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Notebooklm

Links to Source Documents for Paycom (Ticker: PAYC):

[10-K, 10-Q, DEF 14A \(Proxy\)](#)

[Earnings Call Transcripts](#)

Note: Get **Value Line** and **Morningstar** reports from your library subscription.

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Good morning, everyone. I am here today to provide a financial overview of **Paycom Software (NDQ-PAYC)**, drawing on recent analyst reports and proprietary financial data to assess the company's future growth and valuation prospects over the next five years.

1. What are the possible revenue growth rate ranges in five years?

The potential revenue growth rates for Paycom over the next five years (approximating the period leading up to 2028–2030 or covering the 5-year CAGR through 2029) reflect a projected deceleration compared to historical performance, but analysts offer slightly differing long-term outlooks:

Source	Time Frame	Revenue Growth Rate / CAGR	Detail
Value Line (Estimated Rate of Change)	2022–2024 to 2028–2030	11.0%	This represents the estimated annual rate of change in Revenues per share.

Morningstar (Forecast Narrative)	Next five years (through 2029)	Mid to high single digits	Analysts expect revenue growth to be driven by continued scaling over sales and marketing costs, leading to improvement in operating margins.
Morningstar (5-Year CAGR)	2024–2029	7.1%	This is the projected 5-year Compound Annual Growth Rate (CAGR) for revenue growth based on Morningstar's financial model forecasts.

The projected five-year revenue growth rate range generally falls between the **Morningstar 5-year CAGR estimate of 7.1%** and the **Value Line long-term estimated rate of change of 11.0%**.

- This anticipated slowdown comes despite Paycom previously achieving robust growth, with a past 5-year CAGR of 23.5%.
- Morningstar attributes the deceleration to increasing competition and the strategic shift toward moving upmarket, which results in longer sales cycles, forecasting an annual growth rate of 6.0% by 2028 and 2029. They project that recurring revenue per client will increase at a CAGR of 5% over the next five years, while client growth will be around 2.0% CAGR.

2. What are the possible EPS growth rate ranges in five years?

Similar to revenue, projected Earnings Per Share (EPS) growth rates are expected to moderate significantly from historical levels:

Source	Time Frame	EPS Growth Rate / CAGR	Detail
Value Line (Estimated Rate of Change)	2022–2024 to 2028–2030	11.0%	This represents the estimated annual rate of change in EPS per share.
Morningstar (5-Year CAGR)	2024–2029	7.7%	This is the projected 5-year CAGR for Adjusted EPS Growth.

The estimated five-year EPS growth rate range for Paycom lies between the **Morningstar projected 5-year CAGR of 7.7%** and the **Value Line long-term estimated rate of change of 11.0%**.

- For context, the EPS CAGR over the past 5 years was 25.0%.
- Morningstar forecasts EPS (Diluted) to increase from \$7.73 in 2025 to **\$12.90 in 2029**.

3. What is the possible high P/E ranges in five years?

To determine the possible high P/E ranges (approximating 2028–2030), we look at both explicit analyst forecasts and calculations derived from high price targets against long-term average EPS estimates:

Basis	Time Frame	P/E Ratio	Calculation/Source
Implied P/E from Value Line High Price Target	2028–2030	~33.45x	Using the Value Line projected High Price of \$460 and the estimated EPS per share for the 2028–2030 period of \$13.75: $\$460 / \$13.75 \approx 33.45x$.
Value Line Estimate	2028–2030	28.0x	This is the Average Annual P/E Ratio estimated by Value Line for the period.
Morningstar Forecast	2025	21.2x	Morningstar’s projected P/E ratio for Fiscal Year 2025.

The highest range for the Price-to-Earnings (P/E) ratio within the five-year period (2028-2030) is approximately **33.45x**, based on the assumption that the high projected price target of \$460 is achieved relative to the estimated 2028–2030 EPS of \$13.75. The high end of the historical P/E ratio for Paycom in 2022 was 64.1x.

4. What is the possible low P/E ranges in five years?

To determine the possible low P/E ranges (approximating 2028–2030), we examine explicit analyst forecasts suggesting deceleration and calculations derived from low price targets:

Basis	Time Frame	P/E Ratio	Calculation/Source
Morningstar Forecast	2029	13.7x	This is the lowest forecasted P/E ratio projected by Morningstar for the period through 2029.
Morningstar Forecast	2028	15.0x	Morningstar’s forecasted P/E ratio for Fiscal Year 2028.

