

## NEW RISK ALERT: (PAYX)

# Paychex Purchased \$615.8 Million in Client Receivables, Doubling Its Risk

The payroll and benefits solutions provider's purchased receivables are also becoming more concentrated.

By [Nick Winkler](#)

April 8, 2021

*This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.*

## Paychex Doubles Its Purchased Receivables, Takes On Concentration Risk

It appears Paychex, a human capital management solutions provider, has doubled down on its effort to provide small and medium business (SMB) clients the working capital they need as they emerge from the pandemic. In doing so, Paychex also appears to be significantly increasing its own risk. In its latest [10-Q](#), Paychex disclosed a substantial increase in the receivables it purchases from clients:

*"Purchased receivables were **\$615.8 million and \$311.9 million** as of February 28, 2021 and May 31, 2020, respectively."*

The surge— 97.4% from the prior period cited— is a significant increase from prior quarters. In four prior 10-Qs, the increase in purchased receivables from the prior period was:

- Quarter Ending 11/30/2020: 38.7%
- Quarter Ending 8/31/20: 7.8%
- Quarter Ending 2/29/20: 4.8%
- Quarter Ending 11/3/19: 15.6%

In the 10-Ks that include the May quarter, Paychex's change in purchased receivables include:

- (6.4%)
- 24.9%

The nearly doubling of purchased receivables in the current quarter is an outlier compared to prior quarters over the last two years. The steep rise may have been a favor for a relatively large client in the temporary staffing industry, presumably in need of additional capital to capitalize on the pandemic reopening. In the latest 10-Q, Paychex warns of concentration risk with regard to its purchased receivables:

*“No single client is material in respect to service revenue, while **one client within our purchased receivables represented approximately 12% of total consolidated accounts and unbilled receivables** as of February 28, 2021.”*

If we're right, Paychex purchased \$73.8 million in receivables from a temporary staffing industry client whose success hinges, in large part, on no mutant virus strains disrupting the reopening. Investors will be watching Paychex's doubtful accounts and write-offs in the coming quarter to determine whether this was an altruistic purchase done for a valued client or a mistake that potentially costs the company tens of millions of dollars.