

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **March 31, 2022**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 001-40640**

**PAYCOR HCM, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

(State or other jurisdiction of incorporation or organization)

**4811 Montgomery Road  
Cincinnati, OH**

*(Address of Principal Executive Offices)*

**83-1813909**

(I.R.S. Employer Identification No.)

**45212**

*(Zip Code)*

**(800) 381-0053**

Registrant's telephone number, including area code

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	PYCR	The NASDAQ Stock Market LLC (Nasdaq Global Select Market)

**Securities registered pursuant to section 12(g) of the Act: None**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input checked="" type="radio"/>	Smaller reporting company	<input type="radio"/>
		Emerging growth company	<input checked="" type="radio"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of April 30, 2022, the number of shares of the Registrant's Common Stock outstanding was 174,909,539 shares.

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## Part I - FINANCIAL INFORMATION

### Item 1. Financial Statements

#### Paycor HCM, Inc. and Subsidiaries Condensed Consolidated Balance Sheets (in thousands, except share amounts)

	March 31, 2022 (Unaudited)	June 30, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 134,004	\$ 2,634
Accounts receivable, net	20,194	16,472
Deferred contract costs	34,247	24,503
Prepaid expenses	12,417	6,586
Other current assets	1,214	1,516
Current assets before funds held for clients	202,076	51,711
Funds held for clients	1,880,485	670,315
Total current assets	2,082,561	722,026
Property and equipment, net	32,751	41,080
Goodwill	750,655	750,802
Intangible assets, net	280,414	355,323
Capitalized software, net	37,921	31,310
Long-term deferred contract costs	117,256	90,880
Other long-term assets	25,080	19,532
Total assets	\$ 3,326,638	\$ 2,010,953
<b>Liabilities, Redeemable Noncontrolling Interest and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 11,741	\$ 11,978
Accrued expenses and other current liabilities	14,317	15,782
Accrued payroll and payroll related expenses	38,144	32,305
Deferred revenue	11,764	11,948
Current liabilities before client fund obligations	75,966	72,013
Client fund obligations	1,882,450	669,960
Total current liabilities	1,958,416	741,973
Deferred income taxes	62,671	76,138
Other long-term liabilities	11,886	16,680
Long-term debt, net	—	49,100
Total liabilities	2,032,973	883,891
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	—	248,423
Stockholders' equity:		
Common stock \$0.001 par value per share, 500,000,000 shares authorized, 174,903,005 shares outstanding at March 31, 2022 and 141,097,740 outstanding at June 30, 2021, respectively	175	141
Treasury stock, at cost, 10,620,260 shares at March 31, 2022 and June 30, 2021	(245,074)	(245,074)
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, — shares outstanding at March 31, 2022 and June 30, 2021, respectively	—	—
Series A preferred stock, \$0.001 par value, 10,000 shares authorized, — and 7,715 shares outstanding at March 31, 2022 and June 30, 2021, respectively	—	262,772
Additional paid-in capital	1,910,745	1,133,399
Accumulated deficit	(371,570)	(275,751)
Accumulated other comprehensive (loss) income	(611)	3,152
Total stockholders' equity	1,293,665	878,639
Total liabilities, redeemable noncontrolling interest and stockholders' equity	\$ 3,326,638	\$ 2,010,953

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

**Paycor HCM, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Operations**  
(in thousands, except share amounts)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2022	2021	2022	2021
<b>Revenues:</b>				
Recurring and other revenue	\$ 122,189	\$ 99,405	\$ 317,334	\$ 263,372
Interest income on funds held for clients	408	434	1,062	1,392
Total revenues	122,597	99,839	318,396	264,764
<b>Cost of revenues</b>	41,157	41,189	127,850	112,506
Gross profit	81,440	58,650	190,546	152,258
<b>Operating expenses:</b>				
Sales and marketing	41,487	26,044	127,957	75,864
General and administrative	54,090	38,441	141,963	106,914
Research and development	9,324	8,833	30,120	26,507
Total operating expenses	104,901	73,318	300,040	209,285
Loss from operations	(23,461)	(14,668)	(109,494)	(57,027)
<b>Other (expense) income:</b>				
Interest expense	(101)	(688)	(448)	(1,847)
Other	(12)	80	1,540	320
Loss before benefit for income taxes	(23,574)	(15,276)	(108,402)	(58,554)
Income tax benefit	(6,876)	(3,215)	(24,204)	(12,344)
Net loss	(16,698)	(12,061)	(84,198)	(46,210)
Less: Accretion of redeemable noncontrolling interests	—	6,379	11,621	17,900
Net loss attributable to Paycor HCM, Inc.	\$ (16,698)	\$ (18,440)	\$ (95,819)	\$ (64,110)
Basic and diluted net loss attributable to Paycor HCM, Inc. per share	\$ (0.10)	\$ (0.13)	\$ (0.56)	\$ (0.43)
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	174,819,649	141,097,740	171,881,617	148,113,313

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

**Paycor HCM, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Comprehensive Loss**  
**(in thousands)**

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2022	2021	2022	2021
Net loss	\$ (16,698)	\$ (12,061)	\$ (84,198)	\$ (46,210)
Other comprehensive loss, net of tax:				
Unrealized gain (loss) on foreign currency translation	97	71	(74)	335
Unrealized loss on available-for-sale securities, net of tax	(1,291)	(285)	(1,736)	(347)
Other comprehensive loss, net of tax	(1,194)	(214)	(1,810)	(12)
Comprehensive loss	(17,892)	(12,275)	(86,008)	(46,222)
Less: Comprehensive income attributable to redeemable noncontrolling interests	—	6,379	11,621	17,900
Comprehensive loss attributable to Paycor HCM, Inc.	\$ (17,892)	\$ (18,654)	\$ (97,629)	\$ (64,122)

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

**Paycor HCM, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, except share amounts)

	Three Months Ended March 31, 2021									
	Series A Preferred Stock		Common Stock				Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Treasury Stock					
Balance, December 31, 2020	5,143	\$ 175,146	141,097,740	\$ 141	\$ (245,074)	\$ 1,132,660	\$ (224,483)	\$ 2,972	\$ 841,362	
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	(18,440)	—	(18,440)	
Stock-based compensation expense	—	—	—	—	—	1,875	—	—	1,875	
Other comprehensive loss	—	—	—	—	—	—	—	(214)	(214)	
Issuance of preferred stock, net	2,572	87,626	—	—	—	—	—	—	87,626	
<b>Balance, March 31, 2021</b>	<u>7,715</u>	<u>\$ 262,772</u>	<u>141,097,740</u>	<u>\$ 141</u>	<u>\$ (245,074)</u>	<u>\$ 1,134,535</u>	<u>\$ (242,923)</u>	<u>\$ 2,758</u>	<u>\$ 912,209</u>	

	Three Months Ended March 31, 2022										
	Preferred Stock		Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Treasury Stock				
Balance, December 31, 2021	—	\$ —	—	\$ —	174,429,903	\$ 174	\$ (245,074)	\$ 1,891,259	\$ (354,872)	\$ 583	\$ 1,292,070
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(16,698)	—	(16,698)
Stock-based compensation expense	—	—	—	—	—	—	—	16,294	—	—	16,294
Issuance of common stock under employee stock plans	—	—	—	—	473,102	1	—	3,186	—	—	3,187
Other comprehensive loss	—	—	—	—	—	—	—	—	(1,194)	—	(1,194)
Other	—	—	—	—	—	—	—	6	—	—	6
<b>Balance, March 31, 2022</b>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>174,903,005</u>	<u>\$ 175</u>	<u>\$ (245,074)</u>	<u>\$ 1,910,745</u>	<u>\$ (371,570)</u>	<u>\$ (611)</u>	<u>\$ 1,293,665</u>

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

**Paycor HCM, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, except share amounts)

Nine Months Ended March 31, 2021

	Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Treasury Stock				
Balance, June 30, 2020	—	\$ —	151,718,000	\$ 152	\$ —	\$ 1,129,216	\$ (178,813)	\$ 2,770	\$ 953,325
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	(64,110)	—	(64,110)
Stock-based compensation expense	—	—	—	—	—	5,308	—	—	5,308
Other comprehensive loss	—	—	—	—	—	—	—	(12)	(12)
Issuance of preferred stock, net	7,715	262,772	—	—	—	—	—	—	262,772
Repurchase of common stock, at cost	—	—	(10,620,260)	(11)	(245,074)	11	—	—	(245,074)
<b>Balance, March 31, 2021</b>	<b>7,715</b>	<b>\$ 262,772</b>	<b>141,097,740</b>	<b>\$ 141</b>	<b>\$ (245,074)</b>	<b>\$ 1,134,535</b>	<b>\$ (242,923)</b>	<b>\$ 2,758</b>	<b>\$ 912,209</b>

Nine Months Ended March 31, 2022

	Preferred Stock		Series A Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Treasury Stock				
Balance, June 30, 2021	—	\$ —	7,715	\$ 262,772	141,097,740	\$ 141	\$ (245,074)	\$ 1,133,399	\$ (275,751)	\$ 3,152	\$ 878,639
Net loss attributable to Paycor HCM, Inc.	—	—	—	—	—	—	—	—	(95,819)	—	(95,819)
Stock-based compensation expense	—	—	—	—	—	—	—	55,321	—	—	55,321
Issuance of common stock sold in the initial public offering, net of offering costs and underwriting discount	—	—	—	—	21,275,000	21	—	454,126	—	—	454,147
Conversion of Series A Preferred Stock to common stock upon initial public offering	—	—	(7,715)	(262,772)	11,705,039	12	—	262,760	—	—	—
Issuance of common stock upon vesting of restricted stock units at initial public offering	—	—	—	—	352,124	—	—	—	—	—	—
Issuance of common stock under employee stock plans	—	—	—	—	473,102	1	—	3,186	—	—	3,187
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(1,810)	(1,810)
Other	—	—	—	—	—	—	—	1,953	—	(1,953)	—
<b>Balance, March 31, 2022</b>	<b>—</b>	<b>\$ —</b>	<b>—</b>	<b>\$ —</b>	<b>174,903,005</b>	<b>\$ 175</b>	<b>\$ (245,074)</b>	<b>\$ 1,910,745</b>	<b>\$ (371,570)</b>	<b>\$ (611)</b>	<b>\$ 1,293,665</b>

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

**Paycor HCM, Inc. and Subsidiaries**  
**Unaudited Condensed Consolidated Statements of Cash Flows**



(in thousands)

	Nine Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (84,198)	\$ (46,210)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	5,113	5,073
Amortization of intangible assets and software	95,556	103,091
Amortization of deferred contract costs	22,330	13,641
Stock-based compensation expense	55,321	5,308
Amortization of debt acquisition costs	66	511
Deferred tax benefit	(24,227)	(12,344)
Bad debt expense	1,655	1,005
Gain on sale of investments	(9)	(70)
Gain on installment sale	(1,359)	—
Loss (gain) on foreign currency exchange	101	(571)
Loss on lease exit	9,055	—
Change in fair value of deferred consideration	(138)	—
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(5,391)	(5,144)
Prepaid expenses and other current assets	(5,529)	(526)
Other long-term assets	334	868
Accounts payable	(160)	(2,159)
Accrued liabilities	6,151	9,453
Deferred revenue	943	(826)
Other long-term liabilities	(5,533)	243
Deferred contract costs	(58,450)	(45,158)
Net cash provided by operating activities	11,631	26,185
Cash flows from investing activities:		
Purchases of client funds available-for-sale securities	(178,362)	(174,962)
Proceeds from sale and maturities of client funds available-for-sale securities	127,603	174,561
Purchase of property and equipment	(1,861)	(2,141)
Proceeds from note receivable on installment sale	3,040	—
Acquisition of intangible assets	(4,640)	(9,252)
Acquisition of Paltech Solutions, Inc., net of cash acquired	—	(16,592)
Internally developed software costs	(22,667)	(15,424)
Net cash used in investing activities	(76,887)	(43,810)
Cash flows from financing activities:		
Net change in cash and cash equivalents held to satisfy client funds obligations	1,204,091	172,311
Payment of contingent consideration	—	(1,000)
Payment of deferred consideration	(2,752)	—
Proceeds from promissory note with related party	—	64,989
Repayment of promissory note with related party	—	(64,989)
Proceeds from line-of-credit	3,500	56,217
Repayments of line-of-credit	(52,600)	(60,828)
Proceeds from debt	—	25,000
Repayments of debt	—	(758)
Proceeds from issuance of preferred stock, net of offering costs	—	262,772
Purchase of treasury stock at cost	—	(245,074)
Proceeds from the issuance of common stock sold in the IPO, net of offering costs and underwriting discount	454,915	—
Redemption of Redeemable Series A Preferred Stock (acquisition of non-controlling interest)	(260,044)	—
Proceeds from employee stock purchase plan	3,186	—
Dividends paid to noncontrolling interests	—	(6,194)
Other financing activities	(395)	(397)
Net cash provided by financing activities	1,349,901	202,049
Impact of foreign exchange on cash and cash equivalents	18	(35)
Net change in cash, cash equivalents, restricted cash and short-term investments, and funds held for clients	1,284,663	184,389
Cash, cash equivalents, restricted cash and short-term investments, and funds held for clients, beginning of period	560,000	546,448
Cash, cash equivalents, restricted cash and short-term investments, and funds held for clients, end of period	\$ 1,844,663	\$ 730,837
Supplemental disclosure of non-cash investing, financing and other cash flow information:		
Capital expenditures in accounts payable	\$ 25	\$ 28
Cash paid during the year for interest	\$ 154	\$ 510
Reconciliation of cash, cash equivalents, restricted cash and short-term investments, and funds held for clients to the Condensed Consolidated Balance Sheets		
Cash and cash equivalents	\$ 134,004	\$ 19,364
Restricted cash and short-term investments	—	6,076
Funds held for clients	1,710,659	705,397
Total cash, cash equivalents, restricted cash and short-term investments, and funds held for clients	\$ 1,844,663	\$ 730,837

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.



**Paycor HCM, Inc. and Subsidiaries**  
**Notes to the Condensed Consolidated Financial Statements**  
**(all amounts in thousands, except share and per share data)**

**1. ORGANIZATION AND DESCRIPTION OF BUSINESS:**

Paycor HCM, Inc. (“Paycor HCM” or “the Company”) and its subsidiaries is a cloud-based provider of human capital management (“HCM”) software solutions for small and medium-sized employers located primarily in the United States (“U.S.”). Solutions provided include payroll, workforce management and human resources (“HR”) related services such as talent management, reporting and analytics and other payroll-related services. Services are generally provided in a Software-as-a-Service (“SaaS”) delivery model utilizing a cloud-based platform.

Paycor HCM is a holding company with no material operating assets or operations that was formed on August 24, 2018 to effect the acquisition of Paycor, Inc. and its subsidiaries (“Paycor”). On September 7, 2018, Paycor HCM, through its subsidiary companies, entered into the Agreement and Plan of Merger to acquire Paycor (the “Apax Acquisition”). The Apax Acquisition closed on November 2, 2018. Paycor HCM is controlled by Pride Aggregator, L.P. which is controlled by a syndication led by Apax Partners L.P. (“Apax”), a private equity firm. As a result of the Apax Acquisition, Paycor is an indirect controlled subsidiary of Paycor HCM.

