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ADP.OQ - Q2 2026 Automatic Data Processing Inc Earnings Call

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## OVERVIEW:

Company Summary

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

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

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

**Scott Wurtzel** *Wolfe Research LLC - Analyst*

**Bryan Bergin** *Cowen and Company LLC - Analyst*

**Ramsey El-Assal** *Cantor Fitzgerald LP - Analyst*

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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 second quarter fiscal 2026 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.

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

Thank you, Michelle, and welcome, everyone, to ADP's second quarter fiscal 2026 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](https://investors.adp.com), where you will 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 their 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 risk. 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, and thank you, everyone, for joining us. This morning, we reported strong second quarter results that included 6% revenue growth, 80 basis points of adjusted EBIT margin expansion and 11% adjusted EPS growth. We achieved these financial results while also making meaningful progress across our strategic priorities.

Before discussing this strategic progress, I will briefly review some additional highlights from our results. We delivered solid Employer Services new business bookings growth in the second quarter. We enjoyed broad-based strength with the fastest growth in our international US enterprise and compliance businesses.

Our small business portfolio and mid-market business also contributed to the growth in the quarter. With good momentum and healthy pipelines, we are focused on driving continued new business bookings growth in the second half of our fiscal year.

Our Employer Services retention rate matched our expectations with a modest decline in the second quarter. We continue to benefit from a stable overall business environment and very high levels of client satisfaction. In fact, our overall client satisfaction results represented the single best quarter in ADP history.

Employer Services pays per control growth rounded up to 1% for the second quarter representing modestly higher year-on-year growth compared to the first quarter. And last, our PEO revenue increased 6% in the quarter, helped by growth in zero-margin pass-throughs and solid new business bookings growth.

Our 2% growth in average worksite employees included a moderation and PEO, pays per control growth. Peter will share our updated outlook in a few minutes, but we believe the demand environment for our PEO and other outsourcing services also remains healthy.

We are proud of our strong second quarter financial results and excited by the progress we continue to make across our three strategic business priorities. I will start with what we are doing to lead with best-in-class HCM technology. We are very pleased with the strong traction our Workforce Now NextGen and ADP Lyric HCM platforms continue to experience.

Workforce Now Next Gen, is being embraced by our mid-market clients for its always-on payroll processing capabilities, generative AI functionality, and expedited implementation time lines. We reached a milestone in the second quarter with our first sale to a client with more than a 1,000 employees. The client, a logistics company in the Midwest, selected Workforce Now Next Gen based on the strength of its underlying technology and the breadth of its integrated solution, which included payroll HR benefits administration, time and attendance and learning.

Workforce Now NextGen is a great example of how we build products to solve real-world challenges, HR teams face each day and we do so by combining our Next Gen platforms, investments in AI and automation, and robust compliance expertise to support our clients' wide-ranging needs.

In the enterprise space, Lyric's new business bookings once again exceeded our expectations in the second quarter, and its new business pipeline continued to expand at a rapid pace. Underscoring Lyric's strong reception in the market, more than 70% of its new business bookings, and overall pipeline related to new logos as it continues to fare favorably against our competitors.

Organizations are turning to Lyric for its flexibility to enter and human-centric design that enhances the employee, manager, and practitioner experience. Among our many Lyric new business wins in the second quarter were two companies with more than 20,000 employees, which represents two of our largest clients sold on the platform to date.

Earlier this month, Lyric was named a winner in the 2026 Big Innovation Awards presented by Business Intelligence Group earning recognition for driving transformative impact in the HCM industry. In addition to building our own best-in-class solutions, we strive to enhance our HCM offerings through acquisitions that complement our business.

Our October 2024 acquisition of Workforce Software is a great example. During the second quarter, we launched the ADP Workforce Suite, our integrated workforce management solution across our leading payroll and HCM platforms. Clients now have the opportunity to offer their employees around the world, a unified time, pay, and HR experience with best-in-class workforce management tools at their fingertips.