Implied P/E from Value Line Low Price Target	2028–2030	~22.55x	Using the Value Line projected Low Price of \$310 and the estimated EPS per share for the 2028–2030 period of \$13.75: $\$310 / \$13.75 \approx 22.55x$.
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The lowest range for the P/E ratio identified in the sources for the 5-year horizon is **13.7x** (projected for 2029 by Morningstar). This indicates a potential significant contraction in valuation multiple as the company's growth moderates, compared to the implied low target multiple of **22.55x** derived from Value Line's projections.

Prompt: What financial metrics are used for management incentive compensation?

The management incentive compensation programs utilize several key financial metrics, tailored for both short-term annual cash incentives and long-term equity awards.

Most Important Financial Performance Measures

The following are identified as the most important financial performance measures used to link executive compensation actually paid to the Company's performance for the year ended December 31, 2024:

1. **Revenue**
2. **Adjusted EBITDA**
3. **Annual Revenue Retention Rate**

The Compensation Committee uses **revenue** as a key performance metric in both the cash and equity incentive plans because **revenue growth is a critical measure of operational success** and a key metric used by investors to assess performance.

Annual Incentive Plan (AIP) Metrics (Cash Compensation)

The AIP provides short-term cash compensation tied to the achievement of pre-established, objective performance goals. The metrics used depend on the executive officer's responsibilities.

1. Revenue and Adjusted EBITDA (Used for CEO, CFO, CAO, and former CSO)

Awards for certain named executive officers (NEOs), including Chad Richison (CEO), Craig E. Boelte (CFO), Jason D. Clark (CAO), and Holly Faurot (former CSO), were primarily based on the achievement of **revenue targets**. The Committee selected these metrics because they represent critical short-term measures of success and are key to long-term stockholder value creation.

- **Revenue Target:** For the 2024 performance period, the threshold for revenue achievement was \$1,860.0 million, the target was **\$1,870.0 million**, and the maximum was \$1,885.0 million.
- **Adjusted EBITDA Modifier:** The revenue payout percentage was subject to a downward adjustment if **adjusted EBITDA** fell below a specified target (\$725.0 million for 2024).

2. Annual Revenue Retention Rate (Used for CIO, COO, and former Co-CEO)

Awards for other NEOs, including Bradley S. Smith (CIO) and Randy Peck (COO), were based on the achievement of **annual revenue retention rate targets**. This metric measures the success of retaining clients, a key determinant of long-term success.

- **Annual Revenue Retention Rate Targets:** For 2024, the threshold for the retention rate was 90%, the target was **91%**, and the maximum was 97%.

Equity Incentive Compensation Metrics

Equity awards, typically consisting of Performance Stock Units (PSUs) and Restricted Stock Awards (RSAs) or Units (RSUs), are used to promote retention and reward executive officers for long-term corporate performance, aligning their interests with stockholders.

1. Revenue (Used for 2024 PSUs)

For the 2024 PSUs granted to participating NEOs, the vesting was based on achieving a **total revenue performance goal** over a one-year performance period.

- The goal required revenue to be **\$1,870 million or greater** for a 100% payout for most participating NEOs.
- The actual 2024 revenue achievement of \$1,883.2 million resulted in PSUs vesting at the target level.

2. Relative Total Shareholder Return (TSR) (Used for Historical 2022 PSUs)

The vesting for the second tranche of the 2022 PSUs was based on the Company's **Total Shareholder Return (TSR) performance relative to the S&P 500 Software & Services Index** over a three-year measurement period ending December 31, 2024. Both tranches of the 2022 PSUs paid out at 0% of target due to poor relative TSR rank.

3. VWAP Value (Used for Historical PSAs)

Performance Stock Awards (PSAs) granted in prior years (such as those granted to Mr. Peck prior to his appointment as an executive officer) were tied to the Company's stock price, measured by **VWAP Value** (trailing weighted average price), needing to equal or exceed specific dollar amounts (e.g., \$222 or \$251 per share) within an eight-year period.

Prompt: From the earnings call, get a discussion on the following: (1) Revenue, (2) Adjusted EBITDA, (3) Annual Revenue Retention Rate, (4) R&D, (5) CapEx, (6) Acquisitions, (7) Stock Repurchase, (8) Dividends, (9) Debt, (10) Business Strategy, (11) Artificial Intelligence, (12) Tariffs, and (13) bogus.

