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ADP.OQ - Q1 2027 Automatic Data Processing Inc Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2026 / 12:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. My name is Michelle, and I'll be your conference operator. At this time, I would like to welcome everyone to ADP's first-quarter fiscal 2027 earnings call. I would like to inform you that this conference is being recorded. (Operator Instructions)

I will now turn the conference over to Matt Keating, Vice President, Investor Relations. Please go ahead.

Matthew Keating - *Automatic Data Processing Inc - Vice President, Investor Relations*

Thank you, Michelle, and welcome, everyone, to ADP's first-quarter fiscal 2027 earnings call. Participating today are Maria Black, our President and CEO; and Peter Hadley, our CFO. Earlier this morning, we released our results for the quarter. Our earnings materials are available on the SEC's website and our Investor Relations website at investors.adp.com, where you'll also find the investor presentation that accompanies today's call.

During our call, we will reference non-GAAP financial measures, which we believe to be useful to investors and that exclude the impact of certain items. A description of these items, along with a reconciliation of non-GAAP measures to the most comparable GAAP measures, can be found in our earnings release. Today's call will also contain forward-looking statements that refer to future events and involve some risks. We encourage you to review our filings with the SEC for additional information on factors that could cause actual results to differ materially from our current expectations.

I'll now turn it over to Maria.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Thank you, Matt. This morning, we reported strong first quarter results with revenue growth, adjusted EBIT margin expansion and adjusted EPS growth, all exceeding our expectations. These results reflect the critical role of ADP in an evolving world of work. Employers today are redesigning how work gets done. They are navigating a wave of AI-related change and making workforce decisions that carry real consequences for real people. What has not changed, however, is what they need from ADP, a trusted partner.

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For the last few quarters, I've spoken about the five structural advantages that make us purpose-built for this challenge. These advantages are core to our strategic priorities and serve as key differentiators for how we will continue to win in the market. Going forward, I will share our updates tied to these long-standing structural advantages.

First is our industry-leading data. We know that AI is only as good as the data it's trained on. With 1.1 million clients supporting over 42 million workers across roles, industries and geographies, we have one of the largest sources of real-time workforce data in the world, providing unparalleled insights into the workforce and its emerging trends. This unique perspective means we have a new responsibility in the AI era, not only to design HR and payroll solutions for people, but to help design the best possible future of work with people at the center. We are also using our data to fuel best-in-class innovation. Our massive global workforce data platform and decades of expertise have been optimized into an intelligence foundation that powers our AI capabilities at scale with security, privacy and compliance built in from the ground up.

Bringing me to our next structural advantage, our brand trust and responsible approach to AI. ADP is actively building across the full life cycle of AI in HCM from AI that assists people with tasks to AI that facilitates an entire function end-to-end with human oversight to AI that orchestrates work across domains and systems to support enterprise transformation. ADP is advancing and embedding each AI use case in our products and in how our teams operate.

A perfect example of this is ADP Assist, which has crossed from early adoption into broad use, becoming more deeply embedded into workflows and driving measurable impact. Since the fourth quarter alone, we have added 100,000 more clients on ADP Assist. Most importantly, that scale is translating into real outcomes.

The recently launched Recruiting AI interviewer agent in ADP Lyric runs call handling, scheduling and note taking, so recruiters can stay focused on their strongest candidates. More than 4,400 AI interviews have been completed since the start of September with a 75% reduction in interview-related time spent, and more than half of those interviews were captured after hours, ensuring businesses don't miss out on strong candidates regardless of when they apply. Candidates themselves are responding well with the recruiting agent earning high satisfaction scores.

We are also offering new tools that enable our clients to build secure, intelligent and integrated workflows with their preferred AI agents. We've made a significant expansion to ADP API Central, which allows our clients' developers to access new Model Context Protocol, or MCP, servers and AI tools in addition to standard-based APIs. This enhanced offering addresses a growing challenge for organizations adopting AI, connecting AI agents and applications to trusted workforce data securely and at scale.

Through API Central, developers and business teams can now connect workforce data with the AI experiences that employees and managers use every day, enabling organizations to work in a more connected manner, innovate faster and act more efficiently with less risk. These examples are evidence of how AI is removing friction from the most consequential moments in the payroll and HR cycle while enhancing, rather than replacing, the role that people play.

Our third structural advantage is our trusted service model. Our clients are being exposed to more tools, more AI and more regulation, and with all of it, more complexity. Every new platform, AI tool and regulatory requirement creates another decision, another integration, another risk. Our clients want innovation, not the implementation headaches that come with fragmented solutions. Through all of the change, they need a partner they can trust to help them deliver on their promises to their people, and that is exactly what we show up to do every day. This impact is clearly reflected in how our clients are deploying ADP Lyric HCM across their organizations.

For example, one of the largest education management companies in the United States was experiencing rapid growth, operational complexity and the national teacher shortage. They needed to quickly modernize their people infrastructure, and they chose to implement ADP Lyric HCM. Through a comprehensive optimization of the recruiting and HR workflows, we helped this client simplify requisitions, digitize approvals and standardize offer processes, resulting in a 35% reduction in time to fill positions.

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ADP Lyric HCM is also helping further expand our global scale and reach, another one of our key structural advantages. This quarter, we were pleased to announce the expansion of ADP Lyric HCM across key European markets with availability now for companies headquartered in the United Kingdom, France, Germany and the Netherlands. This is much more than a product release.

As AI evolves work, managing people across countries has become even more demanding, and building a platform that genuinely works across borders with localized payroll compliance, local labor law, local tax treatment, local data privacy requirements, all embedded at the infrastructure level that takes decades of investment and local presence. You can't replicate it from the outside. ADP has been building it for 77 years.

