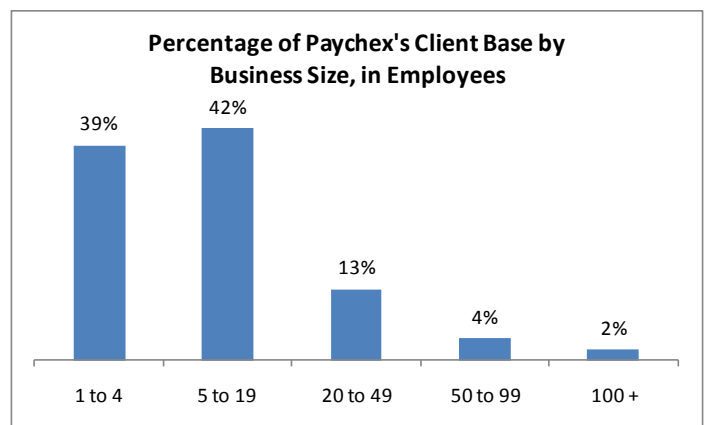
HR services growth rate in 2009 will be muted compared to its recent performance but is still expected to grow 10-13%, according to management projections.<sup>1</sup>

Service revenue is driven by number of clients, checks or transactions per client per pay period, and through ancillary services.<sup>2</sup>

In addition to Paychex's primary revenue generators – payroll and human resource services – the company generates revenue from interest on funds held for clients. Paychex collects funds from clients before it must be paid out to employees and tax or regulatory agencies. The company invests these funds in liquid, high quality, AAA- or AA-rated short-term investments to earn a return until the funds need to be distributed. The revenue generated from these funds is highly dependent on the short-term rates set by the U.S. Federal Reserve. Over the past year the target Federal Funds Rate has been reduced from 3% to near 0%, hurting Paychex's return on client funds.

### CLIENTS

Paychex's 572,000 clients primarily have less than 20 employees. The focus on smaller companies is a natural fit, as many smaller companies do not have the staffing capabilities to perform these functions internally.



Paychex management estimates it has captured only 6.1% of the market in the geographic regions it serves.<sup>3</sup> Furthermore, management believes that all payroll processors combined serve approximately 15% of the potential business in its target markets.<sup>3</sup>

<sup>1</sup> Paychex Q3 Investor Presentation. Slide 20. Accessed 4/28/09 at <http://investor.paychex.com/presentation.aspx>.

<sup>2</sup> Paychex 2008 10-K. pg. 14. Accessed 4/29/09 at [www.sec.gov](http://www.sec.gov).

<sup>3</sup> Paychex 2008 10-K. pg. 2. Accessed 4/29/09 at [www.sec.gov](http://www.sec.gov).

As the subsequent table indicates, Paychex still has room to grow before it has saturated its current markets. Its market share is less than 20% in all business size categories with less than 50 employees.

Paychex's Market Share and Market Potential (Businesses and Clients in thousands)			
Size of Business (in employees)	Est. Number of Businesses in Areas Served	Number of Existing Clients in Areas Served	Market Share in Each Business Size
1 - 4	7,200	223	3%
5 -19	1,700	240	14%
20 - 49	400	74	19%
50 - 99	100	23	23%
100 +	Less than 100	11	> 10%
TOTAL	9,400	571	6.1%

### COMPANY STRATEGY

Paychex's chief strategy is to provide unmatched customer service by leveraging its proprietary technology. The company strives to retain a well-trained staff that is responsive to the needs of its clients. This high-touch, high-tech strategy allows Paychex to charge more for its services than competitors. Paychex CEO Jonathan Judge confirmed this strategy in the company's Q3 2009 earnings call. "The value proposition that we put forward, the service that we give to our clients...combined to put us in a position where we're gaining share, and we're doing so with the highest margins in the industry and in many cases, the highest pricing in the industry."

Paychex relies on its high-quality customer service to build its new business pipeline. Almost two-thirds of the company's new clients come from referrals.<sup>4</sup> This allows Paychex to spend less on marketing and advertising, boosting its operating margins and investor returns.

Paychex's reputation is another vital asset in achieving its strategy. The company was recently ranked number 39 on Fortune Magazine's 2009 list of "100 Best Companies to Work For" and also made the magazine's 2008 list of "America's Most Admired Companies." The company's solid reputation is helpful in recruiting employees and in retaining and attracting clients, as clients know their business is in good hands.