Based on the excerpts from the Q2 2025 earnings call transcript, here is a discussion of the requested topics:

Earnings Call Discussion (Q2 2025)

(1) Revenue The company reported **very strong second quarter results**. **Total revenue** for Q2 2025 was **\$484 million**, marking an 11% increase over the comparable prior year period. **Recurring and other revenue** grew even faster, increasing 12% year-over-year to reach \$455 million. Interest on funds held for clients declined 11% year-over-year to approximately \$28 million in Q2 2025, which was expected.

Management is **raising its full year 2025 revenue targets** based on the strength of the first half. The full year 2025 expectation for recurring and other revenue is now expected to be up **10% year-over-year**. The expectation for interest on funds held for clients is now \$113 million in 2025, representing a 10% year-over-year decrease, assuming two rate cuts later this year. The revenue upside, combined with continued automation efforts, is contributing to margin improvement.

(2) Adjusted EBITDA Profitability increased significantly in the second quarter. **Adjusted EBITDA was \$198 million**, reflecting a **24% increase** over the prior year period. The Adjusted EBITDA margin reached **41%**, a 450 basis point increase over the prior year period. This margin strength was attributed to revenue upside, efficiency gains in general and administrative (G&A) expenses, and the timing of marketing spend.

In response to strong first-half performance, the company is **raising its full year adjusted EBITDA guidance**. The new guidance range is **between \$872 million and \$882 million**. This implies a revised full year adjusted EBITDA margin guidance of approximately **43% at the midpoint** of the range.

(3) Annual Revenue Retention Rate The provided earnings call transcript excerpts do not contain a specific discussion or metric for the Annual Revenue Retention Rate.

(4) R&D (Research & Development) The company stated that they **continue to invest** in the areas of AI, product, and R&D. Furthermore, management plans to **increase R&D budgets** in the second half of the year to support the IWant product launch and additional innovation focused on AI and automation. The philosophy is to invest in innovation to increase client value.

(5) CapEx (Capital Expenditures) The move into Artificial Intelligence (AI) requires a **certain level of spend**, which is expected to be more **transitory** and **front-end loaded**, often categorized as Capital Expenditures (CapEx). Management noted a focus on reinvesting margin accretion back into CapEx, AI, and equipment. The intent is to leverage available capital for this growth opportunity. Despite this spending, the company expects free cash flow to be similar to last year.

(6) Acquisitions The earnings call transcript excerpts do not contain any discussion of acquisitions.

(7) Stock Repurchase The company utilizes its stock repurchase plan to **offset stock option dilution**. During the second quarter of 2025, the company **purchased roughly \$33 million** of common stock through net downs on vested stock. As of the end of the second quarter, the company still had **\$1.44 billion remaining** under its existing stock repurchase plan.

(8) Dividends During Q2 2025, the company paid approximately **\$22 million in cash dividends**. The Board approved the regular quarterly dividend of **\$0.375 per share**, payable in mid-September. These funds help support steady dividend payments.

(9) Debt The company's balance sheet is described as **very strong**. The company ended the second quarter with **no debt** and had \$532 million in cash and cash equivalents.

(10) Business Strategy The strategy focuses on continued strength in **recurring revenue growth and margin expansion**. The company is executing its plan through a successful **go-to-market and product strategy**. A core aspect of the strategy is investment in **innovation to increase client value**, which is accelerating strong sales.

The launch of the new AI product, IWant, is central to the strategy, as it **removes barriers to value** and increases the value clients derive from utilizing the full solution. Management views IWant as key to helping clients achieve full utilization of the system. The successful deployment of this new technology is expected to create **more meaningful client relationships** and positively **impact retention**. The CEO believes their offering has become significantly more competitive with the introduction of this command-driven technology.

(11) Artificial Intelligence (AI) The second quarter saw the release of **IWant**, the company's latest AI command-driven product, which the CEO referred to as the **"most significant product in our company's history"**. IWant revolutionizes system access and navigation. It uses **command-driven AI** that allows users to type or use voice-activated functionality to command the system, receiving immediate, accurate results, thus eliminating the need for system training. Its accuracy is supported because it pulls data from Paycom's **single database**, avoiding issues caused by duplicative data sets.

IWant has broad applications for employees, managers, administrators, and executives. Executives, who might not be daily users, can now access critical information instantly, enabling them to be more effective. The CEO stated that **voice-activated command-driven functionality is the future for all software**.