**Initial Public Offering**

On July 20, 2021, the Company priced the initial public offering (“IPO”) of 18,500,000 shares of its common stock (the “Firm Shares”), \$0.001 par value per share, at an offering price of \$23.00 per share (the “IPO Price”). The underwriters were granted a 30-day option to purchase up to an additional 2,775,000 shares of common stock from the Company (the “Option Shares”), which was exercised by the underwriters in whole. The IPO closed and both the Firm Shares and the Option Shares were delivered on July 23, 2021. In aggregate, the IPO shares issued generated approximately \$454,915, which is net of approximately \$30,583 in underwriters’ discount and \$3,827 of offering costs paid during the nine months ended March 31, 2022. Upon completion of the IPO, \$4,595 of offering costs, \$3,827 of which were paid during the nine months ended March 31, 2022, were recorded to additional paid-in capital and accounted for as a reduction of the IPO proceeds in the condensed consolidated balance sheets. Additionally, upon the closing of the IPO:

- all of the Company’s outstanding shares of Series A Preferred Stock were automatically converted into 11,705,039 shares of the Company’s common stock;
- the Company used a portion of the proceeds to effect the redemption of all of the outstanding shares of the Series A Redeemable Preferred Stock (acquisition of non-controlling interest) (“Series A Redeemable Preferred Stock” or “Redeemable Noncontrolling Interest”) at a redemption price of 101% of the liquidation preference, plus the amount of all accrued dividends for the then current and all prior dividend payment periods, for a total of \$260,044;
- the outstanding Long Term Incentive Plan Units (“LTIP Units”) converted to 1,761,578 restricted stock units (“RSUs”) and the Company began recognizing compensation expense equal to the aggregate dollar value over the requisite two-year service period; and
- the performance-based incentive units granted under the Pride Aggregator, L.P. Management Equity Plan (“MEP”) converted to time-based incentive units, with 25% vesting upon successive 6-month anniversary dates for the 24 months beginning on the date of the Company’s IPO.

In connection with the Company’s IPO, the Company executed a 1,517.18 for 1 share stock split (“IPO Stock Split”) relating to its common stock. All share and per share amounts have been retroactively adjusted to reflect the IPO Stock Split for all periods presented within the unaudited condensed consolidated financial statements.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

### **Basis of presentation and consolidation**

The accompanying interim unaudited condensed consolidated financial statements of the Company were prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim reporting. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended June 30, 2021 in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 2, 2021. The unaudited condensed consolidated financial statements for interim periods do not include all disclosures required by U.S. GAAP for annual financial statements and are not necessarily indicative of results for the future interim periods and the full fiscal year. Adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of the unaudited condensed consolidated financial position, results of operations and cash flows at the dates and for the periods presented have been included. All intercompany transactions and balances have been eliminated in consolidation.

### **Use of estimates**

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the recognition of revenue, evaluation of potential impairment of goodwill and intangible assets, and the valuation of stock-based compensation.

The Company's results of operations and financial condition can also be affected by economic, political, legislative, regulatory and legal actions, including but not limited to health epidemics and pandemics and their resulting economic impact, including the impact from the COVID-19 pandemic. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, and government fiscal policies can have a significant effect on the Company's results of operations and financial condition. While the Company maintains reserves for anticipated liabilities and carries various levels of insurance, the Company could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings.

### **Stock-based compensation**

The Company recognizes all employee and director stock-based compensation as a cost in the unaudited condensed consolidated financial statements. Equity-classified awards are measured at the grant date fair value of the award and expense is recognized, net of actual forfeitures, on a straight-line basis over the requisite service period for the award.

For periods prior to the IPO, the Company estimated grant date fair value using a Monte Carlo simulation model. As the Company's equity was not publicly traded, there was no history of market prices for the Company's equity. Thus, estimating grant date fair value required the Company to make assumptions, including the value of the Company's equity, expected volatility, expected term and the expected risk-free rate of return.

For periods subsequent to the IPO, the Company establishes grant date fair value of RSUs based on the fair value of the Company's underlying common stock. The Company estimates the grant date fair value of stock options, including common stock purchased as a part of the Company's Employee Stock Purchase Plan ("ESPP"), using the Black-Scholes option pricing model, which requires management to make assumptions with respect to the fair value of the Company's award on the grant date, including the expected term of the award, the expected volatility of the Company's stock calculated based on a period of time generally commensurate with the expected term of the award, the expected risk-free rate of return, and expected dividend yields of the Company's stock. See Note 13 - "Equity Compensation Plans" for additional information on the Company's stock-based compensation plans.

### **Accounts receivable, net**

Accounts receivable balances are shown on the condensed consolidated balance sheets net of the allowance for doubtful accounts of \$3,683 and \$2,402 as of March 31, 2022 and June 30, 2021, respectively. The allowance for doubtful accounts considers factors such as historical experience, credit quality, age of the accounts receivable balance and current and forecasted economic conditions that may affect a customer's ability to pay. The Company performs ongoing credit evaluations and generally requires no collateral from clients. Management reviews individual accounts as they become past due to determine collectability. The allowance for doubtful accounts is adjusted periodically based on management's consideration of past due accounts. Individual accounts are charged against the allowance when all reasonable collection efforts have been exhausted.

### **Sales and marketing**

Sales and marketing expenses consist of costs associated with the Company's direct sales and marketing staff, including employee-related costs, marketing, advertising and promotion expenses, and other related costs. Advertising and promotion costs are expensed as incurred. Advertising and promotion expense totaled approximately \$5,354 and \$4,223 for the three months ended March 31, 2022 and 2021, respectively. Advertising and promotion expense totaled approximately \$15,229 and \$11,520 for the nine months ended March 31, 2022 and 2021, respectively.

### **Income taxes**

Income tax benefit for the three months ended March 31, 2022 and 2021 was \$6,876 and \$3,215, respectively, reflecting an effective tax rate of 29.2% and 21.0% for the three month periods ended March 31, 2022 and 2021, respectively. Income tax benefit for the nine months ended March 31, 2022 and 2021 was \$24,204 and \$12,344, respectively, reflecting an effective tax rate of 22.3% and 21.1% for the nine month periods ended March 31, 2022 and 2021, respectively.

### **Pending accounting pronouncements**

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases" (Topic 842). This update amends existing accounting standards for lease accounting and requires lessees to recognize virtually all their leases on the balance sheet by recording a right-of-use asset and a lease liability (for other than short-term leases). The Company has formed a project team to review contracts to determine which qualify as a lease and then evaluate the impact of the adoption of this principle on the Company's consolidated financial statements. The Company is evaluating, designing, and implementing new processes and internal controls to meet the requirements to report and disclose financial information relating to the Company's leases. In addition, the Company is designing a process to perform the necessary calculations to derive the right-of-use assets and liabilities associated with each lease to support the requirements of the new standard.

The Company anticipates that the adoption of this standard will materially affect its condensed consolidated balance sheets. The Company will adopt this ASU on July 1, 2022 using the modified retrospective approach. The Company plans to apply the package of practical expedients in the guidance which, among other things, includes carrying forward the historical lease classification. The Company plans to make accounting policy elections not to apply the new guidance to leases with a term of less than 12 months, as well as to derive the incremental borrowing rate at the July 1, 2022 adoption date based on the remaining lease term as of the adoption date.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses" (Topic 326). This update establishes a new approach to estimate credit losses on certain types of financial instruments. The update requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The amended standard will also update the impairment model for available-for-sale debt securities, requiring entities to determine whether all or a portion of the unrealized loss on any such securities is a credit loss. The Company is currently evaluating this standard and the potential effects of these changes to its condensed consolidated financial statements and expects to adopt this new standard in the fiscal year beginning July 1, 2023 if the Company continues to qualify as an emerging growth company.

### 3. REVENUE:

The following table disaggregates revenue from contracts by recurring fees and implementation services and other, which the Company believes depicts the nature, amount and timing of its revenue:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
Recurring fees	\$ 119,108	\$ 95,767	\$ 307,873	\$ 252,743
Implementation services and other	3,081	3,638	9,461	10,629
Recurring and other revenue	\$ 122,189	\$ 99,405	\$ 317,334	\$ 263,372

#### *Deferred revenue*

The Company recognizes deferred revenue for nonrefundable upfront fees as well as for subscription services related to certain ancillary products invoiced prior to the satisfaction of the performance obligation.

The nonrefundable upfront fees related to implementation services are typically included on the client's first invoice. Implementation fees are deferred and recognized as revenue over an estimated 24-month period to which the material right exists, which is the period the client is expected to benefit from not having to pay an additional nonrefundable implementation fee upon renewal of the service.

The following table summarizes the changes in deferred revenue related to the nonrefundable upfront fees and recurring subscription services:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
Balance, beginning of period	\$ 15,289	\$ 16,746	\$ 16,047	\$ 15,916
Deferred revenue acquired	—	—	—	1,374
Deferral of revenue	6,467	3,792	15,868	9,767
Revenue recognized	(4,816)	(3,979)	(14,926)	(10,582)
Impact of foreign exchange	32	(10)	(17)	74
Balance, end of period	\$ 16,972	\$ 16,549	\$ 16,972	\$ 16,549

Deferred revenue is recorded within deferred revenue and other long-term liabilities on the condensed consolidated balance sheets. The Company will recognize deferred revenue of \$4,359 in fiscal year 2022, \$8,835 in fiscal year 2023, \$2,912 in fiscal year 2024, and \$866 thereafter.

#### *Deferred contract costs*

The following table presents the deferred contract costs balance and related amortization expense for these deferred contract costs.

	As of and for the Three Months Ended March 31, 2022			
	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 62,471	\$ 9,076	\$ (3,713)	\$ 67,834
Costs to fulfill a contract	76,543	11,681	(4,555)	83,669
Total	\$ 139,014	\$ 20,757	\$ (8,268)	\$ 151,503

**As of and for the Three Months Ended March 31, 2021**

	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 42,010	\$ 7,433	\$ (2,351)	\$ 47,092
Costs to fulfill a contract	50,620	8,535	(2,808)	56,347
<b>Total</b>	<b>\$ 92,630</b>	<b>\$ 15,968</b>	<b>\$ (5,159)</b>	<b>\$ 103,439</b>

**As of and for the Nine Months Ended March 31, 2022**

	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 52,926	\$ 25,006	\$ (10,098)	\$ 67,834
Costs to fulfill a contract	62,457	33,444	(12,232)	83,669
<b>Total</b>	<b>\$ 115,383</b>	<b>\$ 58,450</b>	<b>\$ (22,330)</b>	<b>\$ 151,503</b>

**As of and for the Nine Months Ended March 31, 2021**

	Beginning Balance	Capitalization of Costs	Amortization	Ending Balance
Costs to obtain a contract	\$ 32,233	\$ 21,069	\$ (6,210)	\$ 47,092
Costs to fulfill a contract	39,689	24,089	(7,431)	56,347
<b>Total</b>	<b>\$ 71,922</b>	<b>\$ 45,158</b>	<b>\$ (13,641)</b>	<b>\$ 103,439</b>

Deferred contract costs are recorded within deferred contract costs and long-term deferred contract costs on the condensed consolidated balance sheets. Amortization of costs to fulfill a contract and costs to obtain a contract are recorded in cost of revenues and sales and marketing expense in the unaudited condensed consolidated statements of operations, respectively. The Company regularly reviews its deferred costs for impairment and did not recognize an impairment loss during any period presented in this report.

#### **4. BUSINESS COMBINATION AND ASSET ACQUISITION:**

##### *Acquisition of Paltech Solutions, Inc.*

On September 24, 2020, the Company entered into a share purchase agreement with Paltech Solutions, Inc. (doing business as “7Geese”), a performance management SaaS application, to acquire 100% of the equity interests (the “7Geese Acquisition”). The acquisition enabled the Company to expand its current service offerings. The cash consideration was funded using proceeds from the issuance of a term loan.

The acquisition was accounted for as a business combination. The purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair value at the date of acquisition. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, \$1,661 of which is deductible for tax purposes. Goodwill consists primarily of the acquired workforce, synergistic benefits, and growth opportunities. The factors contributing to the recognition of goodwill were based on strategic benefits that are expected to be realized from the 7Geese Acquisition. The benefits include acquiring a software technology tailored to small and medium-sized businesses that can be integrated into the current suite of Company products. The final purchase price allocation is as follows:

	<b>7Geese Acquisition</b>
Cash consideration	\$ 16,847
Contingent consideration	3,000
Deferred consideration	2,900
Fair value of total consideration	<u>22,747</u>
Cash acquired	<u>(107)</u>
Net purchase price	<u>\$ 22,640</u>
<b>Assets acquired:</b>	
Accounts receivable	\$ 477
Other current assets	295
Property and equipment	64
Technology intangible assets	9,040
Other intangible assets	100
Other non-current assets	9
Total identifiable assets acquired	<u>9,985</u>
<b>Liabilities assumed:</b>	
Accounts payable	(34)
Accrued expenses	(1,730)
Deferred revenue	(1,374)
Total identifiable liabilities assumed	<u>(3,138)</u>
Goodwill	15,793
Fair value of total consideration transferred	<u>\$ 22,640</u>

The technology intangible assets have a weighted average useful life of 3 years.

The contingent consideration related to the 7Geese Acquisition consisted of a maximum of \$3,000 in payments based on the achievement of operational milestones within a three-year period. The contingent consideration was initially measured at fair value at the acquisition date and recorded as a liability. The liability at fair value was based on the estimated future payments. The Company made payments of \$1,000 in March 2021 and \$2,000 in May 2021 to fully satisfy the contingent payment obligation.

The deferred consideration related to the 7Geese Acquisition consisted of a one-time payment due and paid in the second quarter of fiscal year 2022.

The Company incurred transaction costs of approximately \$500 related to the 7Geese Acquisition for the nine months ended March 31, 2021, of which none relates to the three months ended March 31, 2021. These costs were expensed as incurred in general and administrative expenses on the accompanying unaudited condensed consolidated statements of operations.

#### *Asset Acquisition*

On February 4, 2021, the Company acquired payroll, timekeeping and HCM service customer relationships from another large provider of HCM services for an initial purchase price of approximately \$9,300, which included approximately \$50 of transaction costs. As part of this asset purchase, the Company is required to make quarterly contingent payments and a final payment to the seller based on the revenue generated by the acquired clients over a 12-month period. Contingent payments made for the three and nine months ended March 31, 2022 were \$1,453 and \$3,890, respectively.



The acquired customer relationships are recorded as an intangible asset and are being amortized on a straight-line basis over three years. As of March 31, 2022, the weighted average amortization period for these intangible assets was approximately 2.0 years. The contingent payments are recognized when each contingency is resolved and the consideration is paid or becomes payable as an increase to the acquired intangible asset, amortized on a straight-line basis over the remaining period of the initial acquired intangible asset.

## 5. FUNDS HELD FOR CLIENTS:

Funds held for clients are as follows:

	March 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Demand deposit accounts and other cash equivalents	\$ 1,710,659	\$ —	\$ —	\$ 1,710,659
U.S. Treasury and direct obligations of U.S. government agencies	35,422	1	(171)	35,252
Corporate bonds	90,740	5	(938)	89,807
Commercial paper	22,802	—	(6)	22,796
Other securities	22,136	6	(171)	21,971
	<u>\$ 1,881,759</u>	<u>\$ 12</u>	<u>\$ (1,286)</u>	<u>\$ 1,880,485</u>

	June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Demand deposit accounts and other cash equivalents	\$ 557,366	\$ —	\$ —	\$ 557,366
U.S. Treasury and direct obligations of U.S. government agencies	28,757	92	(11)	28,838
Corporate bonds	50,188	1,900	(189)	51,899
Commercial paper	21,831	11	(6)	21,836
Other securities	9,821	629	(74)	10,376
	<u>\$ 667,963</u>	<u>\$ 2,632</u>	<u>\$ (280)</u>	<u>\$ 670,315</u>

Other securities are primarily comprised of collateralized and other mortgage obligations, municipal obligations, and certificates of deposit.