### FUTURE PERFORMANCE

The current economy has dampened Paychex's past double-digit growth rate. We believe service revenue will grow at less than 10% in FY2009 and FY2010 due to the

<sup>4</sup> Paychex 2008 10-K, pg. 6. Accessed 4/29/09 at [www.sec.gov](http://www.sec.gov).

tough economic environment. Starting in FY2011 Paychex will again break a double-digit service revenue growth rate, which will be predominately fueled by HR services.

Service Revenue Breakdown (in millions, except where indicated)					
	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Payroll service revenue	1,356.6	1,462.7	1,484.6	1,573.7	1,731.1
YoY Growth	8.6%	7.8%	1.5%	6.0%	10.0%
HR service revenue	396.2	471.8	528.4	602.4	722.9
YoY Growth	21.9%	19.1%	12.0%	14.0%	20.0%
Total service revenue	1,752.8	1,934.5	2,013.1	2,176.1	2,454.0

Due to the company's proprietary technology and strong balance sheet, consisting of \$489 million in cash and no debt, Paychex is well-positioned to achieve management's long-term growth objectives of 12% top-line service growth and 15% operating income growth.<sup>5</sup> After a slight dip in FY2009, we predict operating margin will march steadily to 43% by FY2013. We also expect revenue earned as interest on clients' funds to grow at an annual rate of nearly 13% through 2013, as short-term interest rates rise.

Paychex Key Value Drivers (in millions, except where indicated)					
	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Service revenue	1752.8	1934.5	2013.1	2176.1	2454.0
YoY Growth (%)		10.4	4.1	8.1	12.8
Interest on client funds	134.1	131.8	75.1	78.9	88.3
YoY Growth (%)		-1.7	-43.0	5.0	12.0
Operating Income	701.5	828.3	814.4	902.0	1055.1
Op. Margin (%)	37.2	40.1	39.0	39.5	41.5
Capital Expenditures	79.0	82.3	80.0	82.0	82.0
% of total revenue	4.2	4.0	3.8	3.6	3.2
Cash Flow	463.9	545.0	535.5	598.0	708.3
% of total revenue	24.6	26.4	25.6	26.5	27.9

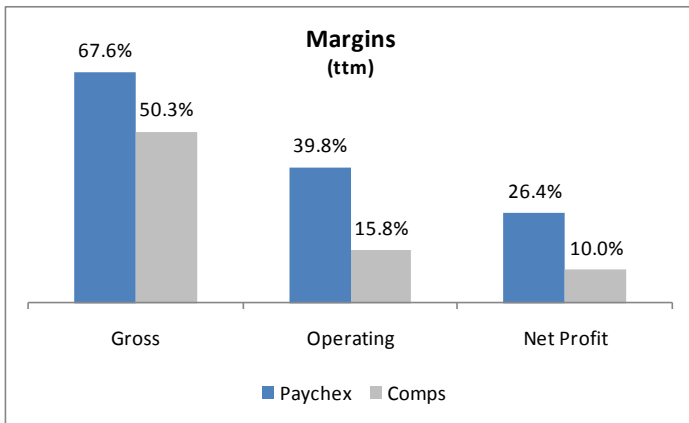
Paychex has been able to consistently achieve robust free cash flows of 25% of total revenue. These persistently high cash flows have been produced in large measure by the company's 40% operating margin. The company's operating performance has permitted a generous dividend – now yielding 4.6%. Paychex's dividend payout ratio of 80% of net income is high, but safe and reasonable due to the lack of volatility in its earnings and the relatively small amount of capital expenditures needed to sustain the business. Even in FY2009, which we expect to be the low point in the company's performance during this recession, cash flows should exceed the dividend payout by at least \$85 million.

<sup>5</sup> Paychex Q3 Investor Presentation, Slide 19. Accessed 4/28/09 at <http://investor.paychex.com/presentation.aspx>.