Regarding monetization, the company is not charging a direct fee for IWant, believing that every client should access their data this way. Instead, they expect to **indirectly monetize** IWant by facilitating **full platform sales** and increasing utilization of existing modules. Activation of IWant for clients began July 31st, and the goal is to activate all clients by the end of the current quarter (Q3 2025).

(12) Tariffs The earnings call transcript excerpts do not contain any discussion of tariffs.

(13) bogus The term "bogus" was not discussed or mentioned in the earnings call transcript excerpts.

Prompt: Provide the beneficial owners of the stock.

The beneficial owners of Paycom Software, Inc. (PAYC) stock, as reported in the sources, include major institutional holders, the Chairman and CEO, other directors and executive officers.

The following data summarizes the beneficial ownership, with the specific holdings detailed as of March 12, 2025, unless otherwise noted. Total applicable percentage ownership is based on 57,852,318 shares of Common Stock outstanding as of March 12, 2025.

Major Beneficial Owners (5% or more)

The following entities and individuals were identified as beneficial owners of 5% or more of the voting securities as of March 12, 2025:

Beneficial Owner	Shares Beneficially Owned (March 12, 2025)	Percentage of Common Stock Outstanding
Chad Richison (Chairman and CEO)	6,077,193	10.5%
The Vanguard Group, Inc.	5,956,803	10.3%
Harris Associates L.P.	4,051,001	7.0%
BlackRock, Inc.	3,687,160	6.4%

Polen Capital Management, LLC	3,485,664	6.0%
Ernest Group, Inc.	3,427,249	5.9%

Note that as of the 4/25 proxy, the beneficial ownership figures for the institutional investors and CEO were similar: Chad Richison owned **10.5%** of common stock; Vanguard owned **10.3%**; Harris Associates owned **7.0%**; and Blackrock owned **6.4%**.

Details on Chad Richison's Ownership: Chad Richison's reported 10.5% ownership includes 3,427,249 shares owned by **Ernest Group, Inc.**, a private corporation owned by Mr. Richison and certain trusts for his children, for which he serves as the sole director and trustee.

Beneficial Ownership by Directors and Executive Officers

All directors and current executive officers as a group (13 persons) beneficially owned **6,284,503** shares, representing **10.9%** of the Common Stock outstanding as of March 12, 2025.

As of the 4/25 proxy, **other officers and directors** collectively owned **0.4%** of common stock.

The specific beneficial holdings for Paycom's directors and named executive officers (NEOs) as of March 12, 2025, are detailed below (shares under one percent are marked with an asterisk [*]):

Name (Director/Executive Officer)	Shares Beneficially Owned (March 12, 2025)
Chad Richison (CEO, President, Chairman)	6,077,193
Craig E. Boelte (NEO)	260,877
Bradley S. Smith (NEO, CIO)	58,335 [*]
Randy Peck (NEO, COO)	38,779 [*]
Jason D. Clark (NEO, Chief Administrative Officer)	40,291 [*]
Holly Faurot (Former Chief Sales Officer)	34,420 [*]
Amy Vickroy Walker (NEO, EVP of Sales)	24,190 [*]
Frederick C. Peters II (Lead Independent Director)	16,283 [*]
J.C. Watts, Jr. (Director)	7,730 [*]

Joseph L. Binz (Director)	4,847 [*]
Sharen J. Turney (Director)	3,003 [*]
Henry C. Duques (Director)	2,985 [*]
Felicia Williams (Director)	2,607 [*]
Archana Vemulapalli (Director)	710 [*]
Chris G. Thomas (Former Co-CEO)	—

Note on Beneficial Ownership: Beneficial ownership generally includes shares for which an individual or entity has sole or shared voting or investment power, including shares they have the right to acquire within 60 days of March 12, 2025 (such as through the vesting/settlement of restricted stock units or exercise of other rights). For several non-employee directors and certain executive officers, the reported number includes unvested shares of restricted stock.

Prompt: Summarize all risk factors associated with this company.

The risks factors associated with Paycom Software, Inc. (PAYC) cover various aspects of the business, including technology, competition, regulatory compliance, economic sensitivity, and corporate operations. Morningstar assigns a **High** Morningstar Uncertainty Rating to Paycom.