We are already seeing benefits from our integrated approach, winning several deals in the second quarter that included the ADP Workforce Suite. We also partner with others to accelerate innovation. In December, we successfully embedded Fiserv, Cash flow Central and integrated accounts payables and receivables management solution into run in order to help our small business clients better manage their cash flow.

The run powered by ADP platform brings payroll, contractor payments, bill pay, and invoicing together in one clear connected experience. With payroll and payments in sync, our clients can do more and less time and steer their business forward confidently.

AI remains central to our technology strategy, and we are moving full speed ahead to leverage it in attracting, serving, and retaining our clients. We continue to scale the usage and capabilities of our client-facing AI, including the launch of new ADP Assist, payroll, HR analytics and tax agents that apply advanced intelligence to real workforce challenges.

Built on ADP's comprehensive global data platform, these new persona-based agents help organizations manage people, streamline processes, and make informed decisions that support people at work. For example, ADP Assist tax registration agents can proactively identify when clients have missing or incomplete tax IDs and guide them through every step of the registration process.

Additionally, our ADP Assist HR agents can create key talent actions instantly such as initiating a promotion simply by the user typing what they want to do. The system delivers real-time answers and guided next steps, reducing time spent navigating HR workflows.

And our AI solutions are designed with a human-centric approach that enhances the value and meaningful connection we all derive from our work. Unlike generic AI solutions, ADP's approach combines proprietary workforce insights with advanced automation to solve real workforce challenges while maintaining the security, governance, and compliance standard companies trust.

Our second strategic priority is to provide clients with unmatched expertise and outsourcing solutions. Success here requires us to carefully consider the breadth of our solutions and to continually evolve to best meet client needs.

To this end, we were excited to introduce our first Pooled Employer Plan or PEP, within our Retirement Services business during the second quarter. ePEP is a single 401(k) plan that lets unrelated employers participate together with a pooled plan provider acting as plan sponsor named fiduciary and plan administrator. This arrangement shifts most of the compliance, filing, and oversight burdens from employers to the Pooled Plan Provider.

Our save for retirement, Pooled Employer Plan brings together scale, integration, and fiduciary support, allowing employers to offer robust retirement plan benefits without adding administrative burden. Clients gain scale-driven cost savings, reduced administrative work, and lower fiduciary risk.

Finally, we are focused on executing on our third strategic priority, benefiting our clients with our global scale. We serve more than 70,000 clients outside of the United States where we pay more than 16 million wage earners across more than 140 countries. Our mix of global solutions includes both in-country and multinational offerings.

During the second quarter, we won the business of a large European bank with more than 75,000 employees. This win demonstrates the power of our brand built by having associates on the ground for decades in most of our international markets.

We also recently enhanced our global payroll platform through more intuitive dashboards with clear messaging and easier navigation, all of which reduce manual tasks and enhance the overall user experience.

The investments we are making in our international business are being noticed as we were recognized recently in the HRM Asia, Readers' Choice Awards, winning two golds in 2025 for best HR Tech, outsourcing, and payroll solution. Overall, our second quarter represented strong outcomes on the financial front and with respect to our key strategic priorities.

I'd like to take a minute to thank our associates who continue to deliver exceptional products and outstanding service to our clients, particularly now as many of them are in the middle of our most hectic time of year completing here on work. Their consistent effort over decades has established our company's trusted corporate reputation, and I am proud to announce that ADP was recognized earlier this month by Fortune Magazine as one of the world's most admired companies in 2026.

This marks ADP's 20th year on this annual ranking, and I would like to congratulate all ADP-ers on this well-earned accomplishment and thank them again for all that they do for ADP and for our clients. And now I will turn the call over to Peter.

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**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 second quarter results and then update our fiscal 2026 outlook. Overall, we reported a strong second quarter with our consolidated revenue growth, adjusted EBIT margin, and adjusted EPS growth, all coming in slightly ahead of our expectations.