Proceeds from sales and maturities of investment securities for the three months March 31, 2022 and 2021, were approximately \$52,694 and \$55,246, respectively. Proceeds from sales and maturities of investment securities for the nine months ended March 31, 2022 and 2021, were approximately \$127,603 and \$174,561, respectively.

The Company is exposed to interest rate risk as rate volatility will cause fluctuations in the earnings potential of future investments. The Company does not utilize derivative financial instruments to manage interest rate risk.

The Company reviews its investments on an ongoing basis to determine if any are other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. The Company has no material individual securities that have been in a continuous unrealized loss position greater than twelve months. The Company believes these unrealized losses result from changes in interest rates rather than credit risk, and therefore does not believe the related investments are other-than-temporarily impaired.

Expected maturities as of March 31, 2022 for client fund assets are as follows:

Due within fiscal year 2022	\$ 1,739,564
Due within fiscal year 2023	71,821
Due within fiscal year 2024	35,105
Due after fiscal year 2024	33,995
Total	\$ 1,880,485

## 6. PROPERTY AND EQUIPMENT, NET:

A summary of the Company's property and equipment, net is as follows:

	March 31, 2022	June 30, 2021
Land	\$ 3,680	\$ 3,680
Land improvements	910	910
Building and improvements	22,845	22,845
Computer, equipment and software	14,861	13,427
Furniture and fixtures	2,286	4,596
Office equipment	2,330	2,337
Leasehold improvements	1,462	8,227
	48,374	56,022
Accumulated depreciation and amortization	(15,623)	(14,942)
Property and equipment, net	\$ 32,751	\$ 41,080

Depreciation and amortization of property and equipment was approximately \$1,665 and \$1,718 for the three months ended March 31, 2022 and 2021, respectively. Depreciation and amortization of property and equipment was approximately \$5,113 and \$5,073 for the nine months ended March 31, 2022 and 2021, respectively.

## 7. CAPITALIZED SOFTWARE, NET:

A summary of the Company's capitalized software, net is as follows:

	March 31, 2022	June 30, 2021
Capitalized software	\$ 75,551	\$ 52,945
Accumulated amortization	(37,630)	(21,635)
Capitalized software, net	\$ 37,921	\$ 31,310

Amortization expense for capitalized software was approximately \$5,767 and \$3,690 for the three months ended March 31, 2022 and 2021, respectively. Amortization expense for capitalized software was approximately \$16,008 and \$9,538 for the nine months ended March 31, 2022 and 2021, respectively.

The following is a schedule of future amortization expense as of March 31, 2022:

2022 (remaining three months)	\$ 5,603
2023	18,289
2024	11,425
2025	2,604
2026	—
	\$ 37,921

## 8. GOODWILL AND INTANGIBLE ASSETS:

Goodwill represents the excess of the consideration transferred over the net assets recognized and represents the estimated future economic benefits arising from other assets acquired.

Changes in the carrying amount of goodwill are presented below:

Balance at July 1, 2021	\$	750,802
Foreign currency translation		(147)
Balance at March 31, 2022	\$	<u>750,655</u>

Components of intangible assets were as follows:

	March 31, 2022	June 30, 2021
Cost:		
Technology	\$ 141,415	\$ 140,665
Customer relationships	438,872	434,983
Trade name	105,672	105,672
Total cost	\$ 685,959	\$ 681,320
Accumulated amortization:		
Technology	\$ (134,686)	\$ (116,669)
Customer relationships	(246,779)	(190,538)
Trade name	(24,080)	(18,790)
Total accumulated amortization	\$ (405,545)	\$ (325,997)
Intangible assets, net	\$ 280,414	\$ 355,323

Amortization expense for intangible assets was approximately \$22,136 and \$31,782 for the three months ended March 31, 2022 and 2021, respectively. Amortization expense for intangible assets was approximately \$79,548 and \$93,553 for the nine months ended March 31, 2022 and 2021, respectively.

The following is a schedule of future amortization expense as of March 31, 2022:

2022 (remaining three months)	\$	21,976
2023		87,162
2024		81,692
2025		30,890
2026		7,043
Thereafter		51,651
	\$	<u>280,414</u>

## 9. DEBT AGREEMENTS AND LETTERS OF CREDIT:

The Company's long-term debt consists of the following:

	March 31, 2022	June 30, 2021
2021 Credit Facility	\$ —	\$ 49,100
Less: Unamortized debt issuance costs	—	—
Total long-term debt (including current portion)	—	49,100
Less: Current portion	—	—
Total long-term debt, net	\$ —	\$ 49,100

### 2021 Credit Agreement

On June 11, 2021, Paycor, Inc. entered into a new credit agreement (the "2021 Credit Agreement") with PNC Bank, National Association ("PNC"), Fifth Third, National Association, and other lenders, providing a \$100,000 senior secured revolving credit facility (the "2021 Credit Facility"). The 2021 Credit Facility includes an "accordion feature" that allows the Company, under certain circumstances, to increase the size of the 2021 Credit Facility by an additional principal amount of up to \$300,000, with a resulting maximum principal amount of \$400,000, subject to the participating lenders electing to increase their commitments or new lenders being added to the 2021 Credit Agreement.

On September 3, 2021, the Company entered into an amendment (the "2021 Amendment") to the 2021 Credit Agreement which increased the size of the 2021 Credit Facility from \$100,000 to \$200,000. No other significant terms of the 2021 Credit Agreement were changed in connection with the 2021 Amendment.

Borrowings under the 2021 Credit Facility, if any, have variable interest rates. The variable interest rates equal, at the Company's option, either, (i) in the case of ABR borrowings, the highest of (a) the PNC prime rate, (b) the Federal Funds Rate plus 0.50%, and (c) the adjusted London interbank offered rate ("LIBOR") with a maturity of one month, plus 1.00% ("ABR") or (ii) in the case of LIBOR borrowings, the LIBOR rate, plus, in each case, an applicable margin of (A) prior to the IPO, (i) in the case of ABR borrowings, 0.95% per annum and (ii) in the case of LIBOR borrowings, 1.95% per annum or (B) following the IPO, (i) in the case of ABR borrowings, 0.375% per annum or (ii) in the case of LIBOR borrowings, 1.375% per annum, in each case, with step downs based on achievement of certain total leverage ratios.

The 2021 Credit Facility requires the Company to pay a quarterly unused fee of (i) prior to an initial public offering, 0.25% and (ii) following an initial public offering, between 0.10% per annum and 0.175% per annum based on our total leverage ratio.

Any borrowings under the 2021 Credit Facility will mature on June 11, 2026.

Borrowings under the 2021 Credit Agreement are guaranteed by a subsidiary, Pride Guarantor, Inc. and certain other subsidiaries. These borrowings are secured by liens and security interests on substantially all of the assets of existing and future material domestic subsidiaries of Pride Guarantor, Inc.

The 2021 Credit Agreement contains financial covenants, which are reviewed for compliance on a quarterly basis, including a total leverage ratio financial covenant of 3.50 to 1.00 and an interest coverage ratio financial covenant of 3.00 to 1.00. As of March 31, 2022, the Company was in compliance with all covenants.

On July 15, 2021 and August 9, 2021, the Company repaid \$4,600 and \$44,500, respectively, of revolver borrowings under the 2021 Credit Facility. As of March 31, 2022, there were no outstanding revolver borrowings under the 2021 Credit Facility.

As a result of the Company entering into the 2021 Amendment, the Company expensed approximately \$35 primarily consisting of third party costs. Amounts expensed relating to the 2021 Amendment are recorded as other (expense) income - other within the unaudited condensed consolidated statement of operations for the nine months ended March 31, 2022.

Additionally, the Company capitalized approximately \$100 of deferred financing fees for the nine months ended March 31, 2022 in connection with the 2021 Amendment, which are included in other long-term assets within the condensed consolidated balance sheets.

The Company had no outstanding letters of credit as of March 31, 2022 or June 30, 2021.

## 10. FAIR VALUE MEASUREMENTS:

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company can access.

Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The fair value of certain assets, such as nonfinancial assets, primarily long-lived assets, goodwill, intangible assets and certain other assets, are recognized or disclosed in connection with impairment evaluations. All non-recurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy.

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, and accounts payable approximated fair value as of March 31, 2022 and June 30, 2021, because of the relatively short maturity of these instruments. Additionally, the Company believes the fair value of the amounts outstanding under the Company's 2021 Credit Facility as of June 30, 2021, approximate carrying value because their variable interest rate terms correspond to the current market terms.

The following table presents information on the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2022 and June 30, 2021:

	March 31, 2022			
	Level 1	Level 2	Level 3	Total
<b>Funds held for clients—cash and cash equivalents:</b>				
Demand deposit accounts and other cash equivalents	\$ 1,710,659	\$ —	\$ —	\$ 1,710,659
<b>Funds held for clients—available-for-sale:</b>				
U.S. Treasury and direct obligations of U.S. government agencies	—	35,252	—	35,252
Corporate bonds	—	89,807	—	89,807
Commercial paper	—	22,796	—	22,796
Other securities	—	21,971	—	21,971
	<u>\$ 1,710,659</u>	<u>\$ 169,826</u>	<u>\$ —</u>	<u>\$ 1,880,485</u>
	June 30, 2021			
	Level 1	Level 2	Level 3	Total
<b>Funds held for clients—cash and cash equivalents:</b>				
Demand deposit accounts and other cash equivalents	\$ 557,366	\$ —	\$ —	\$ 557,366
<b>Funds held for clients—available-for-sale:</b>				
U.S. Treasury and direct obligations of U.S. government agencies	—	28,838	—	28,838
Corporate bonds	—	51,899	—	51,899
Commercial paper	—	21,836	—	21,836
Other securities	—	10,376	—	10,376
	<u>\$ 557,366</u>	<u>\$ 112,949</u>	<u>\$ —</u>	<u>\$ 670,315</u>

Available-for-sale securities included in Level 1 are valued using closing prices for identical instruments that are traded on active exchanges. Available-for-sale securities included in Level 2 are valued by reference to quoted prices of similar assets or liabilities in active markets, adjusted for any terms specific to that asset or liability.

## 11. REDEEMABLE NONCONTROLLING INTERESTS:

The Company fully redeemed the Series A Redeemable Preferred Stock using a portion of the cash received in its IPO. The redemption price per share was equal to 101% of the liquidation preference, plus the amount of all accrued dividends for the then current and all prior dividend payment periods, or \$260,044. As of March 31, 2022, there are no holders of the Company's Series A Redeemable Preferred Stock and all of the Company's subsidiaries are wholly-owned.

### *Measurement*

Accretion of Redeemable Noncontrolling Interests for the three and nine months ended March 31, 2022 includes \$— and \$11,621 of adjustments, respectively, relating to the redemption accretion value adjustments for each reportable period. Accretion of Redeemable Noncontrolling Interests for the three and nine months ended March 31, 2021 includes \$6,379 and \$17,900 of adjustments, respectively, relating to the redemption accretion value adjustments for each reportable period. The Company elected to pay the distributions for the dividend payment date for the three months ended September 30, 2020 in-kind to preferred shareholders, while 50% of the required distributions for the remaining fiscal year 2021 dividend payment dates were paid in cash with the remaining 50% in-kind to preferred shareholders. These in-kind distributions increased the liquidation preference on each preferred share.

The following table shows the change in the Company's Redeemable Noncontrolling Interests during the periods presented:

Balance at July 1, 2021	\$ 248,423
Accretion of Series A Redeemable Preferred Stock	11,621
Redemption of outstanding shares	(260,044)
Balance at March 31, 2022	<u>\$ —</u>

## 12. CAPITAL STOCK:

Effective following the IPO, the Company amended and restated its certificate of incorporation to effectuate the IPO Stock Split, which authorized the Company to issue 500,000,000 shares of common stock with a par value of \$0.001 per share. The Company also authorized 50,000,000 shares of preferred stock with a par value of \$0.001 per share. As of March 31, 2022 and June 30, 2021, there were 174,903,005 and 141,097,740 shares of common stock outstanding, respectively, and no preferred stock outstanding.

On October 19, 2021, a secondary offering took place in which certain selling shareholders, including Apax or its affiliates, sold 12,000,000 shares of the Company's common stock at a public offering price of \$32.00 per share. In addition, the selling shareholders granted the underwriters a 30-day option to purchase up to an additional 1,800,000 shares of the Company's common stock at the same per share price, which was exercised in full on October 26, 2021. The Company did not receive any proceeds from these sales.

On December 29, 2020, the Company completed a private placement of 5,143 shares of Series A Preferred Stock with certain institutional investors, which generated proceeds of approximately \$180,005. Each share of Series A Preferred Stock had an initial liquidation preference of \$35,000, subject to adjustment.

On December 29, 2020, subsequent to the Company's Series A Preferred Stock issuance, the Company used the proceeds from the Series A Preferred Stock issuance and an intercompany promissory note of \$64,989 with Pride Aggregator L.P. to repurchase 10,620,260 shares of its common stock at a price of \$23.07 per share for approximately \$245,000.

On January 20, 2021, the Company completed a follow-on private placement of 2,572 shares of Series A Preferred Stock with certain institutional investors, which generated proceeds of approximately \$90,020. The Company incurred approximately \$7,253 of expenses associated with both the December 2020 and January 2021 private placements, which were netted against the \$270,025 of proceeds received.

The Series A Preferred Stock automatically converted into 11,705,039 shares of the Company's common stock upon the closing of the Company's IPO in July 2021, adjusted for the 1,517.18 for 1 IPO Stock Split.

### 13. EQUITY COMPENSATION PLANS:

All stock-based awards to employees are recognized as compensation costs in the unaudited condensed consolidated financial statements based on fair value measured as of the date of grant. These costs are recognized as an expense in the unaudited condensed consolidated statements of operations over the requisite service period and increase additional paid-in capital.

The Company recognized stock-based compensation costs and costs relating to liability awards for the three months ended March 31, 2022 and 2021 of \$16,294 and \$1,882, respectively. The Company recognized stock-based compensation costs and costs relating to liability awards for the nine months ended March 31, 2022 and 2021 of \$55,321 and \$5,378, respectively.

#### *Long Term Incentive Plan Units converted to Restricted Stock Units*

In connection with the Company's IPO, the LTIP Units converted to 1,761,578 RSUs, of which 20% of the aggregate dollar value vested upon conversion and was recognized as compensation expense. The remaining aggregate dollar value is being recognized as compensation expense over the requisite two-year service period relating to the LTIP units.

#### *Management Equity Plan Units*

Under the terms of the Company's MEP, one-half of the MEP incentive units vest based on an associate's service time. Vesting for the second half of the MEP incentive units is established based on the Company's performance relative to Apax's original invested amount, with the performance calculations defined in the plan triggered by the Company's IPO (implied performance condition). The MEP incentive units are subject to a floor amount established at the grant date, which acts as a participation threshold and permits the award to participate in distributions only to the extent the distribution amount for the units exceed the floor amount. The Company estimated the fair value of the MEP incentive units using the Monte Carlo simulation method.

The MEP time-based incentive units vest 25% on the first anniversary after the vesting commencement date and thereafter in twelve equal installments on each subsequent quarterly anniversary of the vesting commencement date, with 100% vesting of the MEP time-based incentive units occurring on the fourth anniversary of the vesting commencement date. The MEP time-based incentive units are accounted for as equity awards and the compensation expense calculated based upon the fair market value of the MEP time-based incentive units at the grant date is recognized as the MEP time-based incentive units vest.

As a result of the Company's IPO, and due to an election by Apax, the MEP performance-based incentive units converted to time-based incentive units ("Modified MEP Incentive Units"), with 25% vesting upon successive six month anniversary dates for the 24 months beginning on the date of the IPO. The conversion was treated as a modification for accounting purposes, and accordingly, the Company estimated fair value as of the modification date.