And we are fortunate to work with a diverse and highly integrated ecosystem of partners who make it possible, many of whom I got to speak with last week at our 21 Annual Global Partner Convention. These partners help bridge the final mile and create a consistent global experience, combining on-the-ground local knowledge and specialized expertise with ADP's technology to deliver solutions that meet our clients exactly where they are.

But this scale doesn't only support our multinational clients; it also helps Main Street. As small businesses increasingly seek integrated technology experiences, we continue to expand our ability to help them manage essential financial and employee operations through a single digital approach.

Today, I am proud to announce that we have expanded our embedded payroll offering through a new partnership with PNC Bank, one of the largest financial services institutions in the United States. Through this partnership, we will bring ADP's payroll and HR capabilities directly into PNC's digital banking platform.

This new offering, PNC Payroll by ADP, will give small business banking customers access to payroll, HR, time tracking, insurance and retirement solutions directly through their digital banking platform. This will help reduce operational complexity, making it easier for small businesses to manage critical needs like cash flow, payments, compliance and payroll. The offering is designed to support businesses as they grow from start-ups and one-person operations to more established companies looking to scale.

Our final structural advantage is the 77 years of deep domain expertise that only we can provide to our clients. As the compliance landscape grows more complex, we are helping our clients stay ahead with our earned expertise that AI cannot replicate. For example, a long-standing aviation and aerospace client was struggling to manage complex ACA requirements with their internal resources. This gap resulted in numerous compliance-related errors.

Our team identified the underlying issue and brought on ADP's health compliance managed services offering to help. By transitioning ACA administration to ADP's compliance specialists, the client gained dedicated expertise, reduced its risk exposure and established a more reliable and scalable compliance model. This is a strong example of how ADP's deep expertise can identify risk, solve business challenges and expand the value of a client relationship that has lasted more than three decades.

What we are sharing today is a journey that's gaining momentum. Adoption is growing, and client value is becoming more tangible. That value is the foundation of the financial story we're building. And as we continue to scale our AI tools across the business, we expect that story to come into sharper focus. There is a lot of conversation right now about what AI means for work. Some of it is speculative. But what we know from serving more than 1 million businesses and tens of millions of people they employ is that managing a workforce is far more complex than it appears from the outside.

Payroll must be right every time for every person, and getting it right requires more than following a process. It requires understanding an ever-changing regulatory environment, managing situations that no process can fully anticipate and knowing the consequences when something goes wrong. Compliance can't be approximate. The moments where employers make decisions about people's livelihoods require judgment, trust and accountability, not just automation. That is precisely why clients come to ADP and why they stay. We are building AI that makes those consequential moments better, not AI that treats them as problems to eliminate. That distinction matters deeply, and we believe the market will continue to recognize it.

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Before I turn it over to Peter, I want to take a moment to recognize our associates across ADP, who serve our clients every day. Every capability we build, every partnership we form, every metric we report, it only matters because of the people who bring it to life in real moments with real clients. Their expertise and their commitment is what makes everything else possible, and I could not be prouder of this team.

With that, I'll turn the call over to Peter.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Thank you, Maria, and good morning, everyone. I will start by providing some more color on our first quarter results, and I'll then update our fiscal 2027 outlook. This morning, we reported strong first quarter results that included 6% revenue growth, 130 basis points of adjusted EBIT margin expansion and 13% adjusted EPS growth. These results were ahead of our expectations for the quarter, and we remain pleased with the continued strong momentum that we have across the business. In particular, we were pleased with the robust underlying revenue growth that we delivered in the quarter as well as the strong margin expansion performance on an ex-float basis.

Our ongoing commitment to a disciplined investment approach is enabling us to continue to make strong progress on our AI transformation across our products and our client-facing operations, while at the same time, deliver on our financial objectives. As we exited fiscal '26, the Zone, our proprietary AI-infused service platform that is transforming how our service teams work was deployed to 48% of our overall service population. As we exited Q1, that number had grown to 60%, and we continue to track ahead of our deployment plans.

I'd now like to share an example of how the Zone, together with ADP Assist is making a real difference to our operational productivity levels. In our downmarket core HR and payroll business, where the Zone has been fully deployed to all service associates, we saw a further 7% reduction in contacts per client handled by the service teams on a year-over-year basis in Q1 fiscal '27. This is in addition to the 8% reduction that we were able to drive in contacts per client handled by that same team across full year fiscal '26.

This degree of improved operating efficiency when viewed against the tens of millions of service contacts that ADP takes across the entire enterprise each year gives us continued confidence in our ability to drive further meaningful improvements in operational productivity, manifesting in both a superior client experience and financial benefit to ADP as we continue to reduce our cost to serve. This strong business momentum, alongside an improving outlook for client funds interest is enabling us to lift our full year guidance, and I will share more details on this now as we move through the segment level information.

Let me begin with our Employer Services segment, where I will cover both our results and our updated outlook. ES segment revenue increased 6% on both a reported basis as well as on an organic constant currency basis in the first quarter. We were pleased to deliver another record ES new business bookings result for the first quarter. We were particularly pleased with the contributions from our Retirement Services and Insurance Services businesses, our ES HRO offerings as well as our Compliance Solutions offerings, while we did see a softer start for our global offerings following the strong finish we experienced in FY26.