Let me focus on our Employer Services segment first, and I will cover both our results and our updated outlook. ES segment revenue in Q2 increased 6% on a reported basis and 5% on an organic constant currency basis, with FX contributing about 1 point of revenue growth in the quarter. As Maria shared, ES new business bookings were solid and broad-based in the second quarter.

With continued healthy pipelines, we are maintaining our 4% to 7% new business bookings growth guidance for fiscal 2026. ES retention was in line with our forecast, declining modestly versus the prior year. We are keeping our outlook of a 10 basis points to 30 basis point decline in full year retention unchanged.

ES pays per control growth improved slightly, rounding up to 1% for the second quarter, and we continue to forecast about flat pays per control growth for the full year. Client funds interest revenue increased slightly more than we anticipated in Q2, helped mainly by higher average client funds balance growth.

We have increased our forecast for average client funds balance growth to 4% to 5% in fiscal 2026, and we continue to expect an average yield of approximately 3.4%. Accordingly, we are increasing our full year client funds interest revenue forecast for \$10 million to a range of \$1.31 billion to \$1.33 billion. We are also raising our expected net impact from our extended investment strategy by \$10 million to a range of \$1.27 billion to \$1.29 billion.

On an overall basis, we are also increasing our ES revenue growth outlook to about 6% for the full year. ES margins increased by 50 basis points in Q2, driven by both operating leverage and the contribution from client funds interest revenue growth.

Turning now to the PEO. Overall, PEO revenue growth in the second quarter was 6%, while PEO revenue growth, excluding zero-margin pass-throughs, was 3% in the quarter. PEO new business bookings growth was solid in Q2 but did come in slightly below our expectations.

This impact, along with some further moderation in PEO pays per control growth weighed on our average worksite employee growth in the quarter. Accordingly, we are now expecting average worksite employee growth of about 2% in fiscal 2026.

We continue to expect fiscal 2026 PEO revenue growth of 5% to 7% and PEO revenue, excluding zero-margin pass-throughs to grow by 3% to 5%. PEO margins decreased 70 basis points in Q2, driven mainly by zero-margin pass-through growth and higher selling expenses.

As we highlighted on our Q1 conference call, we do expect positive contribution to overall ADP margins this year from our other segment as a result of our client funds extended investment strategy. This margin contribution is being driven by growth in our corporate extended interest income, while at the same time, our short-term financing costs are decreasing.

We saw this in the second quarter, and we expect this dynamic to continue across the balance of the fiscal year. Putting it all together, we are increasing our fiscal 2026 consolidated revenue outlook to about 6% growth, and we are maintaining our forecast for adjusted EBIT margin expansion of 50 basis points to 70 basis points.

We continue to expect our effective tax rate to be around 23% for the year. And we are also raising our fiscal 2026 adjusted EPS growth forecast to 9% to 10%, supported by share repurchases. Earlier this month, our Board authorized the purchase of \$6 billion of our common stock, which replaced in its entirety our 2022 authorization of \$5 billion.

This new authorization along with our recent 10% dividend increase signals our continued commitment to driving shareholder value and to returning excess cash to our shareholders, which remains a key pillar of our capital allocation strategy.

Finally, a quick note on our anticipated adjusted EBIT margin cadence in the second half of the year. As we mentioned last quarter, we continue to expect a bit of a ramp in the back half of the year for margin expansion. And we currently expect to deliver more of this margin expansion in Q4 than in Q3.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Mark Marcon, Baird.

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

Lots of significant positives in the quarter. Maria, I'm wondering if you could talk a little bit about the international opportunity, and congratulations on that win. Where do you see ADP currently in terms of addressing that strategic pillar? And what do you think the runway is like? And how do you compare the profitability of the international operations relative to the US? And then I've got a follow-up on PEO.

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

Sure. Mark, thank you for the question. As you know, international is an entire strategic priority for us. So we have three strategic priorities, one of which is candidly dedicated to exactly what you just suggested, which is the opportunity we have in our global space. So how are we doing?