The Modified MEP Incentive Units are accounted for as equity awards and the compensation expense calculated based upon the fair value of the Modified MEP Incentive Units at the modification date is recognized as the Modified MEP Incentive Units vest. The Company estimated the fair value of the Modified MEP Incentive Units based upon the IPO Price adjusted for a floor amount established at the grant date and other liquidation preferences in accordance with the terms of the MEP.

The following table presents the MEP incentive unit activity:

<i>In thousands, except unit and per unit data</i>	Time-Based Incentive Units			Modified MEP Incentive Units		
	Number of Units	Weighted Average Floor Price	Weighted Average Fair Value	Number of Units	Weighted Average Floor Price	Weighted Average Fair Value
Outstanding at June 30, 2021	38,079	\$ 578	\$ 442	36,879	\$ 593	\$ 379
Granted	—	—	—	—	—	—
Forfeited	(915)	1,186	409	(1,853)	691	1,321
Outstanding at March 31, 2022	37,164	\$ 563	\$ 443	35,026	\$ 588	\$ 1,424

As of March 31, 2022, there was \$4,653 of unrecognized compensation expense for the unvested time-based incentive units that will be recognized over a weighted average period of 1.5 years. The weighted average grant date fair value of time-based incentive units that vested during the nine months ended March 31, 2022 and 2021 was \$414 and \$455, respectively.

As of March 31, 2022, the unrecognized compensation expense related to the unvested Modified MEP Incentive Units was \$32,649 that will be recognized over a weighted average period of 1.3 years. The weighted average grant date fair value of the Modified MEP Incentive Units vested during the nine months ended March 31, 2022 and 2021 was \$1,429 and \$—, respectively.

### 2021 Omnibus Plan

On July 20, 2021, the Company adopted the 2021 Omnibus Incentive Plan (the “2021 Plan”). The Company has reserved 13,800,000 shares of common stock for future issuance under the 2021 Plan pursuant to which employees, consultants and directors of the Company and its affiliates performing services for the Company, including the Company’s executive officers, are eligible to receive awards. The 2021 Plan provides for grants of stock options, stock appreciation rights, restricted stock, restricted stock units, bonus stock, dividend equivalents, other stock-based awards, substitute awards, annual incentive awards and performance awards intended to align the interests of participants with those of the Company’s shareholders.

### Stock Options

In connection with the Company’s IPO, the Company granted awards under the 2021 Plan to certain executives consisting of 1,135,144 options to purchase shares of its common stock. Additionally, options were granted in October 2021 in connection with the Company’s annual grant. All stock options are non-qualified stock options and expire on the tenth anniversary of the grant date. The following table summarizes option activity for the nine months ended March 31, 2022:

<i>In thousands, except unit and per unit data</i>	Options Outstanding	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2021	—	\$ —	\$ —	—	\$ —
Granted	1,143,759	23.09	9.40	9.30	—
Exercised	—	—	—	—	—
Forfeited and cancelled	(46,741)	23.00	9.36	—	—
Outstanding at March 31, 2022	1,097,018	\$ 23.10	\$ 9.40	9.30	\$ 6,650
Exercisable as of March 31, 2022	—	\$ —	\$ —	—	\$ —

None of the stock options were exercised during the period ended March 31, 2022. Total unrecognized compensation cost related to the unvested stock options is \$7,925, which is expected to be recognized over a weighted average period of 2.3 years.

The weighted average grant date fair value was estimated by the Company using the Black-Scholes option pricing model with the assumptions below:

Weighted average exercise price per option	\$23.00 - \$35.16
Expected volatility range of stock	42.5%
Expected life of option (in years)	5.85
Risk-free interest rate	0.81% - 1.12%
Expected dividend yield on stock	0%
Fair value per option	\$9.36 - \$14.51

The expected option life represents the period of time the stock options are expected to be outstanding and is based on the “simplified method” allowed under SEC guidance. The Company used the “simplified method” due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options.



The expected volatility was based on the average historical and implied volatility of the Company's peer group since the Company had either limited or no publicly traded stock history as of the grant date. The Company does not intend to pay cash dividends in the foreseeable future. Consequently, the Company used an expected dividend yield of zero. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of the grant.

#### *Restricted Stock Units*

The following table summarizes information related to RSUs granted by the Company. These include grants of LTIP Units that were converted to RSUs as described above, as well as grants made in connection with the Company's IPO and other grants. In connection with the Company's IPO, the Company primarily granted RSUs to its executives, its independent directors, members of its IPO transaction team and senior employees of the Company.

RSUs that were granted as a result of the conversion of the LTIP Units vest over a two-year period, whereas RSUs that were granted at and subsequent to the time of the Company's IPO generally vest over a three-year period.

<i>In thousands, except unit and per unit data</i>	<b>Number of Units</b>	<b>Weighted Average Grant Price</b>
Outstanding, unvested at June 30, 2021	—	\$ —
Conversion of LTIP Units	1,761,578	27.01
Granted	1,586,424	29.98
Vested	(695,104)	27.03
Forfeited	(168,432)	28.64
Outstanding, unvested grants at March 31, 2022	<u>2,484,466</u>	<u>\$ 28.79</u>

As of March 31, 2022, total unrecognized compensation expense related to the RSUs is \$59,031, which is expected to be recognized over a weighted average period of 2.0 years. The total fair value of RSUs vested during the nine months ended March 31, 2022 was \$18,791.

#### *Employee Stock Purchase Plan*

On July 20, 2021, the Company adopted the 2021 Employee Stock Purchase Plan ("ESPP"). The Company has reserved 3,100,000 shares of its common stock for future issuance under the ESPP. The ESPP provides eligible employees with a means of acquiring equity in the Company at a discounted price using their own accumulated payroll deductions. Under the terms of the ESPP, employees can elect to have amounts of their annual compensation withheld, up to a maximum set by the Board of Directors, to purchase shares of Company common stock for a purchase price equal to 85% of the lower of the fair market value per share of Company common stock on (i) the offering date or (ii) the respective purchase date.

The ESPP grants participating employees the right to acquire Company common stock in increments of 1% to 10% of eligible pay, with a maximum contribution of \$25 of eligible pay, subject to applicable annual Internal Revenue Service limitations. The first offering period of the Company's ESPP commenced on September 1, 2021 and was four months in duration. Subsequent offering periods will be January 1 through June 30 and July 1 through December 31 of a given year.

The Company records stock-based compensation expense within cost of goods sold, sales and marketing expense, general and administrative expense and research and development expense related to the discount given to the Company's participating employees.

#### **14. NET LOSS PER SHARE:**

Basic net loss per share is calculated by dividing net loss attributable to Paycor HCM, Inc. by the weighted average shares of common stock outstanding during the period.

Diluted net loss per share is computed by dividing net loss attributable to Paycor HCM, Inc., adjusted as necessary for the impact of potentially dilutive securities, by the weighted average shares outstanding during the period and the impact of securities that would have a dilutive effect. Potentially dilutive securities during the three and nine months ended March 31, 2022 and 2021 included RSUs, stock options, Series A Preferred Stock and ESPP purchase rights. Due to the net loss for the three and nine months ended March 31, 2022 and 2021, any potentially dilutive securities were excluded from the denominator in calculating diluted net loss per share because including them would have had an anti-dilutive effect. Additionally, the Company also excluded stock-based compensation awards representing membership interest units in Pride Aggregator, L.P. for the three and nine months ended March 31, 2022 and 2021, respectively.

Basic and diluted net loss per share was the same for each period presented, as the inclusion of all potential common shares outstanding would have been anti-dilutive. The following table sets forth the computation of basic and diluted net loss per share:

<i>(in thousands, except per share data)</i>	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net loss attributable to Paycor HCM, Inc.	\$ (16,698)	\$ (18,440)	\$ (95,819)	\$ (64,110)
Weighted average outstanding shares:				
Basic and diluted	174,819,649	141,097,740	171,881,617	148,113,313
Basic and diluted net loss per share	\$ (0.10)	\$ (0.13)	\$ (0.56)	\$ (0.43)

## 15. COMMITMENTS AND CONTINGENCIES:

The Company is subject to various claims, litigation, and regulatory compliance matters in the normal course of business. When a loss is considered probable and reasonably estimable, the Company records a liability in the amount of its best estimate for the ultimate loss. The resolution of these claims, litigation and regulatory compliance matters, individually or in the aggregate, is not expected to have a material adverse impact on the Company's unaudited condensed consolidated statements of operations, balance sheets or statements of cash flows. These matters are subject to inherent uncertainties and management's view of these matters may change in the future.

### *Exit or Disposal Activities*

During the three months ended March 31, 2022, as a result and in consideration of the changing nature regarding the use of office space by the workforce amid the impacts of the COVID-19 pandemic, the Company evaluated its existing real estate lease portfolio. This evaluation included the establishment of a formal plan to exit certain leased office spaces that are no longer utilized.

As a result of the evaluation, the Company recognized a loss on exit of certain leases of \$9,055, which is included in general and administrative expenses in the accompanying statement of operations for the three and nine months ended March 31, 2022.

The loss included the present value of the remaining lease obligation on the cease-use date, net of estimated sublease income, as well as the write-off of \$4,910 of the carrying value of abandoned furniture, fixtures, equipment and leasehold improvements offset by \$3,250 of deferred rent.

The total exit cost obligation at March 31, 2022 is \$7,395, which is included within Accrued expenses and other current liabilities and Other long-term liabilities on the consolidated balance sheets, respectively, as follows:

Accrued expenses and other current liabilities	\$ 3,756
Other long-term liabilities	3,639
<b>Total exit cost obligation</b>	<b>\$ 7,395</b>

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis summarizes the significant factors affecting the unaudited condensed consolidated operating results, financial condition, liquidity, and cash flows of our company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this report as well as management’s discussion and analysis and audited consolidated financial statements for the year ended June 30, 2021 included in our most recent Annual Report on Form 10-K. This discussion and analysis reflects our historical results of operations and financial position. The discussion contains forward-looking statements that are based on the beliefs of management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements because of various factors, including those discussed elsewhere in this report, particularly Item 1A. “Risk Factors” and “Note Regarding Forward-Looking Statements” and in our most recent Annual Report on Form 10-K and other important factors disclosed previously in our other filings with the Securities and Exchange Commission.*

*Unless we state otherwise or the context otherwise requires, the terms “we,” “us,” “our,” and “Paycor” and similar references refer to the Company and its consolidated subsidiaries.*

### Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Risk Factors,” contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, our objectives for future operations, and any statements of a general economic or industry specific nature, are forward-looking statements. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “can have,” “likely,” “outlook,” “potential,” “targets,” “contemplates,” or the negative or plural of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe, based on information currently available to our management, may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, related to our operations, financial results, financial condition, business, prospects, growth strategy, and liquidity. Accordingly there are, or will be, important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to:

- Our ability to manage our growth effectively.
- The expansion and retention of our direct sales force with qualified and productive persons and the related effects on the growth of our business.
- The impact on customer expansion and retention if implementation, user experience, customer service, or performance relating to our solutions is not satisfactory.
- Our ability to innovate and deliver high-quality, technologically advanced products and services.
- Our relationships with third parties.
- The proper operation of our software.
- Future acquisitions of other companies’ businesses, technologies, or customer portfolios.
- The continued service of our key executives.
- Our ability to attract and retain qualified personnel, including software developers and skilled IT, sales, marketing, and operation personnel.
- Payments made to employees and taxing authorities due for a payroll period before a customer’s electronic funds transfers are settled to our account.

- The potential breach of our security measures and the unauthorized access to our customers’ or their employees’ personal data and the resulting effects thereof which may include lawsuits, fines, or other regulatory action, significant costs related to remediation, negative perceptions regarding the security of our solutions, and reduction or cessation of customers’ use of our solutions.
- Damage, failure, or disruption of our Software-as-a-Service (“SaaS”) delivery model, data centers, or our third-party providers’ services.
- Our ability to protect our intellectual and proprietary rights.
- The use of open source software in our applications.
- The growth of the market for cloud-based human capital management and payroll software among small and medium- sized businesses (“SMBs”).
- The competitiveness of our market generally.
- The impact of the COVID-19 pandemic.
- Our customers’ dependence on our solutions to comply with applicable laws.
- Our ability to comply with anti-corruption, anti-bribery and similar laws.
- Changes in laws, regulations, or requirements applicable to our software and services.
- The impact of privacy, data protection, tax and other laws and regulations.
- Our ability to maintain effective internal controls over financial reporting.
- The other risk factors set forth elsewhere in this report and under Item 1A of Part I of the Annual Report on Form 10-K, filed with the SEC on September 2, 2021.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations and assumptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We undertake no obligation to publicly update any forward-looking statement after the date of this report, whether as a result of new information, future developments or otherwise, or to conform these statements to actual results or revised expectations, except as may be required by law.

## Overview

We are a leading SaaS provider of human capital management solutions for small and medium-sized businesses. Our unified, cloud-native platform is built to empower business leaders by producing actionable, real-time insights to drive workforce optimization. Our comprehensive suite of solutions enables organizations to streamline administrative workflows and achieve regulatory compliance while serving as the single, secure system of record for all employee data. Our highly flexible, scalable, and extensible platform is augmented by industry-specific domain expertise and offers award-winning ease-of-use with an intuitive user experience and deep third-party integrations. More than 29,800 customers across all 50 states trust Paycor to empower their leaders to build winning teams.

## Our Business Model

Our revenue is almost entirely recurring in nature and largely attributable to the sale of SaaS subscriptions to our cloud-native HCM software platform. We typically generate revenue from customers on a per-employee-per-month (“PEPM”) basis whereby our revenue is derived from the number of employees of a given customer, and the amount, type, and timing of products provided to a customer with respect to their employees. As a result, we increase our recurring revenue as we add more customers, and as our customers add more employees and purchase more product modules. Our highly recurring revenue model provides significant visibility into our future operating results. Recurring and other revenues are primarily revenues derived from the provision of our payroll, workforce management, HR-related cloud-based computing services and nonrefundable implementation fees, which represented over 99% of total revenue for the three and nine months ended March 31, 2022. In addition, we earn interest income on funds held for clients.

We have developed a robust organic sales and marketing engine and broad referral network of health insurance and retirement benefits brokers. We market and sell our solutions through a direct sales force, which is organized into field and inside sales teams based on customer size, geography, and industry. Our highly efficient and multi-pronged go-to-market strategy is a key driver of our growth.

The table below sets forth selected results of operations for the three and nine months ended March 31, 2022 and 2021.

(in thousands)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
Total Revenue	\$ 122,597	\$ 99,839	\$ 318,396	\$ 264,764
Loss from Operations	\$ (23,461)	\$ (14,668)	\$ (109,494)	\$ (57,027)
Operating Margin	(19.1)%	(14.7)%	(34.4)%	(21.5)%
Adjusted Operating Income*	\$ 24,650	\$ 21,597	\$ 38,301	\$ 47,768
Adjusted Operating Income Margin*	20.1 %	21.6 %	12.0 %	18.0 %
Net Loss	\$ (16,698)	\$ (12,061)	\$ (84,198)	\$ (46,210)

\*Adjusted Operating Income and Adjusted Operating Income Margin are non-U.S. GAAP (“non-GAAP”) financial measures. See Non-GAAP Financial Measures below for a definition of our non-GAAP measures and reconciliations to the most closely comparable U.S. GAAP measures.