**INDUSTRY OVERVIEW**

Paychex is the largest payroll and HR service provider in the United States, in terms of clients. The only other significant competitor in the industry is Automatic Data Processing (ADP), which has an estimated client base of 502,000. However, ADP has made a strategic choice to focus on larger companies with more employees. As a result, ADP earns more revenue than Paychex due to its larger volume of checks processed and benefits administered. Aside from ADP, Paychex management estimates that no other competitor has more than 50,000 clients.<sup>6</sup> This industry fragmentation provides a disproportionate benefit to larger competitors like Paychex and ADP.

As a result of these industry dynamics, Paychex enjoys significant economies of scale. By spreading costs over a larger customer base, having a captive market in small- to medium-sized businesses, and benefiting from a lack of intense competition, Paychex can produce its industry-leading margins.



Paychex is a more efficient operator than its comparables, on average. Comparable companies include ADP, Administaff, and Intuit. While not a strong competitor, we included Intuit because it has similar products, although many are geared to the consumer market. Paychex management views ADP as its only true competitor.

Paychex’s operating and net profit margins are both approximately double those of its competitors. The company has grown revenue and earnings per share for 18 consecutive years. This performance has rewarded

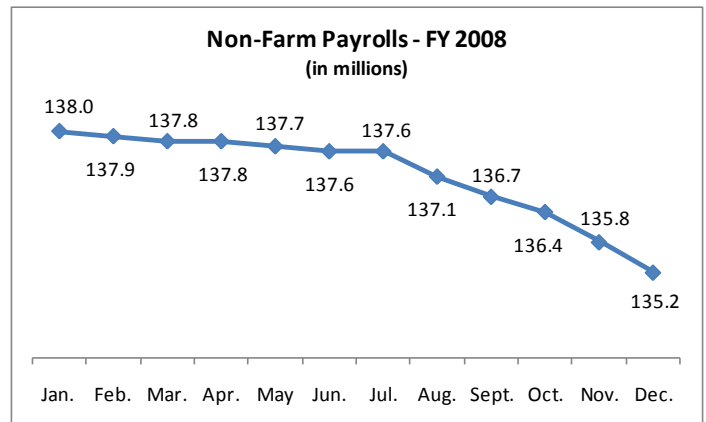
<sup>6</sup> Paychex Q3 Investor Presentation. Slide 4. Accessed 4/28/09 at <http://investor.paychex.com/presentation.aspx>.

investors with solid returns, and the past year has been no different. Over the last 12 months Paychex has supplied investors with a 44.7% return on equity and a 96.4% return on invested capital, more than twice the comparable average.

**IMPACT OF CURRENT ECONOMY**

As alluded to previously, Paychex is certainly not recession resistant. The current economic environment has shaped the company’s performance in recent quarters, evidenced by a steep pullback in its double-digit revenue growth to low single digits. Focusing on small- to medium-sized businesses places the company’s growth at greater risk than if it served clients with vaster resources, particularly in poor economic times. Smaller companies tend to run leaner operations, giving them less flexibility to weather economic downturns.

The current recession, beginning in December 2007, has forced many small businesses to make deep cuts in their workforce to remain viable. The Small Business Administration reports changes in non-farm payrolls each month. In 2008 alone businesses shed nearly three million jobs.<sup>7</sup>

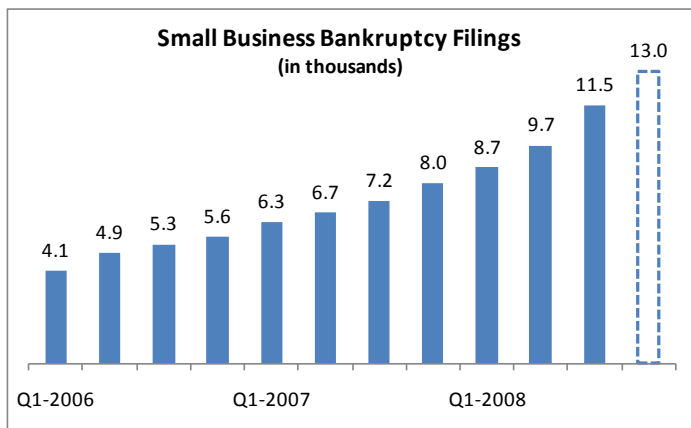


Job losses have an adverse impact on Paychex’s top line. In addition to upfront payments, the company earns revenue on each check it processes for clients. As client companies lay off workers, Paychex processes fewer checks, leading to lower revenues.