How are we faring? Perhaps I can comment on that, and Peter can touch on the impact of that business from a margin perspective to kind of address the second part of your question. How we are faring is very well. I think the strength that we see in our offering is just getting started.

I was excited to see the rebound in bookings, specifically this quarter after a tiny bit of a softer first quarter on the heels of a very incredible fourth quarter. So we do know that the international space and those opportunities. They're big. They're complex. They're broad. They often involve lots of different stakeholders, countries, decision-makers.

So how do we show up? We show up well. I think the thing that was a highlight for me with respect to this quarter was the 75,000 employee European bank that we cited. But it wasn't just the fact that we had that win, which was tremendous execution by the team. It was also how that win came about, which was a direct reflection of the offering that we have in conjunction with our existing platforms, married to now the workforce suite that we launched.

And so that was a key contributor to that win. And I think we continue to make progress in our offerings, in our investments, whether that's through the products, through acquisitions. So we show up well from a product perspective. I mentioned during the prepared remarks how we show up in terms of kind of this balance of ADP associates on the ground in country. That's unique, that's differentiated.

So I think in general, and I apologize, I don't know what's happening to my voice. We're very proud of the offers that we have, how we show up in the international space. We continue to execute well from a bookings perspective. And as it relates to the future, I think it's bright for us. And I'll let Peter kind of comment on the margin piece.

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

Yes, Mark, on the profitability side, the international business is a little bit lower margin than some of the domestic businesses, which I think is to be understood. I think the retention rates, though, are very, very high. So if you look at it from a lifetime value sort of contribution, if you like to value very much comparable with any of the businesses we have in the US. So we're very happy to continue investing in that business. It does drive margin.

It's an important contributor to our margin evolution, but it is a little bit lower on the margin as is the enterprise business in the US relative to, call it, the downmarket, mid-market. But over a lifetime value of a client, given the very high retention rates, we believe we achieved very similar levels of ultimate value from growing in international as we do in some of the maybe higher margins, sorry, domestic market businesses.

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

That's great. It seems like a great long-term opportunity. I was wondering on a separate note, can you just talk a little bit more about the PEO and the WSE growth. It has been slowing for a while across the entire space. And Maria, I know you know the PEO space better than anybody. What do you think is contributing to that slower growth?

And how do you think about the long-term outlook on the PEO just in terms of WSEs? Because it seemed to me like we still have a long way to go in terms of penetration in multiple states that aren't as well developed as some of the core states.

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

Yes, Mark, I'll take that. Maria may want to chime in. But I think we still agree with you. I think we still have tremendous opportunity in the PEO. We've spoken about what we believe is the addressable market opportunity. And we are -- whilst we are clearly the largest PEO, we still think there's plenty of room to grow in that space.

And as you know, around half of our PEO bookings come from our own client base. So get plenty of opportunity there. What's going on at the moment? I mentioned in my prepared remarks. We had solid bookings. Maria also mentioned, we had solid bookings in the PEO this quarter. They were a little less than we were expecting, but not a huge difference. But it does contribute when we're sort of dealing with relatively small movements, basis point movements in things like WSEs.

We also saw a little bit contrary, again, very small margins here in terms of basis point moves. But we did see a little bit of softening in the PEO pays per control metric in the quarter. We saw a little bit of strengthening. Again, I don't want to overemphasize it, but it's just tens of basis points, but a little bit of softening in the PEO pays per control metric.

By the way, it came in at exactly the same level as the ES metric. I think I mentioned last quarter, the PEO was -- as it typically does, we're sitting a little ahead of ES. It's not always the case, but it's typically the case this quarter that happened to come in together. So just doing the math and looking at sort of where we were in Q1 and where we are now, we felt the lower end of the range was more appropriate.

And hence, we've sort of adjusted our guide. But we're still very bullish on the opportunity. We continue to invest in distribution. We're investing in our product capabilities within Workforce Now, specific to the PEO and certainly feel that there's a tremendous opportunity in front of us with respect to the PEO.