Overall, our pipelines are in good shape. The demand environment continues to remain healthy, and we are maintaining our 4% to 7% full year growth guidance. ES revenue retention improved slightly versus the prior year, coming in ahead of our expectations. As it is early in the fiscal year, we are maintaining our forecast for a 10 to 30 basis point decline in full year retention. ES pays per control growth of 2% for the first quarter also came in ahead of our expectations. Labor markets continue to demonstrate resiliency, and we have seen our clients continuing to hire at a steady pace. As a result, we now forecast pays per control growth of around 1% for fiscal 2027, which is an improvement on our prior outlook of 0% to 1% growth.

Client funds interest revenue increased 15% in the first quarter, coming in above our expectations, mainly due to stronger average client funds balances growth. We have now lifted our average client funds balances growth outlook to a range of 4% to 5% in fiscal 2027. In addition, interest rates across the yield curve have risen since our last update, increasing our expected reinvestment rate for the balance of the year. Based on this dynamic, we now forecast a fiscal 2027 average yield on our client funds portfolio of about 3.8%.

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As a result of our raised average client funds balances growth and raised yield expectations, we have increased our full year client funds interest revenue forecast by $50 million to a range of $1.59 billion to $1.61 billion. We are also raising our outlook for the net impact from our extended investment strategy by $45 million to the same range of $1.59 billion to $1.61 billion. As a result of these changes, we now expect fiscal 2027 Employer Services revenue growth of about 6%.

As a reminder, we continue to expect some headwinds from unfavorable FX in fiscal '27. This full year ES revenue growth outlook contemplates close to 0.5 point of FX headwind in FY27, which compares with the tailwind of about 1 point that FX provided to ES revenue growth in fiscal '26. ES margins increased 130 basis points in Q1, reflecting both the operational productivity improvements that we continue to realize across the business as well as the contribution from client funds interest revenue growth.

Turning now to the PEO segment. Total PEO revenue increased 7% in the first quarter with PEO revenue, excluding 0 margin pass-throughs, growing 4%. Average worksite employees grew 2% in the quarter, while PEO pays per control growth continued to improve modestly for the second consecutive quarter. We continue to expect total PEO revenues to grow by 5% to 7%. PEO revenue excluding 0 margin pass-throughs to grow by 3% to 5% and average worksite employee growth of about 2% in fiscal '27. PEO margins were flat in the first quarter as lower operating expenses offset the impact of higher 0 margin pass-through growth.

Putting it all together, we are pleased to increase our fiscal 2027 consolidated revenue outlook to about 6% growth while maintaining our forecast for adjusted EBIT margin expansion of 70 to 90 basis points. We continue to expect our effective tax rate to be around 23% for the year. We also now forecast fiscal 2027 adjusted EPS growth of 10% to 12%, supported by share repurchases.

Overall, we are pleased with the progress that we have made at the start of fiscal '27, and we remain laser-focused on driving growth in our new business bookings and maintaining strong client satisfaction and retention levels. Our continued investment in our products, our people and our AI capabilities sets us up to deliver sustainable revenue growth, margin expansion and shareholder returns over time. We are committed to maintaining our momentum and look forward to sharing further updates as we continue to deliver on our strategic priorities.

Thank you, and I'll now turn it back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

Maria, I thought if you don't mind, I was going to ask on the PNC deal first, just thinking about how that came together, if that's a cash flow central deal? Or is that something different? And is there a pipeline of more bank partnerships that we might expect coming from ADP?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Thank you. Really excited about this question. I appreciate you asking it because we're incredibly excited about this win with PNC Payroll. This announcement is something that really extends the overall embedded strategy that we've had. I think we've been talking about that quite a bit over the last couple of years, specifically with you actually as well as it relates to this ecosystem approach and really embedding our offerings into others' ecosystems and having others' ecosystems embedded into our offerings. This announcement is specifically putting ADP payroll inside of the digital banking platform of PNC.

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So we're really excited about this. PNC, as you know, serves millions of small businesses alongside retail customers, has about 2,300 branches and all sorts of digital channels. This is a big win for us. It speaks volumes to our ability to execute on the strategy within embedded. But the big difference with ADP is this ability to continue to stretch into the upper end of that down market and the ability to not just offer the tech solutions with our payroll platforms, but the beyond payroll solutions such as Insurance Services, Retirement Services. So it's the entire, call it, ecosystem of ADP in the down market that will be embedded into PNC's digital channel.

So really excited about this win and really excited to extend the reach of our embedded strategy. And to your point, it is a big piece of our strategic priority, and we continue to execute against it, and there's more pipeline alongside with it.

Tien-Tsin Huang - *JPMorgan Chase & Co. - Analyst*

All right. Good. No, that's definitely a good one. Just quickly on the -- my follow-up, if you don't mind, just on pays per control for -- maybe for Peter, just thinking about and given that it's very high incremental margin, it doesn't look like you're changing your EBIT outlook. Maybe I'm just splitting hairs here, but is there any tie there between raising pays per control and no change on the margin front? It's good to see, obviously, given always headlines around layoffs here and there, but any follow-through?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes, sure, Tien-Tsin. First, yes, we were pleased with the pays per control result in the quarter. I would point out that the compare was relatively easier in Q1. As you remember, last year in Q1, we saw flat pays per control before things started to gain a little more momentum through the quarter. So I would consider this to be continued momentum more so than some sort of outsized performance in Q1. There is a contribution, obviously, to the margin. There are quite a few puts and takes, I would say, with the margin. The float guide lift also helps drive the margin, a little bit of pressure from FX, more so on the revenue than the margin, but a little bit of impact there on the margin as well.