The extreme dislocations in the U.S. capital markets since the end of 2007 have even forced some small businesses

<sup>7</sup> Small Business Administration, “Quarterly Indicators Database.” Accessed 4/29/09 at <http://www.sba.gov/advo/research/sbei.html>.

to take even more radical steps than lay-offs. With banks tightening lending standards and investors becoming more risk adverse, small businesses have been filing for bankruptcy in ever-rising numbers.<sup>7</sup>



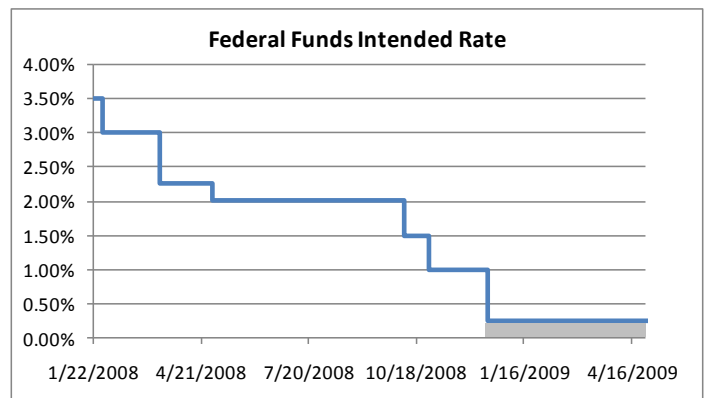
Indeed, Paychex has felt the pain of clients going insolvent, as emphasized by John Morphy, Paychex CFO, in the company’s recent Q3 2009 earnings call. According to Morphy, “[Paychex’s] clients lost due to companies going out of business or no longer having any employees increased 21% for the third quarter and 16% for the nine-month period.”

We believe small business lay-offs and bankruptcies, while damaging to Paychex in the short term, will begin to stabilize throughout 2009 and will begin to reverse course in 2010. Indeed, at the current market price, Paychex shares more than handicap for this scenario.

**MONETARY POLICY**

In an effort to dampen the impact of the current credit crisis, the U.S. Federal Reserve has attempted to stimulate the economy through increased government spending, guarantees and monetary policy maneuvers.

U.S. monetary policy substantially affects the amount Paychex earns on client funds before paying them out to employees and tax or regulatory agencies. In 2008 the Federal Reserve lowered its intended federal funds rate from 3.50% to a range between 0.25% and 0.00%.



Short term investments, such as Treasury bills and money market securities, track the federal funds rate. Because these rates have dropped precipitously throughout 2008, we expect Paychex to endure a 43% drop in revenue on funds held for clients in FY2009.

CFO Morphy remarked in the Q3 2009 earnings call that rates are at unusually low levels. “The whole reason those rates are so low is because the banks don’t trust each other,” he said. “They don’t want to move anything between each other. That’s what the Fed is trying to get fixed with this policy, but the banks are still sitting there, and we just aren’t back to normal.”<sup>8</sup>

We expect the Federal Reserve to increase the intended federal funds rate to more normal levels throughout our explicit forecast. While the potential for run-away inflation exists, which would cause the Fed to raise the federal funds rate even higher, we believe short-term rates will hover around 4-5% by 2011. As a result, Paychex will generate more attractive returns on its clients’ funds, boosting revenue on those funds from \$75 million in FY2009 to \$100 million in FY2012. Moderate inflation would actually benefit Paychex’s top line, to the extent the inflation rate does not materially impact the business environment for small- and medium-sized businesses.

**VALUATION**

We created several models to value Paychex shares: two relative valuation models and a discounted cash flow (DCF) model. Due to factors explained below, we believe the DCF model provides the most appropriate assessment of Paychex’s intrinsic value per share.

<sup>8</sup> John Morphy, Paychex Q3 2009 Earnings Call transcript. Accessed 4/29/08 at <http://www.123jump.com/market-update/Paychex-Q3-Earnings-Call-Transcript/32373/261>.