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**Operator**

Tien-Tsin Huang, JPMorgan.

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

Just a follow-up on Mark, system on PEO. I'm just curious if you're doing anything differently to spur growth versus plan at the beginning of the year. I know there's a lot of talk about health care costs being higher and perhaps SMBs are looking to trade down. Curious if you're seeing any of that if you're responding to it.

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

Sure. Happy to comment on that. And the general value proposition of the PEO as Mark mentioned, and you know as well. I'm incredibly close to this business. Certainly, been watching that value proposition over decades. And I can confidently say it's as strong as it's ever been.

The complexity of the employer in that space, dealing with whether it's, as you mentioned, health care and the complexity of offering, those type of things to your employees. It's very difficult. The PEO fits into that value proposition for those employers.

I think the other piece is just the basics of co-employment and what employers are looking to do in that shared liability. So what are we doing to respond to what is arguably an increasingly complex landscape for those small- to medium-sized businesses. We're investing. So we're investing in our sellers. We're investing in their ecosystem. We talked a lot at Investor Day about the tools that we're developing to serve up the right leads to the right sellers at the right time.

As Peter mentioned, a big piece of our value proposition inside of ADP is that ability to mine our own base, and we're getting smarter about that. And so investments into tools, technology, to figure out who the exact right fit is for that PEO investment into things such as sales, incentive head count.

So I can tell you from a go-to-market perspective, not a shortage of focus. The team is laser-focused and building on the healthy pipelines, the momentum. We see that certainly in the solid results in PEO bookings in the second quarter.

But we also see it when we look into the healthy activities, RFPs, things of that nature. There's a lot of motion in that space, and we're definitely positioned to take advantage of it.

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

Great value of confidence there. Maria, important. Just on the margin cadence, Peter. I think you talked about this last quarter about it being more back half weighted. It looked like 2Q was a little bit better than what we had modeled, including the higher float from the higher balances. So 3Q to 4Q. Any callouts in terms of debt function change? And have you changed your investment approach given the higher flow? It sounds like maybe you're investing a little bit more or maybe I'm misreading it.

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

Yes, Tien-Tsin. The second quarter, I think, came in a little higher than we were anticipating as well. We were pleased with that from a margin perspective. The margin cadence point is sort of really two things. As I said, we are expecting continued margin delivery in the second half, a little higher than the first half.

The main driver of second half versus first half is we still had in Q1, as you remember, the fourth quarter of the -- before the anniversary of the Workforce software acquisition. So we had some acquisition-related drag in the first quarter. Second quarter came in strongly. We're expecting good results in both Q3 and Q4.

The main difference, I think, in Q3 versus Q4 is a little bit of timing of expenses, but that sort of happens from time to time. I wouldn't overemphasize that. The other piece though is the float portfolio, which I think is where you're going. So the float portfolio in Q3 being calendar Q1 is our highest balance period, where we -- bonus season, we have tax rate, tax limits resetting. So we have more float basically in Q1, which results in more overnight balances.

And this year versus last year, as you know, we had a 75-basis point reduction in Fed funds between the same period last year and this year. So that creates a little bit of margin pressure in Q3 over Q3 last year. Relative, we don't really have that in Q4. So we're expecting a little bit more of this. The underlying margin expansion continues, I think, a really good momentum, but that float element as well as a little bit some timing of expenses, we're expecting Q3 not to be quite as strong as the fourth quarter.

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**Operator**

Scott Wurtzel, Wolfe Research.

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**Scott Wurtzel** - *Wolfe Research LLC - Analyst*

Just wondering if you can talk a little bit more about the overall bookings environment. Just wondering how -- if you can characterize how growth in book sort of trending in 2Q relative to 1Q and even in the context, if we go back to sort of the end of last year and some of the slowdown that we saw maybe on sales cycles, wondering how all of that is sort of trending now relative to six- to two months ago?