But overall, on the margin, really, the guide, we're holding the margin guide consistent with last quarter at 70 to 90 basis points. We're pleased to increase our EPS guide from 10% to 12% on the basis of the higher revenue. But keeping the margin expansion guide at least where it is for now. We have plenty of investment opportunity in our business. We're investing, as Maria was saying in the prepared remarks, in things like AI transformation, but also other areas, product investments across the portfolio, cloud infrastructure, scaling our upmarket and global offerings. So plenty of investment there, but also funding that through things like a little bit through pays per control.

I would say more so through float and more so through productivity improvements we've been driving into the business, dropping some of that still to the bottom line, putting some of that back into the business for future growth. So we feel good about sort of where the margin delivery is sitting. We feel like on balance, that's in the best interest of shareholders to drop some to the bottom and to retain some to continue to invest in future growth opportunities. But -- and sorry, the pays per control piece is, I would say, a relatively small element of the margin pie this quarter.

Operator

Daniel Jester, BMO Capital Markets.

Daniel Jester - *Bank of Montreal - Analyst*

Maria, great update on all of the hard work your team has been doing on AI and getting new products into the market. Maybe you can just give us an update on your philosophy in terms of how we should expect monetization of all these new tools and maybe any sort of sense about what is embedded in guidance this year?

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Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yes, absolutely. I'll start. I'd like to add a couple of pieces to ADP Assist because as you mentioned during my prepared remarks, I get really excited to talk about it. So I appreciate the question a lot, Dan. Thank you. And then maybe, Peter, if you want to talk about the monetization and how we're thinking about that.

I think the overall progress we're making with respect to AI and specifically ADP Assist is considerable. We already have about 50 agents that are in general availability and many of these agents, I would characterize several of these to be kind of true needle-mover agents for ADP. You saw some of the clip that Peter was referencing today in terms of the impact that those agents are making across our portfolio, both internally as well as inside of our product.

I mentioned, obviously, a few of them in my prepared remarks around the interviewer agents and just the progress we're seeing there. The RUN Assisted Reporting agent that we have is also allowing clients to be able to query things in a natural language capacity to get really fast and simple answers for HR and payroll questions.

So I think all of these agents are making real impact. And that's really our guidepost. You asked a little bit about monetization, which we'll get to, but how we're thinking about what agents to go after. It is really a long list of opportunity, but we are sequencing it in terms of solving real challenges in the market for HCM for real clients that will drive measurable outcomes. And again, those outcomes are starting to translate into our overall financial algorithm.

So I think it's still early days, but I'm really pleased sitting here. It's almost hard to believe it's been four years since this entire conversation started, but I think we're at the point now where we're seeing measurable progress, again, 50 agents generally available with more to come and many of these being significant needle movers that really create values-based outcomes for our clients. And in terms of how we think about pricing and monetization on that, I'll turn it over to Peter.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. Thanks, Maria. Dan, value-based pricing is also -- or values-based approach is also what we take to pricing, Dan. So I mentioned that before, I think, on some of these earnings calls. But really, our philosophy is trying to make sure that ADP captures its fair share of the economic value of what's created, but also that the clients also benefit similarly as they should from what we're providing, both from a functionality perspective, but also in terms of the way we think about the economic pie. So we look at each situation on its individual merits.

I think the factors that really drive the way we decide to price is the situation -- is the individual situation we're talking about, is this sort of new incremental functionality that we're providing? If that's the case, we're more likely to capture that through either a new line item on the invoice or through an upsell or an add-on upsell to that client.

If we're really enhancing existing functionality and a lot of what we're doing at the moment is also improving the existing ways we've been delivering services to clients for 77 years, the more likely way we would capture that would be through our general price increase or something along those lines. So it's really situation based. We have multiple ways we bill, whether it's seat-based pricing or the equivalent of seat-based pricing per employee per month pricing, other methods of pricing, consumption-based pricing.

So it really is situation dependent. But we are definitely focused on making sure that the economics are fair on both sides for ADP and also for the client, given that we have long-term client relationships. We're heavily dependent on our client base for around half of our bookings number as well as referring us in the case of new logo wins that we're going after. So it's a thoughtful approach, value-based approach, but certainly not something that we ignore. We spend a lot of time thinking about the right way to monetize. And like I said, situation dependent can be incremental pricing, can be through general price increases.

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Daniel Jester - *Bank of Montreal - Analyst*

That's really helpful. And then maybe for my follow-up on ES bookings, Peter, I appreciate the context you shared around the quarter and some of the differences in the different business areas. Maybe could you expand any more about what you saw? And maybe can you comment about what you're seeing in maybe small businesses versus larger businesses? Any difference in terms of the momentum you're seeing there?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yes. Perhaps I'll take the bookings commentary because I didn't get a chance to talk about it in my prepared remarks, and I always enjoy making a few comments. You mentioned kind of across the various segments. Peter did a good job of calling out some of the places we had strength, specifically in Retirement Services and Insurance Services, as you mentioned, small businesses. And again, I talked about that with respect to PNC and just kind of how we're seeing the ecosystem of small businesses navigate.

But the strength that we have in Retirement Services and Insurance Services is something that we've mentioned several quarters. A lot of that has to do with incredible execution by the team, but that execution goes beyond just an ecosystem approach and kind of this selling tech, but also selling the beyond just simple payrolls in that market.

The Retirement Services offer, they've embedded things, new product, new offers, and that is coming to fruition and yielding tremendous results, whether that's through partnerships and new offerings, to specific clients to solve specific retirement optionality for more small businesses or in the case of Insurance Services, they're really leaning into the product innovation road map by embedding things like ADP Assist to make things easier to actually serve clients and to actually bring on more clients through even in-product marketing type of offers with the ability for clients to engage in those services directly.