## COVID-19 Pandemic Impact

Many of our prospective and existing customers’ businesses were impacted by the COVID-19 pandemic and related economic headwinds, which resulted in reduced customer employee headcount, temporary and permanent business closures, and/or delayed sales/starts. While the number of companies on our platform remained consistent, the number of our customers’ employees on our platform declined 7% from March to April 2020. Because we charge our customers on a per-employee basis for certain services, decreases in headcount negatively impacted our recurring revenue beginning in the third quarter of fiscal year 2020. Since then, the number of our customers’ employees on our platform recovered rapidly.

In March 2020, we began transitioning our employees to remote working and continue to embrace a virtual first approach. We have not experienced any material disruptions in our ability to operate our business during the pandemic as our business model enables us to service our clients remotely.

Paycor was among the leaders in the HCM industry to quickly pivot and deliver the technology and expert advice our customers needed to weather the pandemic. For example, we updated our product to facilitate Paycheck Protection Program (“PPP”) loans and funding, partnered with customers to provide the reporting they needed to file for funding, and launched an immunization tracker that enabled customers to track and report on employees’ vaccination status. Paycor also provided thought leadership and expert advice to leaders of small and medium-sized businesses on nearly every aspect of the pandemic, from COVID safety protocols to advice on how to transition to remote work environments, how to safely return to work, how to monitor and launch interventions in support of employee mental health and emotional well-being, as well as articles and webinars on federal and state HR compliance regulations.

Although macroeconomic conditions have improved, the duration and severity of the COVID-19 pandemic, and the long-term effects the pandemic will have on our customers, our operations and general economic conditions, remain uncertain and difficult to predict. Our business and financial performance may continue to be unfavorably impacted in future periods if a significant number of our customers are unable to continue as viable businesses or if they significantly reduce headcount, there is a reduction in business confidence and activity, a decrease in government and consumer spending, a decrease in HCM and payroll solutions spending by SMBs, or a decrease in growth in the overall market, among other factors.

### **Key Factors Affecting Our Performance**

Our historical financial performance has been, and we expect our financial performance in the future to be, driven by our ability to:

#### ***Expand Our Sales Footprint to Add New Customers***

Our current customer base represents a small portion of the U.S. market for HCM and payroll solutions. We believe there is substantial opportunity to continue to broaden our customer base, particularly in the 15 most populous metropolitan statistical areas in the United States (i.e. Tier 1 markets), by expanding our sales footprint. Our ability to do so will depend on several factors, including the effectiveness of our products, the relative pricing of our products, our competitors' offerings, and the effectiveness of our marketing efforts.

As of March 31, 2022 and 2021, we had approximately 29,800 and 28,200 customers, respectively, representing a period-over-period increase of 5.7%. We define a customer as a parent company grouping, which may include multiple subsidiary client accounts with separate taxpayer identification numbers. We track client accounts as it provides an alternative measure of the scale of our business and customers.

In addition, we are also focused on expanding our broker referral relationships to drive the acquisition of new customers. Insurance and benefits brokers are trusted advisors to SMBs and are influential in the HCM selection process.

#### ***Increase Product Penetration with Existing and New Customers***

In recent years we have increasingly focused our product pricing strategy away from sales of individual products and solutions towards a simplified bundled pricing approach whereby we market multi-product offerings to our customers. We believe that this strategy addresses a key need for SMB customers, while also allowing us to better serve the needs of business leaders through a more comprehensive product suite. This strategy has enabled us to effectively drive increased product penetration and PEPM growth at the initial point of sale, as well as stronger retention. We define "effective PEPM," as recurring and other revenue for the period divided by the average number of customer employees, which we calculate as the sum of the number of customer employees at the end of each month over the period divided by the total number of months in the period. We intend to advance this strategy by progressively expanding the breadth of features included in our product bundles. In addition to sales to new customers, there is a substantial opportunity within our existing customer base to cross-sell additional products from our portfolio, including Workforce Management, Benefits Administration, Employee Experience and Talent Management.

Our ability to successfully increase revenue per customer is dependent upon several factors, including the number of paid employees working for our customers, the number of products purchased by each of our customers, our customers' satisfaction with our solutions and support, and our ability to add new products to our suite.

We believe our ability to retain and expand our existing customers' spending on our solutions is evidenced by our net revenue retention. We define net revenue retention as the current quarterly period recurring revenue for the cohort of customers at the beginning of the prior year quarterly period, divided by the recurring revenue in the prior year reporting period for that same cohort. In calculating the net revenue retention for a period longer than a quarter, such as a fiscal year, we use the weighted average of the retention rates (calculated in accordance with the preceding sentence) for each applicable quarter included in such period. Paycor HCM's net revenue retention continued to trend favorably and is in line with historical pre-COVID levels. It had been negatively impacted during the pandemic by stay-at-home, business closure and other restrictive orders, which resulted in reduced employee headcount, temporary and permanent business closures, and delayed sales and starts with many of our customers.

## ***Ongoing Product Innovation and Optimization***

We believe that our product features and functionality are key differentiators of our offerings. We intend to continue to invest in research and development, particularly regarding the functionality of our platform, to sustain and advance our product leadership. For instance, in 2019 we released our Paycor Analytics and Scheduling products. In 2020 we built and released our compensation management product. In 2021 we launched on-demand pay and a full suite of talent management tools, including performance reviews, one-on-one coaching, OKRs and structured goal setting. In 2022, we have released an enhanced version of the Paycor Developer Portal making it simple for our customers to connect the power of their people data across their business through improved integrations. By using Paycor's public APIs and events, companies can be immediately notified of changes and keep multiple systems in-sync. As a result of these and other product launches, the total list PEPM and customer-perceived value for our full suite of products continues to increase. Our ability to innovate and introduce competitive new products is dependent on our ability to recruit and retain top technical talent and invest in research and development initiatives.

## **Components of Results of Operations**

### **Factors Affecting the Comparability of our Results of Operations**

#### ***IPO-Related Expenses***

As a result of our Initial Public Offering ("IPO"), we incurred transaction-related expenses. These expenses include transaction bonuses, share-based compensation expense associated with two Long Term Incentive Plans ("LTIPs") and outstanding performance awards under our Pride Aggregator, L.P. Management Equity Plan ("MEP"), and expenses related to the redemption of the Series A Redeemable Preferred Stock. The specifics of the LTIPs, MEP and Series A Redeemable Preferred Stock are presented below.

We granted Long Term Incentive Plan units ("LTIP Units") under our Pride Aggregator, L.P. Top Talent Incentive Plan and Sales Equity Incentive Plan. The LTIP Units provided for, at our discretion, a cash or stock payment ("LTIP Payment") to participants on certain determination dates, if an IPO occurred and if the LTIP participant remained employed with us on such date. Our IPO resulted in a determination date, for which each LTIP participant is entitled to an LTIP Payment with respect to 20% of the LTIP participant's LTIP Units as of the IPO date and 20% on each of four subsequent payment dates that are six, twelve, eighteen and 24 months following the IPO date. As a result of our IPO, the LTIP Units converted into the entitlement to receive a fixed number of shares of common stock, based on the IPO price. We settled such entitlements by issuing restricted stock units, which will vest on the applicable payment dates and we will recognize approximately \$47.6 million of compensation expense over the requisite service period relating to the LTIP Units.

Under the terms of the MEP, one-half of the MEP incentive units vest based on an associate's service time. Vesting for the second half of the MEP incentive units is established based on our performance relative to Apax's original invested amount, with the performance calculations defined in the plan, triggered by our IPO (implied performance condition). The MEP incentive units are subject to a floor amount established at the grant date, which acts as a participation threshold and permits the award to participate in distributions only to the extent the distribution amount for the units exceed the floor amount. We estimated the fair value of the MEP incentive units using the Monte Carlo simulation method.

The MEP time-based incentive units vest 25% on the first anniversary after the vesting commencement date and thereafter in twelve equal installments on each subsequent quarterly anniversary of the vesting commencement date, with 100% vesting of the time-based incentive units occurring on the fourth anniversary of the vesting commencement date. The MEP time-based incentive units are accounted for as equity awards and the compensation expense calculated based upon the fair market value of the MEP time-based incentive units at the grant date is recognized as the MEP time-based incentive units vest. As of March 31, 2022, there was approximately \$4.7 million of unrecognized compensation expense associated with unvested MEP time-based incentive units. The unrecognized compensation expense associated with unvested MEP time-based incentive units outstanding at March 31, 2022 will be recognized over a weighted average period of 1.5 years from March 31, 2022.

As a result of our IPO, and due to an election by Apax, the MEP performance-based incentive units converted to time-based incentive units ("Modified MEP Incentive Units"), with 25% vesting upon successive six month anniversary dates for the 24 months beginning on the date of the IPO. The conversion was treated as a modification for accounting purposes, and accordingly, we estimated fair value as of the modification date.

The Modified MEP Incentive Units are accounted for as equity awards and the compensation expense calculated based upon the fair value of the Modified MEP Incentive Units at the modification date is recognized as the Modified MEP Incentive Units vest. We estimate the fair value of the Modified MEP Incentive Units based upon the IPO price adjusted for a floor amount established at the grant date and other liquidation preferences in accordance with the terms of the MEP. As of March 31, 2022, there was approximately \$32.6 million of unrecognized compensation expense associated with unvested Modified MEP Incentive Units. The unrecognized compensation expense associated with the unvested Modified MEP Incentive Units outstanding at March 31, 2022 will be recognized over a weighted average period of 1.3 years from March 31, 2022.

In connection with Apax Partners L.P.'s acquisition of us, Pride Midco, Inc., a direct subsidiary of Paycor HCM, Inc., issued \$200 million in aggregate initial liquidation preference of the Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock accrued dividends at a rate of LIBOR plus 8.875%. The dividends were payable, or compounded, quarterly on March 31, June 30, September 30 and December 31 of each year. From the issue date through November 2, 2020, dividends were accrued and added to the then-prevailing liquidation preference of the Series A Redeemable Preferred Stock. From November 2, 2020 through the redemption date, we were required to pay 50% of the accrued dividends in cash.

The shares of Series A Redeemable Preferred Stock were accounted for as a redeemable noncontrolling interest in the mezzanine section of our condensed consolidated balance sheet and were accreted using the effective interest method to the redemption value through the net income attributable to redeemable noncontrolling interest line within our unaudited condensed consolidated statement of operations.

We redeemed the Series A Redeemable Preferred Stock in connection with, and using proceeds from, our IPO. The redemption price per share was equal to 101% of the liquidation preference, plus accrued and unpaid dividends to the redemption date, or approximately \$260.0 million.

## **Basis of Presentation**

### ***Revenues***

#### ***Recurring and Other Revenue***

We derive our revenue from contractual agreements, which contain recurring and non-recurring service fees. The majority of our contracts are cancellable by the customer on 30 days' notice. We recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration that we are entitled to for those goods or services. Recurring revenue consists primarily of revenues derived from the provision of our payroll, workforce management, and HR-related cloud-based computing services. The performance obligations related to recurring services are generally satisfied monthly as services are provided, with fees charged and collected based on a PEPM or per-employee-per-payroll basis. Recurring revenue is generally recognized as the services are provided during each client's payroll period.

Other revenue and non-recurring services fees consist mainly of nonrefundable implementation fees, which involve onboarding and configuring the customer within our cloud-based platform. These nonrefundable implementation fees provide certain clients with a material right to renew the contract, with revenue deferred and recognized over the period to which the material right exists. This is generally a period of 24 months from finalization of onboarding, which typically concludes within three to six months of the original booking. Deferred revenue also includes an immaterial portion related to recurring subscription services where revenue is recognized over the subscription period. Deferred revenue for these nonrefundable upfront fees and recurring subscription services was \$17.0 million as of March 31, 2022, with \$4.8 million and \$14.9 million of revenue recognized for the three and nine months ended March 31, 2022, respectively. Deferred revenue for these nonrefundable upfront fees and recurring subscription services was \$16.5 million as of March 31, 2021, with \$4.0 million and \$10.6 million of revenue recognized for the three and nine months ended March 31, 2021, respectively.

We defer certain commission costs that meet the capitalization criteria. We also capitalize certain costs to fulfill a contract related to our proprietary products if they are identifiable, generate or enhance resources used to satisfy future performance obligations and are expected to be recovered. We utilize the portfolio approach to account for both the cost of obtaining a contract and the cost of fulfilling a contract.



Capitalized costs to fulfill a contract and cost to obtain a contract are amortized over the expected period of benefit, which is generally six years based on our average client life and other qualitative factors, including rate of technological changes. We do not incur any additional costs to obtain or fulfill contracts upon renewal. We recognize additional selling and commission costs and fulfillment costs when an existing client purchases additional services. The additional costs only relate to the additional services purchased and do not relate to the renewal of previous services. We continue to expense certain costs to obtain a contract and cost to fulfill a contract if those costs do not meet the capitalization criteria.

We expect recurring and other revenue to increase as we continue to add new customers and sell additional products to our existing customers.

#### *Interest Income on Funds Held for Clients*

We earn interest income on funds held for clients. We collect funds for employee payroll payments and related taxes in advance of remittance to employees and taxing authorities. Prior to remittance to employees and taxing authorities, we earn interest on these funds through demand deposit accounts with financial institutions with which we have automated clearing house arrangements. We also earn interest by investing a portion of funds held for clients in highly liquid, investment-grade marketable securities. We expect funds held for our clients to generally grow as the employees per customer increase and as we add customers. Interest income on funds held for clients will fluctuate based on market rates of demand deposit accounts, as well as the highly liquid, investment-grade marketable securities in which we invest the client funds.

#### *Cost of Revenues*

Cost of revenues includes costs relating to the provision of ongoing customer support and implementation activities, payroll tax filing, distribution of printed checks and other materials providing our payroll and other HCM solutions. These costs primarily consist of employee-related expenses for associates who service customers, as well as third-party processing fees, delivery costs, hosting costs, and bank fees associated with client fund transfers. Costs for recurring support are generally expensed as incurred, while such costs for onboarding and configuring our products for our customers are capitalized and amortized over a period of six years.

We amortized \$4.6 million and \$2.8 million of capitalized contract fulfillment costs during the three months ended March 31, 2022 and 2021, respectively, and \$12.2 million and \$7.4 million of capitalized contract fulfillment costs during the nine months ended March 31, 2022 and 2021, respectively. We expect to realize increased amortization in future periods as the total capitalized contract fulfillment costs on our balance sheet increases.

We also capitalize a portion of our internal-use software costs including external direct costs of materials and services associated with developing or obtaining internal-use software and certain payroll and payroll-related costs for associates who are directly associated with internal-use software projects, which are then generally amortized over a period of three years into cost of revenues. We amortized \$7.2 million and \$15.4 million of capitalized internal-use and acquired software costs during the three months ended March 31, 2022 and 2021, respectively, and \$34.0 million and \$44.0 million of capitalized internal-use and acquired software costs during the nine months ended March 31, 2022 and 2021, respectively.

Our cost of revenues is expected to increase in absolute dollars as we expand our customer base. However, in the long-term we expect cost of revenues to reduce as a percentage of total revenues as our business scales.

#### *Operating Expenses*

##### *Sales and Marketing*

Sales and marketing expenses consist primarily of employee-related expenses for our direct sales and marketing staff, marketing, advertising and promotion expenses, and other related costs. We capitalize certain commission costs related to new contracts or purchases of additional services by our existing customers and amortize such items over a period of six years.

We amortized \$3.7 million and \$2.4 million of capitalized contract acquisition costs during the three months ended March 31, 2022 and 2021, respectively, and \$10.1 million and \$6.2 million of capitalized contract acquisition costs during the nine months ended March 31, 2022 and 2021, respectively. We expect to realize increased amortization in future periods as the total capitalized contract acquisition costs on our balance sheet increases.

We seek to grow our number of new customers and upsell existing customers, and therefore our sales and marketing expense is expected to continue to increase in absolute dollars as we grow our sales organization and expand our marketing activities.