The key risk factors are summarized below:

I. Security and Technology Risks

- **Security Breaches and Cyber-attacks** The company's solution involves collecting, storing, and transmitting sensitive data, including personal identifying and financial information. The possibility of security vulnerabilities, cyber-attacks, network disruptions, data security breaches, privacy leaks, data loss, and business interruptions exists. If security measures are breached, the solution may not be perceived as secure, potentially leading clients to reduce use or stop using the solution, harming the company's ability to attract new clients, and subjecting it to significant liabilities. Cyber-attacks are increasing in number and sophistication, and geopolitical tensions may heighten this risk. Third-party vendors utilized for data management and transaction processing may also be sources of cybersecurity risks.

- **Infrastructure Failure** Damage, failure, or disruption of the Software-as-a-Service (SaaS) network infrastructure or data centers, caused by factors such as human error, telecommunications outages, viruses, cyber-attacks, natural disasters (tornadoes, fires, floods), power loss, or intentional acts, could impair the ability to provide the solution. This could result in permanent loss of client data, significant claims from clients (especially regarding timely fund delivery), negatively affect reputation, and hinder client acquisition/retention.
- **Failure to Innovate and Keep Pace with Technology** Continued success depends on the ability to develop enhancements and new applications, keep pace with technological developments, and respond to future disruptive technologies. Failure to respond in a timely and cost-effective manner could make applications less competitive or obsolete.
- **Risks related to AI and Automation** The company's success is subject to the risk of future disruptive technologies, such as Artificial Intelligence (AI) and machine learning. Failure to develop applications incorporating these technologies may impact efficiency and cost reduction. Use of these emerging technologies requires additional investment and may increase costs. There is a risk of real or perceived social harm, unfairness, or other outcomes that undermine public confidence in the use and deployment of AI. Furthermore, the company has licensed and deployed a third-party Large Language Model (LLM) which processes sensitive employee and customer data, and unauthorized access or breach could lead to significant legal and financial repercussions. Inaccurate or unreliable outputs from the LLM could cause customer dissatisfaction and potential legal liabilities.
- **Open Source Software and Intellectual Property (IP) Issues** Relying on a combination of copyrights, trademarks, and trade secrets to protect IP may be inadequate. The company risks being sued by third parties for alleged infringement of proprietary rights. The use of open source software may expose the company to claims challenging ownership or potentially require the release of proprietary source code if improperly used.

II. Competitive, Growth, and Market Risks

- **High Competition** The Human Capital Management (HCM) market is highly competitive, rapidly evolving, and fragmented, leading to intense competition, aggressive pricing, and client retention strategies. Competitors may adapt more rapidly, offer superior or bundled products for a price advantage, or possess larger resources and a more established global presence. The proliferation of white label offerings and products utilizing embedded payroll systems may also adversely affect the competitive position.
- **Decelerating Growth and Market Shift** Revenue growth is expected to continue decelerating due to increased competition and a more price-conscious customer base. The strategic focus on moving upmarket targets larger

customers (organizations with greater than 1,000 employees), which puts the company directly in competition with larger firms like ADP, Workday, and Dayforce, potentially limiting pricing power. Pursuing larger clients may result in **longer sales cycles and less predictability** in completing sales.

- **Client Concentration and Cyclicity** Paycom's customer base is largely concentrated within the Small and Midsize Business (SMB) market (50 to 10,000 employees), exposing the company to higher levels of revenue cyclicity relative to other HCM operators.
- **Client Retention and New Applications** The business relies on clients' continued use and purchases of additional applications, and the ability to attract new clients. Most clients can cancel agreements with 30 days' notice. The annual revenue retention rate has fluctuated (e.g., 90% in 2024).
- **Impact of Automation (Betí)** The *Beti* technology, designed to eliminate payroll errors, has led to a reduction in activities that historically generated additional revenue, such as billable corrections and unscheduled payroll runs. The shift of existing customers to Beti has also sapped resources from sales teams focused on migration rather than expansion.
- **Adverse Economic Conditions** The performance of certain offerings is sensitive to changes in the labor market. Adverse economic and market conditions (e.g., increased unemployment, decreased income, reduced access to credit, inflation, geopolitical conflicts) could cause clients to cease operations, reduce headcount, delay spending on HCM services, or eliminate unscheduled payroll runs (like bonuses).
- **Interest Rate Fluctuations** Changes in interest rates impact potential earnings from investing funds held for clients. While increased interest rates have led to higher interest income, a stable or rising interest rate environment is needed to sustain this additional interest earnings, and a decreasing environment would compress them.
- **Failure to Manage Growth** Significant growth and organizational change experienced by the company, including international expansion efforts, require improved operational, financial, and management controls. Failure to effectively manage this growth could lead to declines in service quality, increased costs, and impaired ability to retain and attract clients.
- **Acquisitions Risk** The company may acquire other businesses, applications, or technologies, which could divert management's attention, result in stockholder dilution, and disrupt operations if integration is unsuccessful.