And so I think it's great to see small businesses engaging in our ecosystem that way. I think the other call out that Peter made during the prepared remarks was around Employer Services, HR Outsourcing and also the Compliance Solutions. I think both of those offerings speak directly to our structural advantages that I spoke to. Obviously, the HR Outsourcing offerings, those are the most managed of all of our services, and they really are that deep domain expertise in the beyond tech and beyond payroll offer and very unique to ADP in terms of what it is that we're able to do there for our clients and again, solving significant things in a way that only ADP can do. And then Compliance Solutions is, again, really about that final mile, again, a big structural advantage for us.

I think overall, we were pleased to see that the first quarter was a record quarter. Peter did mention we had a bit of a softer start to the global side to the business. That's not that atypical on the heels of the incredible finish that we had in the fourth quarter. But I think across the market, I'm pleased to see the continued strength in Retirement and Insurance because it speaks volumes to just the strength of the small business environment right now and obviously excited that we continue to lean into our structural advantages, both in that beyond tech and managed services, but also the final mile.

Operator

Mark Marcon, Baird.

Mark Marcon - *Robert W. Baird & Co Inc - Analyst*

Maria and Peter, I was wondering if you could talk a little bit about your philosophy just with regards to pricing some of your newer tools, like I had a chance to look even deeper at Lyric and ADP Assist at HR Tech, and those are pretty impressive. I was getting the impression that you were pricing most of that on a seat-based perspective, which basically gives the clients certainty with regards to where the pricing is coming out. But you also mentioned consumption-based pricing, where I know that's a friction point for some of your competitors. So I'm

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wondering if you can talk a little bit about your philosophy there and your ability to leverage some of your structural advantages to provide pricing in a transparent way that is more favorable to or more preferred by your clients.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Thank you. Let me take the first part of the question, and then I'll pass over to Maria. But just in terms of methodology, so you actually phrased it very well, transparent pricing that customers can understand, rely on, not get surprised by is certainly key to our philosophy. And I would say we do have some consumption-based pricing. I would put that more in some of our compliance and data solution offerings. Maria spoke about API Central. Again, that's more of a consumption-based model.

But if we're getting into the core system of record platforms like Lyric, we'll use Lyric since you raised that as an example. That is more of a, I wouldn't call it what we do as, a traditional seat-based model in terms of -- we're not really pricing based on, call it, using old terminology, licensed users or the people who are necessarily accessing and working in the system. But certainly, on a per employee per month or potentially per pay cycle, per pay slip basis. So volume basis based on, call it, the volume of employees on a client's books, which, as you pointed out, is certainly more of a transparent and predictable pricing methodology that doesn't give surprises.

So I would say still -- and again, we have different pricing methodologies across different segments of the business. We go into the down market. We're much more heavily reliant on sort of fixed base pricing, which again is probably the most transparent pricing model out there.

But when it comes to consumption-based pricing, I would say that's more in some of the -- I don't want to call it ancillary, but some of the add-on offerings we have in our data offerings and maybe some of our compliance offerings, but more heavily focused when it comes to the core SORs across the segment with respect to that transparent, predictable pricing you were talking about.

That's how I would sort of address the methodology. I think, Maria, you might want to talk about some of the other parts of Mark's question.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yes. Listen, I'm happy to unpack a little bit around API Central. I know I talked about it during the prepared remarks, but it is an exciting piece to our business. Just to kind of take everybody back to the genesis of API Central, it really started with our approach to ADP and the marketplace. We were the first HCM provider to put a marketplace out there. At this juncture, we have over 500 apps that are available to our clients to interact with through an ADP marketplace.

On the heels of that, we realized that clients want to, call it, string things together in a nontechnical term. So we launched in the last couple of years, API Central. Interestingly, I actually was overseas last week, and I had the opportunity to engage with a woman that invented API Central, and I thanked her because it was quite genius, and it just shows that innovation happens all across ADP, all across the globe.

But this ability to connect systems together in a governed telemetric way where you have complete access and authority determined by our systems and how to get that done is an imperative for just how work needs to get translated across from system to system. So that's kind of the traditional API Central. That is monetized, if you will, in a consumption way. This quarter, in the prepared remarks, I added to that our ability now to do that via Model Context Protocol or MCP. That is the language of agents.

So if you think about APIs as kind of the language of traditional ways of information flowing back and forth now that agents are performing autonomously, some of that flow back and forth. The agreed-upon Model Context Protocol or MCP is now available within Marketplace or API Central specifically. And again, these are things that currently are being used by agents, by systems, across tools, and it provides the governance, the things that you would expect from ADP, which is knowing who's going into systems and accessing them and ensuring that they have the appropriate authority and protocols to do so.

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And so these are things we are investing in to ensure that we keep up with what's happening, but also keep our clients safe. And they are based -- they are in a consumption-based model today. And I think as it continues to evolve, we continue to think about, as Peter mentioned, ways that we need to appropriately price and allow our clients to consume these types of offers.

Mark Marcon - *Robert W. Baird & Co Inc - Analyst*

That's great. And then I was just wondering just on the theme of continued modernization, can you give us an update in terms of where WorkForce Software is with regards to the integration along with Next Gen Payroll and how deeply you're penetrating Workforce Now with that?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yes, absolutely. I'll comment on WorkForce Software, Lyric, global payroll, and then we can touch on Workforce Now as well. But I think you heard during the prepared remarks, the extension of ADP Lyric into the global space. We launched that into the countries that I listed in the prepared remarks. That is kind of this global payroll offer with Lyric, WorkForce Software, kind of in one ecosystem, is exactly what that's referencing.