### Relative Valuation Models

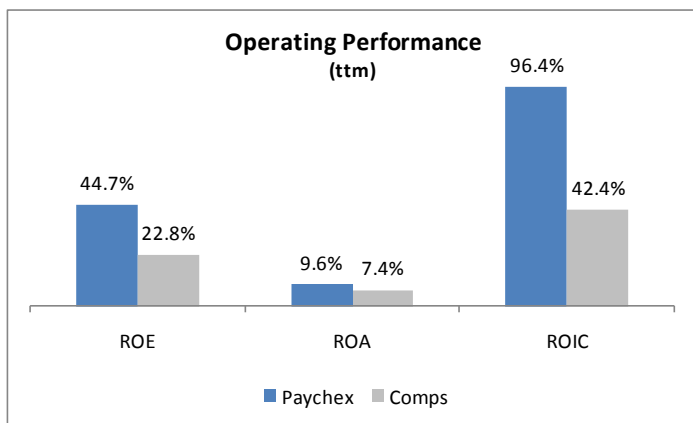
We chose two valuation ratios upon which to build our relative valuation models. These ratios are Price/Earnings (P/E) and Total Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization (TEV/EBITDA).

Based on our assumptions, we determined Paychex shares are 5% undervalued using our P/E relative valuation model. We used the average 2011 P/E ratio of our comparables to derive Paychex's intrinsic value.

The TEV/EBITDA relative valuation model, based on our assumptions, produced the opposite result of the P/E-based model. It indicated Paychex shares were overvalued by 6%. We used the average 2011 TEV/EBITDA ratio of our comparables to derive Paychex's intrinsic value.

We believe relative valuation models generate a distorted view of Paychex's true value per share. The reason is that Paychex is unquestionably better managed than its competitors. As mentioned previously, its operating and net profit margins are more than twice as high as its competitors' margins.

Moreover, its management has produced consistently superior results for shareholders than those generated by competitors. The company's return on equity, return on assets and return on invested capital are all in excess of comparables – well in excess in the case of ROE and ROIC.



As a result of Paychex's outperformance, we believe valuing its shares using averages of comparable ratios understates the shares' intrinsic value. This is why we believe the clearest view of intrinsic value for Paychex is given by our DCF model based on our assumptions.

### DCF Valuation Model

The key assumptions of our DCF model included a 32% tax rate, a 10.5% weighted average cost of capital, and a 3% perpetuity growth rate.

We forecasted a 2% dip in free cash flow in FY2009, primarily due to an expected lower EBITDA than in FY2008, offset by slightly lower capital expenditures.

FREE CASH FLOWS (in millions)					
	2007	2008	2009E	2010E	2011E
EBITDA	774.9	908.9	902.1	992.2	1,156.8
Less: Cash taxes	227.8	278.7	280.4	308.8	360.8
Less: Capex	79.0	82.3	80.0	82.0	82.0
Less: Inc. in NWC	4.2	2.9	6.2	3.3	5.7
Free Cash Flow	463.9	545.0	535.5	598.0	708.3

Free cash flow should grow at a much faster rate throughout our remaining explicit forecast as EBITDA grows and CapEx is maintained near current levels.

Inputting these assumptions into the DCF model gives an intrinsic per share value of nearly \$33.00. This means the Paychex shares are approximately 17% undervalued at current prices.

### SENSITIVITY ANALYSIS

We performed a sensitivity analysis on our DCF model to understand how changes in our assumptions would affect the per share value.

Specifically, we adjusted our forecasted service revenue growth rates, our expected operating margins, and our perpetuity growth rate. The following table displays the results of this analysis.

Sensitivity Analysis			
<b>Sales Growth</b>			
	Change From Forecast / Year		
	-300 bps	-100 bps	100 bps
Price Target (\$)	28.23	31.10	34.22
<b>Operating Margin</b>			
	Change From Forecast / Year		
	-200 bps	-100 bps	100 bps
Price Target (\$)	31.18	31.89	33.33
<b>Perpetuity Growth Rate</b>			
	0%	1%	2%
Price Target (\$)	25.75	27.55	29.78

Applying a 0% growth rate produces the lowest intrinsic value of the three variables, but this has a near-zero

probability of occurring. Even if our sales and operating margins are significantly less than we anticipate, Paychex shares are roughly fairly valued, which means an investor would receive the 10.5% discount rate, plus the 4.6% dividend yield for a total annual return of about 15%. We believe this represents a compelling investment opportunity.