III. Legal and Regulatory Risks

- **Changes in Laws and Regulations** Many applications are designed to help clients comply with continually changing government regulations. New regulations, interpretations, or changes (e.g., tax laws, ACA provisions, minimum wage

rules) could increase costs, decrease revenues, render applications obsolete, or require costly and time-consuming modifications.

- **Data Privacy and Cybersecurity Laws** The company is subject to complex and evolving laws globally governing data security and privacy, including the FCRA, GLBA, state consumer privacy laws (like CCPA/CPRA, IBIPA), PIPEDA, and GDPR. Failure to comply could result in regulatory scrutiny, fines, litigation, reputational damage, or require fundamental changes to business practices. Evolving AI regulations impose further compliance risks and potential costs.
- **Money Transmitter and AML Laws** Adverse interpretations or adoption of new money transmitter, money services business, or payment services statutes could subject the company to additional regulation and expenses, potentially limiting business activities. Violations of Anti-Money Laundering (AML) laws, such as the Bank Secrecy Act (BSA), could lead to civil/criminal penalties and reputational damage. Banking partners may also limit services due to stricter BSA requirements.
- **Employment-Related Laws** Compliance with various federal, state, local, and international employment laws (including wage, hour, and discrimination laws) increases costs, and violations could result in fines and lawsuits, including class action lawsuits.
- **Background Check Regulation** The "Enhanced Background Checks" application is subject to extensive regulation, such as the FCRA. Changes like "ban the box" laws, or limits on access to records, may prevent customers from using the full functionality of the application, reducing demand. The company faces potential liability from individuals or regulatory bodies for claims based on the nature, content, or accuracy of the background check services.

IV. Financial and Stock Ownership Risks

- **Fluctuating Financial Results** Operating results may vary significantly and are difficult to predict due to numerous factors, including client mix, changes in competitors' pricing, seasonality (Q1 and Q4 highs), expenses related to growth and infrastructure, timing of new application introductions, and general economic conditions.
- **Indebtedness Covenants** Although the company currently has no outstanding debt, the senior secured revolving credit facility contains operating and financial covenants, including limits on incurring debt, granting liens, and making distributions. A breach could result in the acceleration of any outstanding indebtedness.
- **Internal Control Deficiencies** If the company is unable to maintain effective internal control over financial reporting, investors may lose confidence in the accuracy of financial reports, potentially leading to a negative impact on the common stock price.

- **Goodwill and Intangible Asset Impairment** A significant charge to earnings may be required if the carrying value of goodwill (\$51.9 million as of December 31, 2024) or other intangible assets (\$46.2 million net as of December 31, 2024) becomes impaired due to adverse market conditions or changes in estimates.
- **Stock Dilution** Issuance of additional stock in connection with acquisitions, stock incentive plans, or otherwise will dilute existing stockholders' percentage ownership.
- **Dividend Policy** The declaration, timing, and amount of quarterly cash dividends are solely at the discretion of the Board of Directors and subject to financial results and statutory surplus, meaning the company may not continue to pay dividends at the same rate or at all.

V. Operational and Management Risks

- **Dependence on Key Personnel** The success of the business and execution of its strategy depend, in part, on the leadership of key executives, including CEO Chad Richison. The loss of their leadership, expertise, or failure in succession planning could adversely impact operations.
- **Talent Attraction and Retention** The company's future success relies heavily on attracting and retaining qualified personnel, including software developers, product managers, and skilled IT, sales, marketing, and operational staff. The competition for qualified personnel is intense. The company maintains an **office-centric operational model**, which may impact its ability to attract and retain qualified personnel if candidates prefer more flexible work arrangements offered by competitors.
- **Client Dissatisfaction or Application Failure** Failure of the solution to perform properly, or client dissatisfaction with the solution or technical support, could damage the company's reputation, result in client loss, or subject the company to significant costs, liabilities, and potential litigation.
- **Third-Party Reliance** The company relies on relationships with third parties (e.g., couriers, financial institutions for ACH transfers, technology providers, manufacturers). If these third parties fail to perform as expected, or if there is a systemic shutdown of banking services, the ability to deliver critical payroll and expense reimbursement services could be impeded, negatively affecting the business and reputation.