So in terms of integration, the integration is done. It's there. It's -- the WorkForce Suite is what we call it now versus WorkForce Software still WFS, but that suite is fully integrated across all of our platforms, inclusive of Workforce Now. And we're really excited to take that to market more specifically into our global space. And so that ecosystem makes ADP incredibly unique as you add also, of course, global service as a capability in all of that.

So we see penetration across the global space as it relates to Workforce Now. We continue to see a go-to-market motion there that's yielding good results with respect to the overall, call it, time and time management system. A piece of that is the WorkForce Suite, but we also have other offers in the mid-market for Workforce Now. So really excited about that entire space for ADP and time and labor management really being that front door and front end to payroll and that extension to our clients' workers. So I think overall, we feel really solid about where we are with respect to the integration, the go-to-market motion of WorkForce Software, but all of it now is really in that WorkForce Suite and the overall time and labor management strategy for ADP has an offering across each of the segments.

Operator

James Faucette, Morgan Stanley.

Michael Infante - *Morgan Stanley & Co Ltd - Analyst*

It's Michael Infante on for James. I wanted to ask about some of the PEO trends in the quarter. I think when I look at the metrics on a sort of ex pass-through and workers' comp basis, I think it grew about 3% in the quarter. I think it was down 6% in Q4, but you obviously had the pickup in average worksite employee growth. Like if you sort of look at the revenue per worksite employee growth on that basis, I think it went from roughly plus 4% to just under 1%. So I'm just curious if there's anything you can share in terms of what's potentially driving the reduction in the revenue per worksite employee in the quarter and what you're assuming with respect to normalization in the metric in the guide?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Sure, Michael. Yes, we don't actually disclose the workers' comp revenue. So I don't know -- you might be looking at the cost number that we disclosed in the earnings release. So I don't quite recognize the numbers. What I can tell you is we had a strong quarter in PEO. We did

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7% in total. We did 4% ex 0 margin pass-throughs, but I would draw your attention to some, call it, timing differences we had last fiscal year with respect to some recognition of some state tax SUI-related items that landed in Q1 versus in Q2.

So the relative compare in Q1, I'm talking on an 0 margin pass-through basis was more difficult in Q1 and a little easier in Q2. I think off the top of my head, we did 6% growth in Q1 last year ex ZMPT, and we did 3% in Q2. So we expect that to normalize. The underlying fundamentals, I think, with respect to the PEO were very, very strong. We were very pleased with how the business grew. We were very pleased with where wage levels are still holding up. And as you mentioned, worksite employee growth started to accelerate a little bit versus what we've seen in prior quarters on a sequential basis.

So I think a good underlying story there with respect to the PEO. We did hold the guidance where it is right now. There's still a lot to do, and we will not see sort of where the SUI tables come out with respect to -- it's a big part of our revenue in the third quarter. We won't see those until, call it, the December, January time frame. So we've decided to hold, I guess, out of prudence now with respect to the PEO guidance, but we did feel strong about the momentum and the acceleration in the momentum we saw in the underlying fundamentals, particularly on worksite employees driving revenue. But I don't really see a sort of a reduced sort of ex ZMPT revenue per worksite employee in the quarter. I think there's some anomalies last year that make the compare a little bit funky between Q1 and Q2.

Michael Infante - *Morgan Stanley & Co Ltd - Analyst*

Understood. That's helpful, Peter. And then just for our follow-up, on the US pays per control acceleration to 2% in Q1 and obviously raising the full year assumption to the high end. What's driving that underlying improvement? Is there anything you can share just in terms of how broad-based it is across customer sizes, industries, et cetera? And then maybe perhaps like from a broader macro perspective, like do you think we've sort of transitioned from what has previously been characterized as a low hire, low fire environment to something that's more like no hire, no fire? Or is that too punitive based on what you're seeing in the data?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. On the latter part, I would say, no, I wouldn't agree with that. I think it still is a relatively low hire, low fire environment. As I mentioned in my prepared remarks, our clients are continuing to hire at a steady pace. And when you look at sort of the overall macro factors, unemployment, 4.2%, the Fed governor called that out as more or less full employment. It's not surprising in where GDP growth is and what have you on a real basis, not surprising really that hiring is continuing on at that steady pace. So I don't really think a lot has changed.

With respect to the industry verticals, we look at like 10 to 12 industry verticals. It's really -- there's obviously differences between some of the verticals like we've seen strength in areas like trade and transportation, but also continued strength in health care and education as an example. Also financial services continues to show some resilience. We've seen a little bit of softening in places like leisure and hospitality. But generally speaking, I'm talking about pretty small movements between -- in terms of what's driving the strength versus the relative weakness within the vertical set.

So net summary, it's pretty broad-based across industry verticals. It's pretty consistent, steady. Again, the layoff numbers are at or near multiyear lows and the hiring volumes on a gross basis continue to come in at a steady pace. So we feel pretty solid about the 1% growth. It's what we delivered in Q2, Q3 and Q4 last year and obviously, on a full year basis on average, as I mentioned earlier to Tien-Tsin, the first quarter compare was a little easier because of the soft Q1 last year, but -- which is sort of what manifested the 2%. But we feel like around 1% is a very solid guide. And what we're seeing is a continued healthy hiring environment, albeit at a steady pace.

Operator

Jared Levine, TD Cowen.

