Seeking Alpha α

Paychex F4Q09 (Qtr End 5/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from David Grossman of Thomas Weisel. You may ask your question.

David Grossman - Thomas Weisel Partners

Good morning. Thanks very much. You talked about the margin outlook being impacted by both cyclical factors as well as the investments you are making in the sales force and healthcare. Can you provide a little more color around the incremental investments that you are making? And maybe give us a sense of just how much you are actually spending on these initiatives?

John M. Morphy

Well, I don't know we would give defined numbers but obviously the checks per client affects the margins because of the fact that last check is the most profitable check. We've talked before about the fact that when checks per client get much over 4%, it really starts to inhibit our ability to increase margins. The client decline affects it somewhat too, but we've been able to offset most of that.

When you talk about the other investments though, the healthcare thing, initiative, we're processing the sales force growth, which you saw in the thing. We're increasing sales force in both the core and the MMS and some of that is really to take advantage when hopefully this economy turns around because the other thing is we don't want to cut our sales force because to do that would allow us to have a short-term earnings pick-up but in the long run, it would hurt us in the future.

David Grossman - Thomas Weisel Partners

Okay. And just in terms of the client growth, I know that it's a bad year to compare this, your guidance as well as kind of of what's happened in the last 12 months. I mean, I think client growth has been trending around a 3% to 4% range prior to the economic downturn. Is that a number that we should think about going forward in terms of what's a realistic target?

Jonathan J. Judge

Well, the thing I would tell you is on the client, the new client growth, the biggest single issue that we had in that was the lack of new business formation due to the credit crisis, so to the extent that the credit crisis abates and new business formation returns to a normal rate, there is nothing that we see in any of our numbers that would tell us that anything other than going back to normal would happen. In other words, we don't see any losses that are due to a better mousetrap or somebody providing better services. Our issues on the new client growth really come from the new business formation, which as I mentioned in my comments was about 90% of the miss that we had to a normal sales year, even though we still had pretty decent year going flat versus most people down 10% to 20%. And then the second thing would be losses -- you know, an increase in client losses that are, that have been directly caused by the economy, things like businesses going out of business or getting down to either so few clients or so troubled a business economic scenario that they stop processing. Those two things were the ones that affected us, and so when you think about when we go back to normal, there's nothing that we can see that would tell us that we would not go completely back to normal as soon as the economy changes.