### **SCENARIO ANALYSIS**

In order to more clearly understand what our worst case and best case sensitivity analysis scenarios would look like for Paychex investors, we developed descriptive bull and bear cases for Paychex.

#### *Bull Case*

In a bull case scenario, the U.S. economy would experience a “U-shaped” recovery and the current economic pain would be the worst felt in this recession. In other words, GDP growth, new manufacturing orders, and unemployment levels would begin to rise from current levels, experiencing no further deterioration. Employer firm births would spike to 970,000, up from 934,000 in 2006 and 924,000 in 2007.<sup>9</sup> Employer firm births are employing units that for the first time meet the definition of an employer in unemployment compensation law.

In addition, the credit markets would un-thaw almost completely, leading to smaller – and more normal – spreads between long- and short-term rates. As a key indicator, spreads between the 10-year Treasury note and the federal funds rate would be around 100 basis points, substantially lower than the current 250-point spread. Finally, the federal funds rate would rise to 5% before the end of 2011.

#### *Bear Case*

In a bear case scenario, the U.S. economy would continue to weaken. Unemployment would rise to double digit levels and GDP would notch a negative 6% growth in 2009 and would be slightly negative in 2010, as well, before stabilizing in 2011 and beginning to grow thereafter. Employer firm births would drop to 850,000 through 2010.

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<sup>9</sup> U.S. Census, “The 2009 Statistical Abstract.” Accessed 4/30/09 at [http://www.census.gov/compendia/statab/cats/business\\_enterprise.html](http://www.census.gov/compendia/statab/cats/business_enterprise.html).

Risk would continue to be priced at elevated levels, evidenced by 10-year T-note to fed funds spreads of 200-300 basis points. The Federal Reserve would continue to fight against deflation, keeping the federal funds rate target at 0.00-0.25% through 2009 and much of 2010. Credit markets would remain tight and small business funding would be scarce through 2010.

### **EFFECT ON PORTFOLIO**

Paychex’s GICS code places it in the Information Technology sector. The APM portfolio currently has 5.9% of its investments in this sector, based on invested dollars.<sup>10</sup> We believe a stronger allocation to this section would benefit the portfolio. Moreover, the portfolio has no exposure to Paychex’s subgroup, data processing and outsourced services.

Investing in Paychex should serve to diversify the APM portfolio and supply it with a constant stream of cash as Paychex pays out its healthy dividend, currently at \$1.24 per share.

### **SUMMARY**

Paychex is undeniably the premier operator in the payroll and HR outsourcing industry. Its management team has produced consistently superior margins and returns. The company faces little competition in its target markets for small- to medium-sized businesses.

As the economy begins to rebound and short-term interest rates rise, Paychex will be well-positioned to capture greater market share and increase margins.

With nearly \$489 million in cash and short-term investments, no debt, and cash flows that are expected to exceed \$500 million, Paychex has considerable flexibility to complete strategic acquisitions, increase the dividend or buy back shares. All three scenarios would generate significant shareholder value. Moreover, management owns 11% of the company, aligning its objectives with those of its shareholders.

Combined with those factors, we believe the safe 4.6% dividend yield, combined with the company’s 17% undervaluation, provides a compelling return potential on the stock.

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<sup>10</sup> Based on Group 1’s analysis.