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Jared Levine - *Cowen and Company LLC - Analyst*

Just start here, I wanted to talk about the WSE acceleration in 1Q, which was good to see. I know you called out a little bit of uptick in pays per control there. Just curious, did retention or new client sales also contribute to that acceleration? And I guess any updated thoughts across both retention and new client sales over the rest of the year would be helpful.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

So with respect to PEO pays per control, yes, it was good to see another slight uptick. We had a slight uptick in Q4 last year on a sequential basis. This was another uptick again. I would clarify PEO pays per control is still lagging ES pays per control in terms of percentage numbers. But again, it's still, I think, pretty solid and pretty healthy.

In terms of like what's driving it, I think it's the momentum in the business. We mentioned last quarter, we were pleased with the way the bookings went last year with respect to PEO. We had a very good retention quarter. The first quarter is not particularly meaningful in terms of either bookings or retention for the PEO, but the momentum coming into the year, I think, has certainly helped drive that PEO pays per control number up along with a little bit of -- sorry, the worksite employee number up as well as a little bit of lift from PPC. But I view that more -- I view the sort of the uptick in WSEs more coming from what we call net new business bookings, less client losses with a little bit of help from PPC.

Jared Levine - *Cowen and Company LLC - Analyst*

Got it. And then to follow up, I get a decent amount of questions on the margin guidance update here. So it does seem like you had some outperformance in 1Q, just given prior cadence commentary. And then also now you have the float and extended strategy upside, but you did affirm here. I guess anything to call out in terms of conservatism, incremental investments in terms of why you still held that margin guide flat versus the prior guide?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. I think it's still early in the year. We were very pleased with the first quarter results, as we mentioned in the prepared remarks, came in stronger than we expected. So we were happy with that. We would be happy, obviously, if that were to continue and perhaps there's an opportunity to outperform. I wouldn't call that out though now.

We -- as I mentioned earlier to one of the questions, we do have a number of investments we want to make in the business. We're very thoughtful. We try to be very thoughtful about our capital allocation model and continuing to invest in the business for future growth as well as to deliver outcomes to shareholders in the present.

We feel like our margin mix is achieving that balance with this guidance. Again, happy to lift the EPS growth on the back of stronger revenues. And we haven't spoken as much yet about revenues in the call, but I feel like there is some real core underlying strength in revenues. There is float uptick, but there is also FX headwinds that have increased versus our prior guidance, which is partially offsetting that float uptick.

And it's really the core underlying revenues that's helping drive both revenue growth lift but as well as earnings per share. The uptick in earnings per share that we shared, and we feel like the margin mix for now at least is the right way to allocate our capital between investing in future success and future growth as well as delivering to shareholders in the present.

Operator

Samad Samana, Jefferies.

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Samad Samana - *Jefferies LLC - Equity Analyst*

First, just on the Zone and kind of the broad diffusion of that. I know that you guys are seeing -- I think you mentioned that it's now deployed 60%. How do we see that get to 100%? Like what's the time line there look like? And how much leverage do you think you can potentially drive, whether that's measured in terms of productivity on the sales side or lowering cost to serve on the service side? Just how should we think about that in terms of when we're at 100% adoption? And then I have one follow-up.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yes. Thanks, Samad. I'll start by talking about kind of the Zone and unpacking a little bit about our strategy there across, as you mentioned, just the sales side as well as the service side. And then, Peter, if you want to comment a little bit about how we're kind of seeing it into the financials and the productivity lift that we anticipate.

I think first and foremost, we're really, really, really proud and pleased to see how far we've come with the Zone. And so we spent a bit of the fourth quarter earnings call on the Sales Zone, which is where we've had the Zone deployed the longest. And just to remind everybody, the Zone is a proprietary system that we've created to really infuse AI into our sellers as well as our service organization to yield exactly what you're suggesting, Samad, which is eventually productivity, but it's really about removing friction. It's really about making it easier for clients to engage with us. And so I'm really pleased to again kind of reiterate what we talked about in the fourth quarter, which is the progress we've made in sales.

At that time, I think we talked about almost, call it, half of our sellers having the Sales Zone broadly deployed. We're optimistic that by the end of this fiscal year, we will have 100% of our sellers across North America deployed on the Sales Zone. And you may remember that we talked about record ASP. It's hard to discern and unpack all the things that contribute to that, but certainly, our tech stack, our modern seller approach and the Sales Zone being a big component of that was a contributor, nonetheless.

And that ability to serve up the right lead to the right seller at the right time, the ability to provide knowledge to onboard associates faster, the ability for coaching. These are all incredible things that the Sales Zone is yielding. And again, in terms of adoption, we expect that to be broadly deployed across our US sellers by the end of the year.

In terms of the Service Zone, Peter spoke to that in the prepared remarks. We have now deployed it across 60% of our service organization. It was 48%. So that gives you kind of the clip by which we're executing. As I always say, we're not ever going fast enough for my liking, but we are also making sure that we're incredibly thoughtful as we deploy these tools across our ecosystem to ensure that we continue to make the progress, not just on productivity, but also on service capabilities and experience and that commitment that we have to our clients.

So we continue to make significant progress on both the Sales Zone as well as the Service Zone. In terms of how that's showing up in the financials, I think Peter made a couple of comments in line with that during the prepared remarks, so I'll let him touch base on that.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. I mean just quickly, Samad. I think when it comes to sales, it's really about sales force effectiveness as opposed to some sort of cost efficiency play, really trying to make our sellers and equip our sellers in the best possible way to chase the right opportunities to maximize their chances of success and to win the deals. It's really the net summary, if you like, of the sales force -- sorry, the Sales Zone opportunity.