Prompt: Provide a brief investment thesis in the form of a hypothesis.

The investment thesis can be stated as the following hypothesis:

Paycom Software (PAYC) is positioned for **solid long-term capital gains out to 2028-2030** due to its **exemplary capital allocation** supported by a strong balance sheet with **\$532 million in cash and no debt**, and continuous margin improvement, provided that the recently launched **command-driven AI product, "IWant,"** successfully leverages the company's competitive advantage—its **unified single-database platform**—to significantly **increase client satisfaction, boost full module utilization, and drive new sales logo adoption**, thereby overcoming industry headwinds such as **decelerating domestic revenue growth** and **high uncertainty associated with moving further upmarket into fierce competition**.

Prompt: Provide the bull case.

The bull case for Paycom Software (PAYC) is built upon its **strong financial foundation, robust competitive advantages derived from its innovative, unified platform, significant new product success, and substantial long-term growth potential**.

Key Arguments for the Bull Case

1. Product Differentiation and Innovation

The company's core strength lies in its technology, which was developed in-house based on a **single Software-as-a-Service (SaaS) platform**. This unified database provides a competitive advantage by ensuring data consistency across all Human Capital Management (HCM) functions, eliminating problems caused by duplicative data sets.

- **The "I Want" Command-Driven AI Product:** The recent release of the command-driven AI product, "I Want," is considered the **most significant product in the company's history**. IWant eliminates the need for a Paycom user to be trained on the software. By using voice-activated functionality or typing, users can command the system to immediately provide answers, rendering traditional navigation obsolete. Management expects this tool to increase satisfaction, client ROI, and usage among non-daily users.

- **Automation Offerings:** Paycom offers highly differentiated automated payroll software offerings, such as **Beti** (the advanced payroll solution) and **GONE** (the industry's first fully automated time-off solution), which should yield higher customer satisfaction and increased utilization over the long term, contributing to favorable prospects and elevated client retention.

2. Financial Strength and Capital Allocation

Paycom maintains an **exemplary Capital Allocation Rating** and a remarkably strong balance sheet.

- **Debt and Liquidity:** The company has **no debt**. It exited the second quarter of 2025 in a very strong financial position, with **\$532 million in cash and cash equivalents**.
- **Capital Flexibility:** The ample liquidity and lack of debt provide the ability to **make a large strategic acquisition**. Furthermore, the cash flow position allows the company to continue investing in the business, fund steady dividend payments, and repurchase stock.
- **Shareholder Returns:** Paycom has a stock repurchase authorization plan of \$1.44 billion remaining. The company pays a quarterly dividend.
- **Organic Growth:** Paycom's ability to grow entirely through **organic investment** over the past 25 years speaks volumes about management's foresight and vision, setting it apart from competitors who rely heavily on mergers and acquisitions (M&A).

3. Strong Performance and Outlook

The company delivered a **stellar second-quarter performance** in 2025.

- **Raised Guidance:** Management raised its 2025 revenue growth and EBITDA margin targets due to positive business momentum. Full-year 2025 projections were increased to revenues of **\$2.05 billion** and earnings per share (EPS) of **\$9.30**.
- **Margin Expansion:** Adjusted EBITDA margin increased significantly in Q2 2025 by 450 basis points year-over-year, reaching 41%. The full-year adjusted EBITDA guidance was raised to a range between \$872 million and \$882 million, representing an approximate 43% margin at the midpoint.
- **Sales Momentum:** There is robust sales momentum driven by **strong new client wins** and the growing sales force. The sales teams continue to set new records every quarter.

4. Growth Potential and Long-Term Value

Paycom has several avenues for continued growth and significant potential for investors with a longer-term horizon.

- **Market Opportunity:** Paycom currently holds **less than 5%** of the total addressable market in the U.S. alone, indicating vast room for expansion.
- **International Expansion:** Paycom has yet to meaningfully target the international market, suggesting that **global expansion could reaccelerate growth** as domestic growth slows.
- **Upselling and Upmarket Shift:** The company is focusing on winning larger employer contracts, increasing the average client size from 161 employees in 2020 to over 186 employees in 2024. This trend, combined with incremental utilization of modules within the current customer base, should drive increases in recurring revenue per client.
- **Long-Term Target:** Investors with a longer-term horizon (out to 2028-2030) stand to be nicely rewarded, with high projections indicating a potential price gain return of **460 (+110%)** or an estimated annual total return of **21%**. The company's Price Growth Persistence is rated at 70, and Earnings Predictability is rated at 90.