#### *General and Administrative*

General and administrative expenses consist primarily of employee-related costs for our administrative, finance, accounting, legal and human resources departments. Additional expenses include consulting and professional fees, occupancy costs, insurance, and other corporate expenses.

We amortized \$20.7 million and \$20.1 million of intangible assets, excluding acquired software amortized through cost of revenues, during the three months ended March 31, 2022 and 2021, respectively, and \$61.5 million and \$59.1 million of intangible assets, excluding acquired software amortized through cost of revenues, during the nine months ended March 31, 2022 and 2021, respectively. The increase in amortization expense in the three and six months ended March 31, 2022 is attributable to our asset acquisition in February 2021.

We expect our general and administrative expenses to increase in absolute dollars as we grow and scale our business.

#### *Research and Development*

Research and development expenses consist primarily of employee-related expenses for our software development and product management staff. Additional expenses include costs related to the development, maintenance, quality assurance and testing of new technologies, and ongoing refinement of our existing solutions. Research and development expenses, other than internal-use software costs qualifying for capitalization, including costs associated with preliminary project stage activities, training, maintenance, and all other post-implementation stage activities are expensed as incurred.

We capitalize a portion of our development costs related to internal-use software, which are amortized over a period of three years into cost of revenues. The timing of our capitalized development projects may affect the amount of development costs expensed in any given period. The table below sets forth the amounts of capitalized and expensed research and development costs for the following periods:

(in thousands)	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2022	2021	2022	2021
Capitalized software	\$ 8,251	\$ 5,633	\$ 21,929	\$ 15,065
Research and development expenses	\$ 9,324	\$ 8,833	\$ 30,120	\$ 26,507

We expect to increase our research and development expenses in absolute dollars as we continue to broaden our product offerings and extend our technological leadership by investing in the development of new technologies and introducing them to new and existing customers.

#### *Interest Expense*

Interest expense consists primarily of interest payments and accruals relating to outstanding borrowings. We expect interest expense to vary each reporting period depending on the amount of outstanding borrowings and prevailing interest rates.

#### *Other Income (Expense)*

Other income (expense) generally consists of other income and expense items outside of our normal operations, such as realized gains or losses on the sale of certain positions of funds held for clients, gains or losses on the extinguishment of debt and expenses relating to our financing arrangements.

## Results of Operations

The following table sets forth our unaudited condensed consolidated statements of operations for the periods indicated.

(in thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
<b>Consolidated Statement of Operations Data:</b>				
Revenues:				
Recurring and other revenue	\$ 122,189	\$ 99,405	\$ 317,334	\$ 263,372
Interest income on funds held for clients	408	434	1,062	1,392
Total revenues	122,597	99,839	318,396	264,764
Cost of revenues	41,157	41,189	127,850	112,506
Gross profit	81,440	58,650	190,546	152,258
Operating expenses:				
Sales and marketing	41,487	26,044	127,957	75,864
General and administrative	54,090	38,441	141,963	106,914
Research and development	9,324	8,833	30,120	26,507
Total operating expenses	104,901	73,318	300,040	209,285
Loss from operations	(23,461)	(14,668)	(109,494)	(57,027)
Interest expense	(101)	(688)	(448)	(1,847)
Other (expense) income	(12)	80	1,540	320
Loss before benefit for income taxes	(23,574)	(15,276)	(108,402)	(58,554)
Income tax benefit	(6,876)	(3,215)	(24,204)	(12,344)
Net loss	\$ (16,698)	\$ (12,061)	\$ (84,198)	\$ (46,210)

### Comparison of the Three Months Ended March 31, 2022 and March 31, 2021

#### Revenues

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
<b>Revenues:</b>				
Recurring and other revenue	\$ 122,189	\$ 99,405	\$ 22,784	23 %
Interest income on funds held for clients	408	434	(26)	(6)
Total revenues	\$ 122,597	\$ 99,839	\$ 22,758	23 %

Total revenue for the three months ended March 31, 2022 and 2021 was \$122.6 million and \$99.8 million, respectively. In the three months ended March 31, 2022 and 2021, recurring and other revenue accounted for \$122.2 million and \$99.4 million, respectively. Additionally, interest income on funds held for clients accounted for \$0.4 million and \$0.4 million, respectively, for the three months ended March 31, 2022 and 2021. Total revenues increased primarily as a result of a 5.7% increase in customers to approximately 29,800 at March 31, 2022 from approximately 28,200 at March 31, 2021, an increase in the average number of employees per customer, an increase in effective PEPM and an increase in year-end fees.

Interest income on funds held for clients decreased primarily as a result of lower average interest rates across our portfolio of debt-security investments. The impact from the reduction in interest rates was partially offset by higher average daily balances for funds held due to the addition of new customers. Average client funds balance for the three months ended March 31, 2022 and 2021 were \$1,049.3 million and \$809.6 million, respectively.

## Cost of Revenues

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Cost of revenues	\$ 41,157	\$ 41,189	\$ (32)	— %
Percentage of total revenues	34 %	41 %		
Gross profit	\$ 81,440	\$ 58,650	\$ 22,790	39 %
Percentage of total revenues	66 %	59 %		

Total cost of revenues for the three months ended March 31, 2022 and 2021 were \$41.2 million and \$41.2 million, respectively. Our total cost of revenues decreased slightly primarily as a result of a \$10.3 million decrease in amortization expense relating to software acquired in November 2018 upon Apax Partners L.P.'s acquisition of us fully amortizing during the three months ended December 31, 2021, partially offset by a \$6.4 million increase in employee-related costs to support new customers, which includes \$1.5 million of share-based compensation expense associated with our IPO, a \$2.1 million increase in amortization expense relating to capitalized software, and a \$1.7 million increase in amortization of deferred contract costs.

## Operating Expenses

### Sales and Marketing

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Sales and marketing	\$ 41,487	\$ 26,044	\$ 15,443	59 %
Percentage of total revenues	34 %	26 %		

Sales and marketing expenses for the three months ended March 31, 2022 and 2021 were \$41.5 million and \$26.0 million, respectively. The increase in sales and marketing expense was primarily the result of a \$13.1 million increase in employee-related costs, which includes \$7.0 million of share-based compensation expense associated with our IPO and \$1.1 million in additional advertising costs, both principally to expand our sales coverage, a \$0.8 million increase in professional services and a \$0.3 million increase in travel and event related expenses.

### General and Administrative

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
General and administrative	\$ 54,090	\$ 38,441	\$ 15,649	41 %
Percentage of total revenues	44 %	39 %		

General and administrative expenses for the three months ended March 31, 2022 and 2021 were \$54.1 million and \$38.4 million, respectively. The increase in general and administrative expenses was primarily driven by a \$5.8 million increase in employee-related costs, which includes \$4.9 million of share-based compensation expense associated with our IPO, a \$0.4 million increase in professional services, consulting fees and other related costs primarily associated with becoming a public company, a \$9.1 million increase related to the loss upon exiting leases of certain facilities in March 2022, and a \$0.6 million increase in intangible amortization expense primarily associated with our asset acquisition completed in February 2021, including the capitalization of subsequent earn out payments.

## Research and Development

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Research and development	\$ 9,324	\$ 8,833	\$ 491	6 %
Percentage of total revenues	8 %	9 %		

Research and development expenses for the three months ended March 31, 2022 and 2021 were \$9.3 million and \$8.8 million, respectively. The increase in research and development expenses was primarily the result of a \$1.1 million increase in share-based compensation expense associated with our IPO and a \$0.5 million increase in licensing fees, partially offset by a \$1.1 million decrease in employee-related costs, excluding share-based compensation expense, due to an increase in capitalization of qualifying costs.

## Interest Expense

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Interest expense	\$ 101	\$ 688	\$ (587)	(85)%
Percentage of total revenues	<1 %	<1 %		

Interest expense for the three months ended March 31, 2022 and 2021 was \$0.1 million and \$0.7 million, respectively. The decrease in interest expense was primarily the result of a decrease in outstanding borrowings.

## Other (expense) income

(in thousands)	Three Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Other (expense) income	\$ (12)	\$ 80	\$ (92)	(115)%

Other expense was \$— million for the three months ended March 31, 2022 compared to other income of \$0.1 million for the three months ended March 31, 2021.

## Income tax benefit

Income tax benefit for the three months ended March 31, 2022 and 2021 was \$6.9 million and \$3.2 million, respectively, reflecting effective tax rates for the periods of 29.2% and 21.0%, respectively. The increase in tax benefit was due to an increase in net loss and research and development tax credits.

## Comparison of the Nine Months Ended March 31, 2022 and March 31, 2021

### Revenues

(in thousands)	Nine Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
<b>Revenues:</b>				
Recurring and other revenue	\$ 317,334	\$ 263,372	\$ 53,962	20 %
Interest income on funds held for clients	1,062	1,392	(330)	(24)
Total revenues	\$ 318,396	\$ 264,764	\$ 53,632	20 %

Total revenue for the nine months ended March 31, 2022 and 2021 was \$318.4 million and \$264.8 million, respectively. In the nine months ended March 31, 2022 and 2021, recurring and other revenue accounted for \$317.3 million and \$263.4 million, respectively. Additionally, interest income on funds held for clients accounted for \$1.1 million and \$1.4 million, respectively, for the nine months ended March 31, 2022 and 2021. Total revenues increased primarily as a result of a 5.7% increase in customers to approximately 29,800 at March 31, 2022 from approximately 28,200 at March 31, 2021, an increase in the average number of employees per customer and an increase in effective PEPM.

Interest income on funds held for clients decreased primarily as a result of lower average interest rates across our portfolio of debt-security investments. The impact from the reduction in interest rates was partially offset by higher average daily balances for funds held due to the addition of new customers. Average client funds balance for the nine months ended March 31, 2022 and 2021 were \$913.0 million and \$700.3 million, respectively.

### *Cost of Revenues*

(in thousands)	Nine Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Cost of revenues	\$ 127,850	\$ 112,506	\$ 15,344	14 %
Percentage of total revenues	40 %	42 %		
Gross profit	\$ 190,546	\$ 152,258	\$ 38,288	25 %
Percentage of total revenues	60 %	58 %		

Total cost of revenues for the nine months ended March 31, 2022 and 2021 were \$127.9 million and \$112.5 million, respectively. Our total cost of revenues increased primarily as a result of a \$20.0 million increase in employee-related costs to support new customers, which includes \$4.5 million of share-based compensation expense associated with our IPO, a \$6.5 million increase in amortization expense relating to capitalized software, a \$4.8 million increase in amortization of deferred contract costs, partially offset by a \$16.4 million decrease in amortization expense relating to software acquired in November 2018 upon Apax Partners L.P.'s acquisition of us fully amortizing during the three months ended December 31, 2021.

### *Operating Expenses*

#### *Sales and Marketing*

(in thousands)	Nine Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Sales and marketing	\$ 127,957	\$ 75,864	\$ 52,093	69 %
Percentage of total revenues	40 %	29 %		

Sales and marketing expenses for the nine months ended March 31, 2022 and 2021 were \$128.0 million and \$75.9 million, respectively. The increase in sales and marketing expense was primarily the result of a \$43.4 million increase in employee-related costs, which includes \$27.7 million of share-based compensation expense associated with our IPO and \$3.7 million in additional advertising costs, both principally to expand our sales coverage, a \$1.9 million in professional services and a \$2.6 million increase in travel and event related expenses.

#### *General and Administrative*

(in thousands)	Nine Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
General and administrative	\$ 141,963	\$ 106,914	\$ 35,049	33 %
Percentage of total revenues	45 %	40 %		

General and administrative expenses for the nine months ended March 31, 2022 and 2021 were \$142.0 million and \$106.9 million, respectively. The increase in general and administrative expenses was primarily driven by a \$19.7 million increase in employee-related costs, which includes \$14.1 million of share-based compensation expense associated with our IPO, a \$3.6 million increase in professional services, consulting fees and other related costs primarily associated with becoming a public company, a \$9.1 million increase related to the loss upon exiting leases of certain facilities in March 2022, and a \$2.4 million increase in intangible amortization expense primarily associated with our asset acquisition completed in February 2021, including the capitalization of subsequent earn out payments.

#### *Research and Development*

(in thousands)	Nine Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Research and development	\$ 30,120	\$ 26,507	\$ 3,613	14 %
Percentage of total revenues	9 %	10 %		

Research and development expenses for the nine months ended March 31, 2022 and 2021 were \$30.1 million and \$26.5 million, respectively. The increase in research and development expenses was primarily the result of a \$3.7 million increase in share-based compensation expense associated with our IPO.

#### *Interest Expense*

(in thousands)	Nine Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Interest expense	\$ 448	\$ 1,847	\$ (1,399)	(76)%
Percentage of total revenues	<1 %	<1 %		

Interest expense for the nine months ended March 31, 2022 and 2021 was \$0.4 million and \$1.8 million, respectively. The decrease in interest expense was primarily the result of a decrease in outstanding borrowings.

#### *Other income*

(in thousands)	Nine Months Ended		\$ Change	% Change
	March 31, 2022	March 31, 2021		
Other income	\$ 1,540	\$ 320	\$ 1,220	381 %

Other income for the nine months ended March 31, 2022 and 2021 was \$1.5 million and \$0.3 million, respectively. Other income for the nine months ended March 31, 2022 primarily consists of \$1.4 million relating to the recognition of income deferred on an installment sale due to the receipt of the remaining proceeds.

#### *Income tax benefit*

Income tax benefit for the nine months ended March 31, 2022 and 2021 was \$24.2 million and \$12.3 million, respectively, reflecting effective tax rates for the periods of 22.3% and 21.1%, respectively. The increase in tax benefit was due to an increase in net loss and research and development tax credits.

## Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their U.S. GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with U.S. GAAP and may be different from similarly titled non-GAAP measures used by other companies. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with U.S. GAAP. Investors are encouraged to review the related U.S. GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable U.S. GAAP financial measures.

### *Adjusted Gross Profit and Adjusted Gross Profit Margin*

We define Adjusted Gross Profit as gross profit before amortization of intangible assets, stock-based compensation expenses, and certain corporate expenses, in each case that are included in costs of recurring revenues. We define Adjusted Gross Profit Margin as Adjusted Gross Profit divided by total revenues.

We use Adjusted Gross Profit and Adjusted Gross Profit Margin to understand and evaluate our core operating performance and trends. We believe these metrics are useful measures to us and to our investors to assist in evaluating our core operating performance because it provides consistency and direct comparability with our past financial performance and between fiscal periods, as the metrics eliminate the effects of variability of items such as stock-based compensation expense and amortization of intangible assets, which are non-cash expenses that may fluctuate for reasons unrelated to overall operating performance.

Adjusted Gross Profit and Adjusted Gross Profit Margin have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP and should not be considered as replacements for gross profit and gross profit margin, as determined by U.S. GAAP, or as measures of our profitability. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Gross Profit was \$84.6 million and \$70.6 million, or 69.0% and 70.7% of total revenue, for the three months ended March 31, 2022 and 2021, respectively. Adjusted Gross Profit was \$213.8 million and \$187.3 million, or 67.1% and 70.8% of total revenue, for the nine months ended March 31, 2022 and 2021, respectively. Adjusted Gross Profit increased for the three and nine months ended March 31, 2022, primarily driven by the increase in revenue from customer growth, partially offset by additional employee-related costs to support new customers, amortization of capitalized software and amortization of costs to fulfill contracts within cost of revenues.

