



A MOTLEY FOOL SPECIAL REPORT

1 Stock We Love That's Just Too Big

(To Be a Real Firecracker)

THE BIG-PICTURE OPPORTUNITY

There is a big opportunity in human resources right now. In many businesses, HR departments are inefficient, and processes like onboarding, training, and benefit administration are clunky at best. Plus, many companies rely on several different software providers to handle their various HR functions. Smoother HR functionality can lead to happier employees and more efficient businesses.

Paycom Software (NYSE:PAYC) is a financial technology company that provides payroll solutions to businesses, but it is much more than that. In fact, Paycom's goal is to automate and improve nearly every function its customers' HR departments perform.

INDUSTRY

Software

SECTOR

Technology & Telecom

ASSET CLASS

Large Cap

REGION

United States

HQ

Oklahoma City, OK

MARKET CAP

US\$20.1 billion

RECENT PRICE

US\$334.33

As of 11/10/2022

WHY THIS BUSINESS WORKS

Paycom aims to transform HR departments via a cloud-based platform that is designed for automation. It offers payroll solutions, application tracking, budgeting and scheduling tools, benefit administration, and much more. Paycom mainly targets businesses with 50 to 10,000 employees but provides solutions for businesses of any size.

The company's Employee Self-Service portal allows workers to quickly and easily perform many HR tasks (such as requesting time off) themselves, and its learning management system lets employees complete training courses. The amount of employee-managed data drives engagement and efficiency and is a big differentiator from Paycom's competitors, as is the all-in-one nature of its platform.

WHY WE TRUST LEADERSHIP

Paycom was founded in 1998 by Chad Richison, who has occupied the CEO spot ever since, making him one of the longest-tenured founder-CEOs at any publicly traded company in the market. Richison has led Paycom through the entirety of its growth as well as through its 2014 IPO and has delivered tremendous returns for investors (more on that in a bit).

Richison owns about 14% of Paycom, a stake worth about US\$2.8 billion at the current stock price, and if he can capitalize on Paycom's opportunities, he stands to make billions more. growing technology company with plenty of room to the upside.



HOW PAYCOM COULD WIN

Paycom is an excellent and rare combination of a stable, profitable business and a fast-growing technology company with plenty of room to the upside.

To say that Paycom's track record has been impressive would be a major understatement. Since its 2014 IPO, Paycom has delivered a 1,970% total return for investors, compared with a 150% total return for the U.S. S&P 500 in that period.

Paycom has grown tremendously, serving about 34,000 clients as of the end of 2021. And this is a very diversified customer base, with no single client accounting for more than 0.5% of the company's revenue. Paycom's customers are highly satisfied, as evidenced by its 94% customer retention rate.

This could be just a starting point. Paycom's customer base doesn't currently include many larger enterprises, but the company has just recently started targeting this market, so it could become a major growth driver. And that's not to mention that there are about 6 million small and medium-sized businesses in the United States, so Paycom could have plenty of room to grow.

Speaking of growth, Paycom continues to flourish, even in this challenging environment. In the third quarter, the company reported 30% year-over-year revenue growth. And it's important to realize that unlike many other fast-growing technology companies, Paycom is profitable. Thanks to the capital-light nature of its software

business, Paycom's gross margin for the first nine months of 2022 was 85%. The company ran a 16% net margin in the third quarter and generated 73% year-over-year earnings growth.

Finally, Paycom has an excellent balance sheet, with US\$317 million in cash and very little debt, which enables it to invest in growth and other opportunities as they arise.

Now, it's important to keep in mind that Paycom isn't without risk. Its continued growth is dependent on businesses being willing and able to invest money in new software, which isn't a guarantee in this economic climate. While Paycom's focus on bringing efficiency to its clients' businesses helps offset this risk, it's still worth noting. Plus Paycom isn't the only player in this space, so there's competition risk to consider as well.

WHY PAYCOM IS WORTH AN INVESTMENT TODAY

Paycom has been growing impressively and has an excellent track record of delivering for its customers and shareholders. The company still has a massive addressable market opportunity ahead of it. And with shares down by about 31% from their 52-week high, now could be a great time to take a closer look.

Paycom's management clearly sees value in the stock. It has increased its share buyback plan twice in the past few months to US\$1.1 billion, with Richison specifically citing "dislocations in our stock" as one of the reasons. We agree and think there's a big opportunity here for patient long-term investors.

As of 11/10/2022





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