Prompt: Provide the bear case.

The bear case for Paycom Software (PAYC) centers on decelerating growth amid intensifying competition, market uncertainty, high pricing relative to peers, and the costs and challenges associated with recent strategic shifts:

Growth Deceleration and Competitive Challenges

A primary concern is the significant slowdown in revenue and client growth:

- **Slowing Growth Rates:** Paycom's impressive historic growth rates are projected to decline. The estimated annual rate of change for Revenues is expected to fall from 23.5% (Past 5 Yrs) to **11.0%** (Est'd '22-'24 to '28-'30). Similarly, projected growth for "Cash Flow" slows from 26.0% to 10.5%, and Earnings growth slows from 25.0% to 11.0% over the same periods.

- **Decelerating Client Adoption:** Analysts forecast client base growth to slow significantly, anticipating a Compound Annual Growth Rate (CAGR) of **2.0%** over the next five years (2025–2029), a meaningful drop from the 7.2% CAGR achieved in the preceding five years. The client count growth was 2% in fiscal 2024.
- **Single-Digit Outlook:** The full-year outlook for recurring revenue suggests an increase of 10% year-over-year, which is still a deceleration compared to the growth of the past two years. Growth rates are decelerating rapidly, with 2025 potentially being the first year of single-digit top-line growth for the company.
- **Price Sensitivity:** The rapid deceleration of growth is partially attributed to slowing midmarket demand, where Paycom's premium offering resonates less with **price-conscious customers**. Paycom's offering is explicitly noted as **more expensive** than many of its competitors, raising the risk that customers may switch to cheaper alternatives if service deteriorates or the economy weakens.

Risks Associated with Moving Upmarket

Paycom's strategy of shifting upmarket introduces new competitive hurdles and potential cost pressures:

- **Increased Competition:** Moving upmarket targets larger customers, which places Paycom in direct competition with major incumbents like **ADP, Workday, and Dayforce**.
- **Margin Risk:** The move upmarket increases the number of competitive solutions Paycom faces and could **hamper margins** if management is forced to invest more heavily to remain competitive. Larger customers require a higher number of features, increased customization, and more robust services, which may hamper the company's ability to scale research and development and sales/marketing costs.
- **Product Fit Uncertainty:** Paycom is viewed as being in a unique position where its offering might be too high-end for small businesses yet **not comprehensive enough for larger enterprises**.

Strategic & Operational Headwinds

Internal strategic initiatives and external economic factors present risks:

- **Revenue Cannibalization and Beti Migration Costs:** The company is currently battling persistent **revenue cannibalization headwinds**. Significant resources were spent shifting existing customers to the Beti payroll offering, which negatively impacted customer growth by diverting the sales teams' focus away from expanding the customer

base. The intended benefit of creating a superior and cheaper lifetime offering with Beti has "yet to be seen in the numbers".

- **High Uncertainty Rating:** Morningstar assigns a **High Uncertainty Rating** to Paycom, noting that the company's concentration in the SMB market exposes it to higher revenue cyclicality.
- **Macroeconomic Sensitivity:** The business is dependent on the labor market; a **deterioration in economic conditions** (such as a recession, declining labor force participation, or increased unemployment) could severely hamper growth.
- **Stock Momentum and Outlook:** The stock's timeliness rank was lowered to 3 (Average) on 8/1/25, and the technical rank was lowered to 2 on 8/8/25. The share price has recently lost momentum, likely due to headlines regarding a **slowdown in the job market**.
- **Investment Strain from AI:** While the introduction of the new AI product, IWant, is promising, the company is committing margin accretion toward significant capital expenditures (CapEx) for AI equipment and GPUs. Although this spend is expected to be "transitory", management expects free cash flow to be **similar to last year** as they reinvest these funds into CapEx, rather than seeing a significant increase from improved margins.

Valuation Concerns

The stock is currently viewed as trading near or above its fair value:

- **Valuation vs. Fair Value:** As of August 7, 2025, the fair value estimate was **\$208.00** per share. With a recent price of \$199.50 (as of October 15, 2025), the price/fair value ratio is 0.96. However, previous analysis in August 2025 viewed shares as "overvalued, trading 18% above our fair value estimate" of \$208.00.
- **Morningstar Rating:** Paycom currently holds a 3-star Morningstar Rating. Shares were previously considered "overvalued" in May 2025.