(in thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Gross Profit*	\$ 81,440	\$ 58,650	\$ 190,546	\$ 152,258
<i>Gross Profit Margin</i>	66.4 %	58.7 %	59.8 %	57.5 %
Amortization of intangible assets	1,433	11,722	18,017	34,413
Stock-based compensation expense	1,710	230	5,205	656
Adjusted Gross Profit*	\$ 84,583	\$ 70,602	\$ 213,768	\$ 187,327
<i>Adjusted Gross Profit Margin</i>	69.0 %	70.7 %	67.1 %	70.8 %



\* *Gross Profit and Adjusted Gross Profit are burdened by depreciation expense of \$0.6 million and \$0.6 million for the three months ended March 31, 2022 and 2021, respectively, and \$2.0 million and \$1.8 million for the nine months ended March 31, 2022 and 2021, respectively. Gross Profit and Adjusted Gross Profit are burdened by amortization of capitalized software of \$5.8 million and \$3.7 million for the three months ended March 31, 2022 and 2021, respectively, and \$16.0 million and \$9.5 million for the nine months ended March 31, 2022 and 2021, respectively. Gross Profit and Adjusted Gross Profit are burdened by amortization of deferred contract costs of \$4.6 million and \$2.8 million for the three months ended March 31, 2022 and 2021, respectively, and \$12.2 million and \$7.4 million for the nine months ended March 31, 2022 and 2021, respectively.*

### **Adjusted Operating Income**

We define Adjusted Operating Income as loss from operations before amortization of acquired intangible assets, stock-based award and liability incentive award compensation expenses, exit cost due to exiting leases of certain facilities and other certain corporate expenses, such as costs related to acquisitions. We define Adjusted Operating Income Margin as Adjusted Operating Income divided by total revenues.

We use Adjusted Operating Income and Adjusted Operating Income Margin to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operating plans. We believe that Adjusted Operating Income and Adjusted Operating Income Margin facilitate comparison of our operating performance on a consistent basis between periods, and when viewed in combination with our results prepared in accordance with U.S. GAAP, help provide a broader picture of factors and trends affecting our results of operations. While the amortization expense relating to intangible assets is excluded from Adjusted Operating Income, the revenue related to such intangible assets is reflected in Adjusted Operating Income as these assets contribute to our revenue generation.

Adjusted Operating Income and Adjusted Operating Income Margin have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under U.S. GAAP. Because of these limitations, Adjusted Operating Income and Adjusted Operating Income Margin should not be considered as replacements for operating loss and operating loss margin, as determined by U.S. GAAP, or as measures of our profitability. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Operating Income was \$24.7 million and \$21.6 million for the three months ended March 31, 2022 and 2021, respectively. Adjusted Operating Income was \$38.3 million and \$47.8 million for the nine months ended March 31, 2022 and 2021, respectively. Adjusted Operating Income increased for the three months ended March 31, 2022 primarily driven by an increase in revenue. Adjusted Operating Income decreased for the nine months ended March 31, 2022, primarily driven by continued investment in employee-related costs to support new customers, expand our sales coverage, and develop our products, as well as increased amortization related to capitalized software and deferred contract costs and costs associated with becoming a public company, partially offset by an increase in revenue.

(in thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Loss from Operations	\$ (23,461)	\$ (14,668)	\$ (109,494)	\$ (57,027)
Operating Margin	(19.1)%	(14.7)%	(34.4)%	(21.5)%
Amortization of intangible assets	22,136	31,782	79,548	93,553
Stock-based compensation expense	16,294	1,875	55,321	5,308
Liability incentive award compensation expense	—	7	—	70
Loss on lease exit*	9,055	—	9,055	—
Corporate adjustments**	626	2,601	3,871	5,864
Adjusted Operating Income	\$ 24,650	\$ 21,597	\$ 38,301	\$ 47,768
Adjusted Operating Income Margin	20.1 %	21.6 %	12.0 %	18.0 %

\* *Represents exit cost due to exiting leases of certain facilities.*

**\*\*** *Corporate adjustments for the three and nine months ended March 31, 2022 relate to certain restructuring costs of \$0.2 million and \$0.4 million, respectively, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of \$0.4 million and \$2.5 million, respectively, and costs associated with a secondary offering completed in October 2021 (“October 2021 Secondary Offering”) of \$— million and \$1.0 million for the three and nine months ended March 31, 2022, respectively. Corporate adjustments for the three and nine months ended March 31, 2021 relate to certain transition costs of the new executive leadership team and closure of a standalone facility of \$— million and \$1.0 million, respectively, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of \$2.6 million and \$4.4 million, respectively, and transaction expenses and costs associated with the Paltech Solutions, Inc. (“7Geese”) Acquisition totaling \$— million and \$0.5 million for the three and nine months ended March 31, 2021, respectively.*

### ***Adjusted Operating Expenses***

We define Adjusted Sales and Marketing expense as sales and marketing expenses before stock-based award and liability incentive award compensation expenses and other certain corporate expenses. We define Adjusted General and Administrative expense as general and administrative expenses before amortization of acquired intangible assets, stock-based award and liability incentive award compensation expenses, exit cost due to exiting leases of certain facilities and other certain corporate expenses. We define Adjusted Research and Development expense as research and development expenses before stock-based award and liability award compensation expenses and other certain corporate expenses.

We use Adjusted Sales and Marketing expense, Adjusted General and Administrative expense and Adjusted Research and Development expense (collectively, “Adjusted Operating Expenses”) to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operating plans. We believe that Adjusted Operating Expenses facilitate comparison of our operating performance on a consistent basis between periods, and when viewed in combination with our results prepared in accordance with U.S. GAAP, help provide a broader picture of factors and trends affecting our results of operations.

Adjusted Operating Expenses have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under U.S. GAAP. Because of these limitations, Adjusted Operating Expenses should not be considered as replacements for operating expenses, as determined by U.S. GAAP. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Sales and Marketing expense was \$33.9 million and \$25.4 million for the three months ended March 31, 2022 and 2021, respectively, and \$98.5 million and \$73.5 million for the nine months ended March 31, 2022 and 2021, respectively. Adjusted Sales and Marketing expenses increased for the three and nine months ended March 31, 2022, primarily driven by expanding our sales coverage and an increase in amortization of costs to obtain contracts.

Adjusted General and Administrative expense was \$17.9 million and \$14.9 million for the three months ended March 31, 2022 and 2021, respectively, and \$50.6 million and \$39.7 million for the nine months ended March 31, 2022 and 2021, respectively. Adjusted General and Administrative expenses increased for the three and nine months ended March 31, 2022, primarily driven by additional employee-related costs and professional services, consulting fees and other related costs primarily associated with becoming a public company.

Adjusted Research and Development expense was \$8.2 million and \$8.7 million for the three months ended March 31, 2022 and 2021, respectively, and \$26.3 million and \$26.3 million for the nine months ended March 31, 2022 and 2021, respectively. Adjusted Research and Development expenses decreased for the three months ended March 31, 2022, primarily driven by a decrease in employee-related costs due to an increase in capitalization of qualifying costs, partially offset by an increase in licensing fees.

(in thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Sales and Marketing expense	\$ 41,487	\$ 26,044	\$ 127,957	\$ 75,864
Stock-based compensation expense	(7,634)	(623)	(29,390)	(1,737)
Corporate adjustments*	—	(3)	(53)	(598)
Adjusted Sales and Marketing expense	\$ 33,853	\$ 25,418	\$ 98,514	\$ 73,529
General and Administrative expense	\$ 54,090	\$ 38,441	\$ 141,963	\$ 106,914
Amortization of intangible assets	(20,703)	(20,060)	(61,531)	(59,140)
Stock-based compensation expense	(5,846)	(982)	(16,947)	(2,801)
Liability incentive award compensation expense	—	(7)	—	(70)
Loss on lease exit**	(9,055)	—	(9,055)	—
Corporate adjustments***	(626)	(2,536)	(3,818)	(5,204)
Adjusted General and Administrative expense	\$ 17,860	\$ 14,856	\$ 50,612	\$ 39,699
Research and Development expense	\$ 9,324	\$ 8,833	\$ 30,120	\$ 26,507
Stock-based compensation expense	(1,104)	(40)	(3,779)	(114)
Corporate adjustments****	—	(62)	—	(62)
Adjusted Research and Development expense	\$ 8,220	\$ 8,731	\$ 26,341	\$ 26,331

\* Corporate adjustments for the nine months ended March 31, 2022 relate to costs associated with becoming a public company. Corporate adjustments for the three and nine months ended March 31, 2021 relate to certain transition costs of the new executive leadership team and closure of a standalone facility.

\*\* Represents exit cost due to exiting leases of certain facilities.

\*\*\* Corporate adjustments for the three and nine months ended March 31, 2022 relate to certain restructuring costs of \$0.2 million and \$0.4 million, respectively, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of \$0.4 million and \$2.4 million, respectively, and costs associated with the October 2021 Secondary Offering of \$— million and \$1.0 million for the three and nine months ended March 31, 2022, respectively. Corporate adjustments for the three and nine months ended March 31, 2021 relate to certain transition costs of the new executive leadership team and closure of a standalone facility of \$— million and \$0.4 million, respectively, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs, of \$2.5 million and \$4.3 million, respectively, and transaction expenses and costs associated with the 7Geese Acquisition totaling \$— million and \$0.5 million for the three and nine months ended March 31, 2021, respectively.

\*\*\*\* Corporate adjustments for the three and nine months ended March 31, 2021 relate to costs associated with the 7Geese Acquisition.

#### **Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share**

We define Adjusted Net Income Attributable to Paycor HCM, Inc. as loss before benefit for income tax after adjusting for amortization of acquired intangible assets, stock-based award and liability incentive award compensation expenses, gain or loss on the extinguishment of debt, exit cost due to exiting leases of certain facilities and other certain corporate expenses, such as costs related to acquisitions, all of which are tax effected applying an adjusted effective tax rate. We define Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share as Adjusted Net Income Attributable to Paycor HCM, Inc. divided by adjusted shares outstanding. Adjusted shares outstanding includes potentially dilutive securities excluded from the U.S. GAAP dilutive net loss per share calculation.

We use Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget, and to develop short-term and long-term operating plans. We believe that Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share facilitate comparison of our operating performance on a consistent basis between periods, and when viewed in combination with our results prepared in accordance with U.S. GAAP, help provide a broader picture of factors and trends affecting our results of operations. While the amortization expense relating to intangible assets is excluded from Adjusted Net Income Attributable to Paycor HCM, Inc., the revenue related to such intangible assets is reflected in Adjusted Net Income Attributable to Paycor HCM, Inc. as these assets contribute to our revenue generation.

Adjusted Net Income Attributable to Paycor HCM, Inc. and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share have limitations as analytical tools, and you should not consider these in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Because of these limitations, Adjusted Net Income Attributable to Paycor HCM, Inc. should not be considered as a replacement for Net Loss Attributable to Paycor HCM, Inc., and Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share should not be considered as a replacement for diluted net loss attributable to Paycor HCM, Inc. per share, as determined by U.S. GAAP, or as a measure of our profitability. We compensate for these limitations by relying primarily on our U.S. GAAP results and using non-GAAP measures only for supplemental purposes.

Adjusted Net Income Attributable to Paycor HCM, Inc. was \$18.6 million and \$16.2 million for the three months ended March 31, 2022 and 2021, respectively, and was \$28.9 million and \$35.6 million for the nine months ended March 31, 2022 and 2021, respectively. Adjusted Net Income Attributable to Paycor HCM, Inc. increased for the three months ended March 31, 2022 primarily driven by an increase in revenue. Adjusted Net Income Attributable to Paycor HCM, Inc. decreased for the nine months ended March 31, 2022, primarily driven by continued investment in employee-related costs to support new customers, expand our sales coverage, and develop our products, as well as increased amortization related to capitalized software and deferred contract costs and costs associated with becoming a public company, partially offset by an increase in revenue.

(in thousands)	Three Months Ended		Nine Months Ended	
	March 31, 2022	March 31, 2021	March 31, 2022	March 31, 2021
Net loss before benefit for income taxes	\$ (23,574)	\$ (15,276)	\$ (108,402)	\$ (58,554)
Loss on debt amendment	—	—	35	—
Amortization of intangible assets	22,136	31,782	79,548	93,553
Gain on installment sale	—	—	(1,359)	—
Stock-based compensation expense	16,294	1,875	55,321	5,308
Liability incentive award compensation expense	—	7	—	70
Loss on lease exit*	9,055	—	9,055	—
Corporate adjustments**	626	2,601	3,871	5,864
Non-GAAP adjusted income before applicable income taxes	24,537	20,989	38,069	46,241
Income tax effect on adjustments***	(5,889)	(4,827)	(9,137)	(10,635)
Adjusted Net Income Attributable to Paycor HCM, Inc.	\$ 18,648	\$ 16,162	\$ 28,932	\$ 35,606
Adjusted Net Income Attributable to Paycor HCM, Inc. Per Share	\$ 0.11	\$ 0.11	\$ 0.17	\$ 0.23
Adjusted shares outstanding****	175,116,109	151,978,985	173,269,703	151,825,208

\* Represents exit cost due to exiting leases of certain facilities.

**\*\*** Corporate adjustments for the three and nine months ended March 31, 2022 relate to certain restructuring costs of \$0.2 million and \$0.4 million, respectively, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of \$0.4 million and \$2.5 million, respectively and costs associated with the October 2021 Secondary Offering of \$— million and \$1.0 million for the three and nine months ended March 31, 2022, respectively. Corporate adjustments for the three and nine months ended March 31, 2021 relate to certain transition costs of the new executive leadership team and closure of a standalone facility of \$— million and \$1.0 million, respectively, as well as costs associated with becoming a public company, including the implementation of a new enterprise-resource planning system and professional, consulting, and other costs of \$2.6 million and \$4.4 million, respectively, and transaction expenses and costs associated with the 7Geese Acquisition totaling \$— million and \$0.5 million for the three and nine months ended March 31, 2021, respectively.

**\*\*\*** Non-GAAP adjusted income before applicable income taxes is tax effected using an adjusted effective tax rate of 24.0% for the three and nine months ended March 31, 2022, respectively, and 23.0% for the three and nine months ended March 31, 2021, respectively.

**\*\*\*\*** The adjusted shares outstanding for the three months ended March 31, 2022 are based on the if-converted method and include potentially dilutive securities that are excluded from U.S. GAAP dilutive net income per share calculation because including them would have an anti-dilutive effect. The adjusted shares outstanding for the nine months ended March 31, 2022 assume the conversion of the Series A Preferred Stock as if it would have occurred on July 1, 2021, based on the if-converted method and include potentially dilutive securities that are excluded from U.S. GAAP dilutive net income per share calculation because including them would have an anti-dilutive effect. The adjusted shares outstanding for the three and nine months ended March 31, 2021 assume conversion of the Series A Preferred Stock as if it would have occurred on the December 29, 2020 and January 20, 2021 issuance dates, respectively, based on the if-converted method.

## Liquidity and Capital Resources

### General

As of March 31, 2022, our principal sources of liquidity were cash and cash equivalents totaling \$134.0 million, which was held for working capital purposes, as well as \$200.0 million of borrowing capacity available under our revolving credit facility, described further below. As of March 31, 2022, our cash and cash equivalents principally included demand deposit accounts. We expect our operating cash flows to further improve as we increase our operational efficiency and experience economies of scale.

We have historically financed our operations primarily through cash received from operations and debt financing and, more recently, with the issuance of equity in our IPO. We believe our existing cash and cash equivalents, borrowings available under our revolving credit facility and cash provided by sales of our solutions and services will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, and the introduction of new and enhanced products and services offerings. In the future, we may enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights.

We may be required to seek additional equity or debt financing. If additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies, this could reduce our ability to compete successfully and harm our results of operations.