When it comes to the Service Zone, I would call it sort of a dual approach in terms of lifting client experience. It's not purely all about productivity and sort of margin type initiatives. It's really about enhancing the client experience, reducing and removing any potential friction areas in the process, making life easier for our clients, but also making life easier for our -- and again, best equipping them so that they can -- we can properly face them off, if you like, against the volume of work coming from the client base and help drive efficiency there.

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So I mentioned the example in the down market. I wouldn't necessarily attribute the entirety of it to the Zone. It's a combination, as I said in my comments around some of the ADP Assist AI functionality we're deploying through the product as well as the AI functionality that we're deploying through the Zone to the service rep on our side of the situation, so to speak.

But all of that is, again, on the service side, designed to improve client experience and also increase efficiency and help drive operating productivity, which ultimately manifests in margin and also freeing up dollars for investment in further growth.

Samad Samana - *Jefferies LLC - Equity Analyst*

Great. And maybe just one quick follow-up on the bookings. I appreciate that in any given period, it can bounce around, especially given the strong F 4Q on the global side. But just can you help us think through what you're assuming on the ES bookings for the rest of the year then as a result or maybe just the shape of it, are you -- has that kind of gone back to normal levels? And I guess, where would that put you in terms of tracking closer to the 4% or the 7%?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yes, fair. So first and foremost, we are holding the guide at 4% to 7%. We do give a full year guide, not quarterly guides and quarterly commentary necessarily outside of just kind of what we're seeing in terms of the backdrop. I would say the backdrop is largely constructive. Pipelines feel solid. They support that 4% to 7% growth. I think we all are aware that we're incredibly back half loaded as it relates to -- from a planning perspective always. That's kind of how the rhythm works. Q3 is always incredibly big for us because of that January 1 calendar start that so many look toward as it relates to kind of what it is that HCM provides. And then certainly, we drive an incredible volume ourselves in our own year-end, which is in that fourth quarter.

So those two things combined make the back half of the year significant for us. And of the back half of the year, it's really the fourth quarter. So I would say we feel confident based on kind of the market conditions as well as pipelines that the 4% to 7% is an appropriate guide.

Operator

Jacob Smith, Guggenheim Securities.

Jacob Smith - *Guggenheim Securities LLC - Equity Analyst*

Maria, in the first half of last year, you highlighted a number of large Lyric wins and a significant global payroll deal. We know enterprise implementations take time, but I think we're starting to get closer to seeing that broader momentum translate into revenue growth, which would be impressive given the scale of the ES business. Can you just talk about how go-live timing is shaping your expectations for the rest of the year? When it looks like ES growth should step up a little bit?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yes, fair. And thank you, Jacob. I know you enjoy learning a lot about Lyric, and I really appreciate your -- your question is around just the momentum, and that's exactly what I would suggest that it is. We are -- we have significant momentum in the market. Out at HR Tech, as you know, Lyric was a shining star as it relates to the overall HR community receptivity.

It is the first product. We've been working and building this product for quite some time, and it is the first product that's really person-based that is leaning into the opportunity of how companies are designed today and how they manage their workforces not just on a dynamic teams perspective, which is what we've been talking about for the last decade or so, but now really in the advent of new globalization and with AI changing the complexity of work. This is a very unique offer that addresses really that upmarket global space.

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So in terms of implementation, we continue to advance our progress on weeks to start. We've seen tremendous momentum year-on-year. You mentioned last year, the wins that we talked about in the starts. I would suggest to you that we are making significant progress on bringing clients on board at a faster clip than we were perhaps a year ago.

\And we continue to fill the pipeline with the receptivity that we're seeing in the market of this offer really meeting the needs of today's buyer. So I would say pipelines are strong, and we continue to onboard faster today than we were a year ago. In terms of when it will actually translate into the revenue, I'll let Peter speak to that.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. Just on the cadence point, Jacob, you're right. Like the -- we sold well throughout last year. So we have business going live throughout this year. The strong finish Maria was talking about is more of a back-ended revenue story with respect to FY27, those deals coming live more likely at the end of FY27, some of the larger ones even perhaps into '28. But we're supplementing that and some of the revenue strength that, like I said, the underlying core revenue strength I was talking about in the prepared remarks, we're supplementing it through strong starts in bookings in faster to revenue offerings like Retirement Services and Insurance Services.

So again, some of that underlying core revenue strength that we felt comfortable to help drive the lift in the ES revenue guide and the overall revenue guide, notwithstanding the FX sort of headwind that I was talking about and obviously, there's the float contribution as well. So all in all, I think backlog conversion is going well. We would expect some of that strong finish in the enterprise space to land later in this fiscal year or early in FY28. But good bookings momentum in areas that are faster to revenue like retirement, like insurance, like some of the smaller end of the ES HRO businesses, the offerings are certainly helping drive revenue growth throughout FY27 as well.

Operator

This concludes our question-and-answer portion for today. I'm pleased to hand the program over to Maria Black for closing remarks.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Thanks, Michelle. I appreciate it, and I appreciate everyone joining us today and taking an opportunity to hear directly from us with respect to everything that we think about. I can tell you, I wake up every single morning thinking about our clients, thinking about the world of work, how it's evolving. Work is one of the most important parts of the world, candidly. It's the most important part of people's lives outside of their families. It's their craft, it's their purpose, how work is organized, how it's compensated, how it evolves at this juncture alongside technology.

These are questions that ADPers wake up every single day thinking about and every single day answering for our questions. And we take them incredibly seriously. We build it with responsibility in mind. We build it with our clients in mind, and we're super proud to play such an integral role in shaping the future of work that keeps people, their livelihoods, their dignity, their potential and their families at the center of this world. So thank you very much for the time today.

Operator

Thank you for your participation. You may now disconnect. Good day.

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