INCOME STATEMENT											
	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
<b>Revenue:</b>											
Service revenue	1,240.1	1,384.7	1,573.8	1,752.8	1,934.5	2,013.1	2,176.1	2,454.0	2,781.7	3,109.5	3,449.6
YoY Growth		11.7%	13.7%	11.4%	10.4%	4.1%	8.1%	12.8%	13.4%	11.8%	10.9%
Interest on client funds	54.3	60.5	100.8	134.1	131.8	75.1	78.9	88.3	101.6	121.9	143.9
YoY Growth		11.4%	66.6%	33.0%	-1.7%	-43.0%	5.0%	12.0%	15.0%	20.0%	18.0%
<b>Total Revenue</b>	<b>1,294.4</b>	<b>1,445.2</b>	<b>1,674.6</b>	<b>1,886.9</b>	<b>2,066.3</b>	<b>2,088.2</b>	<b>2,255.0</b>	<b>2,542.3</b>	<b>2,883.3</b>	<b>3,231.4</b>	<b>3,593.5</b>
<b>Expenses:</b>											
Operating expenses	303.5	329.5	560.3	615.5	660.7	668.2	710.3	788.1	879.4	969.4	1,078.0
SG&A expenses	557.6	581.9	464.8	569.9	577.3	605.6	642.7	699.1	792.9	872.5	970.2
Depreciation & Amortization (in OpEx)	55.8	62.0	66.5	73.4	80.6	87.7	90.2	101.7	115.3	129.3	143.7
<b>Total Expenses</b>	<b>861.1</b>	<b>911.4</b>	<b>1,025.1</b>	<b>1,185.4</b>	<b>1,238.0</b>	<b>1,273.8</b>	<b>1,353.0</b>	<b>1,487.3</b>	<b>1,672.3</b>	<b>1,841.9</b>	<b>2,048.3</b>
<b>Operating Income</b>	<b>433.3</b>	<b>533.8</b>	<b>649.5</b>	<b>701.5</b>	<b>828.3</b>	<b>814.4</b>	<b>902.0</b>	<b>1,055.1</b>	<b>1,211.0</b>	<b>1,389.5</b>	<b>1,545.2</b>
Operating Margin	33.5%	36.9%	38.8%	37.2%	40.1%	39.0%	39.5%	41.5%	42.0%	43.0%	43.0%
Investment Income, Net	16.5	12.4	25.2	41.7	26.5	10.4	33.8	38.1	43.2	48.5	53.9
Income Before Taxes	449.8	546.2	674.7	743.2	854.8	824.8	935.8	1,093.2	1,254.2	1,438.0	1,599.1
Taxes	146.8	177.3	209.9	227.8	278.7	280.4	308.8	360.8	413.9	474.5	527.7
<b>Net Income</b>	<b>303.0</b>	<b>368.9</b>	<b>464.8</b>	<b>515.4</b>	<b>576.1</b>	<b>544.4</b>	<b>627.0</b>	<b>732.4</b>	<b>840.3</b>	<b>963.4</b>	<b>1,071.4</b>
Net Margin	23.4%	25.5%	27.8%	27.3%	27.9%	26.1%	27.8%	28.8%	29.1%	29.8%	29.8%
<b>EPS</b>	<b>0.80</b>	<b>0.97</b>	<b>1.22</b>	<b>1.35</b>	<b>1.60</b>	<b>1.51</b>	<b>1.74</b>	<b>2.02</b>	<b>2.32</b>	<b>2.65</b>	<b>2.94</b>
<b>CapEx</b>		<b>70.7</b>	<b>81.1</b>	<b>79.0</b>	<b>82.3</b>	<b>80.0</b>	<b>82.0</b>	<b>82.0</b>	<b>84.0</b>	<b>84.0</b>	<b>86.0</b>

Service Revenue Breakdown											
	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Payroll service revenue	1,040.0	1,133.5	1,248.9	1,356.6	1,462.7	1,484.6	1,573.7	1,731.1	1,921.5	2,094.4	2,262.0
YoY Growth		9.0%	10.2%	8.6%	7.8%	1.5%	6.0%	10.0%	11.0%	9.0%	8.0%
Human resources service revenue	200.1	251.2	324.9	396.2	471.8	528.4	602.4	722.9	860.2	1,015.1	1,187.6
YoY Growth		25.5%	29.3%	21.9%	19.1%	12.0%	14.0%	20.0%	19.0%	18.0%	17.0%
<b>Total service revenue</b>	<b>1,240.1</b>	<b>1,384.7</b>	<b>1,573.8</b>	<b>1,752.8</b>	<b>1,934.5</b>	<b>2,013.1</b>	<b>2,176.1</b>	<b>2,454.0</b>	<b>2,781.7</b>	<b>3,109.5</b>	<b>3,449.6</b>