The majority of the Company's recurring fees are satisfied over time as the services are provided and invoiced by the customer payroll processing period or by month. The Company recognizes deferred revenue for nonrefundable upfront fees as well as for subscription services related to certain ancillary products invoiced prior to the satisfaction of the performance obligation. As of March 31, 2022, we had deferred revenue of \$17.0 million, of which \$11.8 million was recorded as a current liability and is expected to be recorded as revenue in the next twelve months, provided all other revenue recognition criteria have been met.

### *New Senior Secured Credit Facility*

In June 2021, Paycor, Inc. entered into a new credit agreement (the “2021 Credit Agreement”) with PNC Bank National Association, as administrative agent and collateral agent, providing a \$100.0 million senior secured revolving credit facility (the “2021 Credit Facility”). The 2021 Credit Facility includes an “accordion feature” that allows us, under certain circumstances, to increase the size of the 2021 Credit Facility by an additional principal amount of up to \$300.0 million, with a resulting maximum principal amount of \$400.0 million, subject to the participating lenders electing to increase their commitments or new lenders being added to the 2021 Credit Agreement.

On September 3, 2021, Paycor, Inc., Pride Guarantor, Inc. and certain other subsidiaries of Paycor HCM, Inc. entered into an amendment (“2021 Amendment”) to the 2021 Credit Agreement. The 2021 Amendment increased the size of the 2021 Credit Facility from \$100.0 million to \$200.0 million. No other significant terms of the 2021 Credit Agreement were changed in connection with the 2021 Amendment.

Any borrowings under the 2021 Credit Facility will mature on June 11, 2026.

The 2021 Credit Facility contains financial covenants, which are reviewed for compliance on a quarterly basis, including a total leverage ratio financial covenant of 3.50 to 1.00 and an interest coverage ratio financial covenant of 3.00 to 1.00. As of March 31, 2022, we were in compliance with all covenants.

### *Cash Flows*

The following table presents a summary of our unaudited condensed consolidated cash flows from operating, investing and financing activities for the nine months ended March 31, 2022 and 2021.

(in thousands)	Nine Months Ended	
	March 31, 2022	March 31, 2021
Net cash provided by operating activities	\$ 11,631	\$ 26,185
Net cash used in investing activities	(76,887)	(43,810)
Net cash provided by financing activities	1,349,901	202,049
Impact of foreign exchange on cash and cash equivalents	18	(35)
Net change in cash and cash equivalents	1,284,663	184,389
Cash and cash equivalents at beginning of period	560,000	546,448
Cash and cash equivalents at end of period	<u>\$ 1,844,663</u>	<u>\$ 730,837</u>

### *Operating Activities*

Net cash provided by operating activities was \$11.6 million and \$26.2 million for the nine months ended March 31, 2022 and 2021, respectively. The change in operating activities for the nine months ended March 31, 2022 reflects a decrease in changes in assets and liabilities.

### *Investing Activities*

Net cash used in investing activities was \$76.9 million and \$43.8 million, for the nine months ended March 31, 2022 and 2021, respectively. The change in investing activities for the nine months ended March 31, 2022 was primarily due to a decrease in proceeds of client funds, partially offset by the acquisition of 7Geese in September 2020.

### *Financing Activities*

Net cash provided by financing activities was \$1,349.9 million and \$202.0 million for the nine months ended March 31, 2022 and 2021, respectively. The change in financing activities for the nine months ended March 31, 2022 was primarily attributable to an increase in funds held to satisfy client funds obligations as well as proceeds from the issuance of common stock sold in our IPO, net of offering costs, partially offset by cash used for the redemption of our Series A Redeemable Preferred Stock and increased net repayments of long-term debt.

## *Contractual Obligations and Commitments*

Our principal commitments primarily consist of leases for office space at March 31, 2022. Other than the repayment of our 2021 Credit Agreement, there have been no material changes to our contractual obligations disclosed in the contractual obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K that was filed with the SEC on September 2, 2021. For additional information regarding our leases, long-term debt and our commitments and contingencies, see "Note 10. Leases", "Note 9. Debt Agreements and Letters of Credit" and "Note 18. Commitments and Contingencies" in the Form 10-K and "Note "Note 9. Debt Agreements and Letters of Credit" and "Note 15. Commitments and Contingencies" in the notes to our unaudited condensed consolidated financial statements included elsewhere in this Form 10-Q.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that may be material to investors.

### **JOBS Act**

We qualify as an "emerging growth company" pursuant to the provisions of the JOBS Act. For as long as we are an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation.

The JOBS Act also permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to "opt-in" to this extended transition period for complying with new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that comply with such new or revised accounting standards on a non-delayed basis.

### **Critical Accounting Policies and Significant Judgments and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of assets and liabilities and the recognition of income and expenses. Management considers these accounting policies to be critical accounting policies. The estimates and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are described in the critical accounting policies and estimates section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K filed on September 2, 2021. There have been no material changes to the critical accounting policies disclosed in the Form 10-K, except as described in Note 2 to our unaudited condensed consolidated financial statements: "Summary of Significant Accounting Policies."

### **Adoption of Accounting Pronouncements**

For a description of recently issued accounting standards not yet adopted, see Note 2 to our unaudited condensed consolidated financial statements: "Summary of Significant Accounting Policies —Pending Accounting Pronouncements" appearing elsewhere in this report.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure due to potential changes in inflation or interest rates. We do not hold financial instruments for trading purposes.

#### *Foreign Currency Exchange Risk*

The functional currencies of our foreign subsidiaries are the respective local currencies. Most of our sales are denominated in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, which are primarily in the United States, Canada, and Serbia. Our unaudited condensed consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments. During the three and nine months ended March 31, 2022, a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our unaudited condensed consolidated financial statements.

#### *Interest Rate Risk*

As of March 31, 2022, we have cash and cash equivalents totaling \$134.0 million and funds held for clients of \$1,880.5 million. We deposit our cash and cash equivalents and significant portions of our funds held for clients in demand deposit accounts with various financial institutions. We invest funds held for clients in debt-security investments classified as available-for-sale consisting of U.S. Treasury Notes, direct obligations of U.S. government agencies such as the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Farm Credit Bank, high grade corporate bonds, FDIC insured certificates of deposit, and other short-term and long-term investments.

Our cash and cash equivalents and funds held for clients are subject to market risk due to changes in interest rates. A decline in interest rates would decrease our interest income earned. Additionally, an increase in interest rates may cause the market value of our investments in fixed-rate available-for-sale securities to decline. We may incur losses on our fixed-rate available-for-sale securities if we are forced to sell some or all of these securities at lower market values. However, as a result of us classifying all marketable securities as available-for-sale, no gains or losses are recognized due to changes in interest rates until such securities are sold or decreases in fair value are deemed to be other-than-temporary. We have not recorded any other-than-temporary impairment losses to date. A 100-basis point change in interest rates would have had an immaterial effect on the market value of our available-for-sale securities as of March 31, 2022.

We are also exposed to changing Eurodollar-based interest rates. Interest rate risk is highly sensitive due to many factors, including E.U. and U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. Our 2021 Credit Facility carries interest at LIBOR, as administered by the Intercontinental Exchange (“CE”) Benchmark Administration for deposits in dollar, plus the applicable margin.

At March 31, 2022, we had no outstanding debt under our 2021 Credit Facility and, as a result, a 100-basis point increase or decrease in market interest rates over a twelve-month period would result in no change to interest expense.

#### **Impact of Inflation**

While inflation may impact our revenues and costs of revenues, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant. Nonetheless, if our costs become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. There can be no assurance that our results of operations and financial condition will not be materially impacted by inflation in the future.

In the event Federal Reserve raises interest rates to combat inflation, we could potentially benefit from increased interest income on our funds held for clients balance invested at higher interest rates.



## **Item 4. Controls and Procedures**

### ***Disclosure Controls and Procedures***

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2022. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2022, our disclosure controls and procedures were effective.

### ***Changes in Internal Control over Financial Reporting***

There were no changes to our internal control over financial reporting during the three months ended March 31, 2022, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, we believe would individually or taken together have a material adverse effect on our business, financial condition, or liquidity. For additional information, see “Note 15 - Commitments and Contingencies.”

### Item 1A. Risk Factors

Except as set forth below, there have been no material changes from the information set forth in “Item 1A. Risk Factors” in the Form 10-K filed with the SEC on September 2, 2021.

#### *Privacy laws or other regulations may reduce the effectiveness of our applications.*

Our products and services are subject to various complex laws and regulations on the federal, state, and local levels, including those governing data security and privacy, which have become significant issues globally. The regulatory framework for privacy issues is rapidly evolving and is likely to remain uncertain and inconsistently enforced for the foreseeable future. Many federal, state, and foreign governmental bodies and agencies have adopted or are considering adopting laws and regulations regarding the creation, collection, receipt, processing, handling, maintenance, storage, use, disclosure, and transmission of personal data and other sensitive information. In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, the Family Medical Leave Act of 1993, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the “ACA”), federal and state labor and employment laws, state data breach notification laws, and state privacy laws, such as the California Consumer Privacy Act (the “CCPA”) and the Illinois Biometric Information Privacy Act (the “IBIPA”).

The CCPA went into effect on January 1, 2020 and established a new privacy framework for covered businesses such as ours, which may require us to modify our data processing practices and policies. The CCPA imposes severe statutory damages and provides consumers with a private right of action for certain data breaches. Further, in November 2020, California voters passed the California Privacy Rights and Enforcement Act (“CPRA”), which expands the CCPA with additional data privacy compliance requirements that may impact our business, and establishes a regulatory agency dedicated to enforcing those requirements. It remains unclear how various provisions of the CCPA and CPRA will be interpreted and enforced.

The IBIPA regulates the collection, use, safeguarding, and storage of “biometric identifiers” or “biometric information” by companies such as ours. IBIPA includes a private right of action for persons who are aggrieved by violations of the IBIPA. Even in circumstances where we do not believe a regulation applies to our activities, we may still be the subject of lawsuits alleging a regulation does apply. We are currently a defendant in three lawsuits, two in Illinois state court, and one in federal court in the Southern District of Illinois, related to the IBIPA. Each alleges that Paycor violated IBIPA by failing to provide adequate notices and obtain consent from users of timekeeping devices that use handprint and/or fingerprint scanning for employee timekeeping. We do not believe IBIPA applies to the Company as alleged in the complaints and strenuously deny these claims. In the two state court cases, we made a motion to dismiss the action, which was denied by the court. The cases are currently in discovery and we have filed a motion for summary judgment, which is pending. The federal court lawsuit was recently stayed by the court. While adverse results in these lawsuits may include awards of substantial monetary damages, we believe it is too early to determine the possibility of liability and have not accrued any potential or estimated liabilities relating to these matters.

Further, because some of our customers have establishments in the European Union (“EU”) or otherwise process the personal data of EU residents, the General Data Protection Regulation 2016/679 (“GDPR”) may apply to our processing of certain customer and employee information. The GDPR went into effect on May 25, 2018 and has resulted in and will continue to result in significantly greater compliance burdens and costs for companies like us. Any data security breach could require notifications to the data subject and/or owners under federal, U.S., U.S. state, and/or international data breach notification laws and regulations.

The effects of the CCPA, CPRA, IBIPA, GDPR and other U.S. state, U.S. federal, and international laws and regulations that are currently in effect or that may go into effect in the future, are significant and may require us to modify our data processing practices and policies and to incur substantial costs and potential liability in an effort to comply with such laws and regulations. Any actual or perceived failure to comply with these and other data protection and privacy laws and regulations could result in regulatory scrutiny and increased exposure to the risk of litigation or the imposition of consent orders, resolution agreements, requirements to take particular actions with respect to training, policies or other activities, and civil and criminal penalties, including fines, which could have an adverse effect on our results of operations or financial condition. Moreover, allegations of non-compliance, whether or not true, could be costly, time consuming, distracting to management, and cause reputational harm.

In addition to government regulation, privacy advocates, and industry groups may propose new and different self-regulatory standards. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our solutions. Any failure to comply with government laws or regulations that apply to our applications, including privacy and data protection laws, could subject us to liability. In addition to the possibility of fines, lawsuits, and other claims, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have an adverse effect on our business, operating results, or financial condition. Any actual or perceived inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations, standards, and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business, operating results, or financial condition.

Furthermore, privacy concerns may cause our customers' employees to resist providing the personal data necessary to allow our customers and their employees to use our applications effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our applications in certain industries. All these legislative and regulatory initiatives may adversely affect our ability, or our customers to create, collect, receive, process, handle, maintain, store, transmit, use, or disclose demographic and personal data from their employees, which could reduce demand for our solutions.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

### ***Issuer Purchases of Equity Securities***

None.

### ***Use of Proceeds from Registered Securities***

On July 20, 2021, we priced our IPO. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to the Company's registration statement on Form S-1 (File No. 333-255498) ("Registration Statement").

In aggregate, the IPO shares issued generated approximately \$458.7 million, which is net of approximately \$30.6 million in underwriters' discount. On July 23, 2021, we used approximately \$260.0 million of IPO proceeds to fund the redemption of the Series A Redeemable Preferred Stock. There has been no material change in the use of the IPO proceeds as described in the IPO prospectus dated July 20, 2021 forming a part of the Registration Statement.

## **Item 3. Defaults Upon Senior Securities**

None.

## **Item 4. Mine Safety Disclosures**

None.

## **Item 5. Other Information**

None.

## Item 6. Exhibits

The following exhibits are incorporated herein by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K):

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<a href="#"><u>3.1</u></a>	<a href="#"><u>Second Amended and Restated Certificate of Incorporation of Paycor HCM, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Amended and Restated Bylaws of Paycor HCM, Inc., effective July 23, 2021 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2021)</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of Principal Executive Officer, Pursuant to Section 302 of Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification of Principal Financial Officer, Pursuant to Section 302 of Sarbanes-Oxley Act of 2002</u></a>
<a href="#"><u>32.1*</u></a>	<a href="#"><u>Certification of the Chief Executive Officer, Pursuant to Rule 18 U.S.C. Section 1350</u></a>
<a href="#"><u>32.2*</u></a>	<a href="#"><u>Certification of the Chief Financial Officer, Pursuant to Rule 18 U.S.C. Section 1350</u></a>
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

\* This exhibit is furnished herewith and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date:	May 6, 2022	
		<b>Paycor HCM, Inc.</b>
		By: <u>/s/ ADAM ANTE</u>
		Name: Adam Ante
		Title: Chief Financial Officer (Principal Financial Officer)
Date:	May 6, 2022	
		By: <u>/s/ SARAH HAINES</u>
		Name: Sarah Haines
		Title: Chief Accounting Officer (Principal Accounting Officer)

**Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Raul Villar Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paycor HCM, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 6, 2022

/s/ RAUL VILLAR JR.

Raul Villar Jr.

Chief Executive Officer and Director

**Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**

I, Adam Ante, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Paycor HCM, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 6, 2022

/s/ ADAM ANTE

Adam Ante

Chief Financial Officer



**Certification of the Chief Executive Officer  
Pursuant to Rule 18 U.S.C. Section 1350**

In connection with the Quarterly Report on Form 10-Q of Paycor HCM, Inc. (the "Company") for the period ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Raul Villar Jr., Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 6, 2022

/s/ RAUL VILLAR JR.

Raul Villar Jr.

Chief Executive Officer and Director

**Certification of the Chief Financial Officer  
Pursuant to Rule 18 U.S.C. Section 1350**

In connection with the Quarterly Report on Form 10-Q of Paycor HCM, Inc. (the "Company") for the period ended March 31, 2022, as filed with the U.S. Securities and Exchange Commission (the "Report"), I, Adam Ante, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 6, 2022

/s/ ADAM ANTE

Adam Ante  
Chief Financial Officer