BALANCE SHEET											
	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
<b>Assets</b>											
Cash & ST Investments	3,077.6	303.4	577.4	591.1	393.0	438.5	473.5	559.3	605.5	646.3	718.7
Receivables (Net)	158.3	161.8	189.8	186.3	184.7						
Prepaid Expenses	2.0	5.8	7.6	8.8	11.2						
Other Current Assets	42.6	3,051.0	3,669.5	4,075.1	3,877.0						
<b>Current Assets</b>	<b>3,280.4</b>	<b>3,522.0</b>	<b>4,444.3</b>	<b>4,861.3</b>	<b>4,465.9</b>	<b>4,656.6</b>	<b>5,141.4</b>	<b>6,152.4</b>	<b>7,064.2</b>	<b>7,949.3</b>	<b>8,911.8</b>
Investment In Unconsolidated Subsidiaries	6.1	5.2	4.5	3.5	2.5						
Other Investments	-	404.2	384.5	633.1	41.8						
Property Plant & Equipment - Net	171.3	205.3	234.7	256.1	275.3						
Property Plant & Equipment - Gross	380.3	408.1	481.7	548.0	618.4						
Land	4.3	3.4	3.6	3.6	3.6						
Buildings	71.0	66.0	79.9	81.9	84.7						
Machinery & Equipment	117.4	116.5	134.6	150.2	166.9						
PP&E - Other	119.5	134.3	160.4	184.3	212.6						
(Less) Accumulated Depreciation	208.9	202.8	247.1	292.0	343.1						
Other Assets	492.3	479.5	468.6	477.3	510.5						
Tangible Other Assets	2.1	2.1	2.0	2.4	2.7						
Intangible Other Assets	490.2	477.5	466.5	474.9	507.8						
<b>Total Assets</b>	<b>3,950.2</b>	<b>4,616.2</b>	<b>5,536.5</b>	<b>6,231.3</b>	<b>5,296.0</b>	<b>5,429.3</b>	<b>6,426.7</b>	<b>7,881.2</b>	<b>8,996.0</b>	<b>10,179.0</b>	<b>11,427.3</b>
<b>Liabilities</b>											
Accounts Payable	22.6	30.4	46.7	47.0	40.3						
Accrued Payroll	87.3	106.6	130.1	125.3	132.6						
Other Current Liabilities	2,612.0	3,043.3	3,661.6	4,065.2	3,864.4						
<b>Current Liabilities</b>	<b>2,721.9</b>	<b>3,180.3</b>	<b>3,838.4</b>	<b>4,237.5</b>	<b>4,037.3</b>	<b>4,176.4</b>	<b>4,622.7</b>	<b>5,542.2</b>	<b>6,401.0</b>	<b>7,238.4</b>	<b>8,121.3</b>
Provision for Risks & Charges	4.5	5.4	6.6	9.3	27.9						
Deferred Taxes	14.4	16.3	2.7	(5.6)	(4.2)						
Other Liabilities	9.4	28.5	34.0	37.9	38.3						
<b>Total Liabilities</b>	<b>2,750.2</b>	<b>3,230.5</b>	<b>3,881.7</b>	<b>4,279.1</b>	<b>4,099.3</b>	<b>4,197.2</b>	<b>4,758.0</b>	<b>5,618.5</b>	<b>6,429.8</b>	<b>7,238.4</b>	<b>8,085.3</b>
<b>Shareholders' Equity</b>											
Common Equity	1,200.0	1,385.7	1,654.8	1,952.2	1,196.6						
Common Stock	3.8	3.8	3.8	3.8	3.6						
Capital Surplus	227.2	240.7	284.4	363.0	431.6						
Retained Earnings	971.7	1,147.6	1,381.0	1,595.1	745.4						
Unrealized Gain(Loss) on Marketable Securities	(2.7)	(6.4)	(14.3)	(9.7)	16.0						
<b>Total Shareholders Equity</b>	<b>1,200.0</b>	<b>1,385.7</b>	<b>1,654.8</b>	<b>1,952.2</b>	<b>1,196.6</b>	<b>1,232.0</b>	<b>1,668.7</b>	<b>2,262.7</b>	<b>2,566.2</b>	<b>2,940.6</b>	<b>3,341.9</b>
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>3,950.2</b>	<b>4,616.2</b>	<b>5,536.5</b>	<b>6,231.3</b>	<b>5,296.0</b>	<b>5,429.3</b>	<b>6,426.7</b>	<b>7,881.2</b>	<b>8,996.0</b>	<b>10,179.0</b>	<b>11,427.3</b>
Diluted Shares Outstanding	378.0	378.6	380.3	382.2	360.5	361.0	361.0	362.0	363.0	364.0	365.0