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

Yes. Sure, Scott. So I think with respect to overall environment, as mentioned during the prepared remarks, the environment is stable. I will tell you that from a new business perspective, we were really pleased with the solid performance in Q2. I think the thing that stands out to me the most with respect to Q2 is that it was broad-based. And so every single business contributed to that growth narrative.

Some of the highlights we mentioned during the prepared remarks, certainly, we saw in the enterprise space, just how Lyric is resonating. It's really an incredible story for us. So really excited about the momentum in the enterprise space. Excited to see that across appliance solutions as well.

I think within the small business portfolio, we continue to see strength in retirement services, in insurance and mid-market also contributed to the growth. And as mentioned earlier, we had good PEO bookings, although that's not in the Employer Services number. So I think just broadly speaking, the quarter felt solid, and we were excited about the broad-based results that really were reflected in that.

I think with respect to kind of intra-quarter type of stuff, I don't know that there's a lot to glean from kind of what happened to three months. I think what I would rest on is that we feel solid about the performance. It was broad-based and that the pipelines are healthy as we step into the back half. But as always, we have a lot to get done in the back half.

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**Scott Wurtzel** - *Wolfe Research LLC - Analyst*

That makes sense. And then just a follow-up. I hate to ask the question on AI impacts on hiring. But just in the context of even over the last 24-, 48 hours, seeing some incremental announcements from enterprises, around layoffs and siting AI. I'm just wondering if you have any updated views on that topic and impacts that AI could be having on the broader labor market.

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

Yes. Thanks, Scott. I'll take that one. We've seen the headlines too. I think more of the headlines I've seen actually have been more about sort of corporate realignment following a big hiring period post pandemic. But in terms of the data we look at, we look at it obviously very closely. We look at it by industry, about 10- or 12 industry groups. We're not really seeing anything discernible there.

I mean you look at the labor market situation, certainly, there's the hiring levels are muted. Job openings are relatively muted. We've been talking about that now for some quarters on this call. What we've also been talking about though and what we still continue to see is continuing reductions in the level of overall layoffs going on in the job market and certainly lower layoffs and how across the industry groups, we see a lot of consistency, if you like, in terms of where they're going and sort of areas that potentially you may think of as being more subject to being at risk with AI.

We're not actually seeing it in those industry verticals. So things like financial services, things like professional services, tech and so on, we're actually seeing reasonably healthy growth. So it's hard to say. But the empirical data does not really point to that happening at this point in time. The future obviously is yet to be determined.

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**Operator**

Bryan Bergin, TD Cowen.

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**Bryan Bergin** - *Cowen and Company LLC - Analyst*

I wanted to follow up on the international ES and compare that to US. So Maria, I sense the incremental international focus here in your commentary, the investments you've been making there. Can you just give us a sense on how that's translating to potentially relative revenue and bookings growth of that international ES base relative to US ES?

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

Yes. I'll take the revenue point, Brian, and then Maria may want to comment more generally. But in terms of the revenue mix, it's not really changing. I mean, again, with the international space, the bookings that we're talking about and for example, the 75,000 employee European bank. Those things take quite some time to come through to revenue generation, their large sort of enterprise implementation projects.

So in terms of bookings performance, whether it's this quarter or in recent quarters, versus having an influence, if you like, on the overall mix, not really it's -- the mix has sort of been consistent for some time. I think the international business, as Maria said earlier, is certainly making good contributions, and we see a great growth opportunity there. But that's more over the medium and longer term than necessarily short-term influencing the revenue mix.

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

Yes. I think, Brian, if I may just add from a bookings perspective, the focus across the entire enterprise space inclusive of the large multinationals. So if you think of that global enterprise space kind of as large companies that are incredibly complex, that are driving large transformations, undoubtedly, the performance we saw specifically in the second quarter with respect to the enterprise space in International or Lyric and our global payroll offers were a larger contributor to the bookings narrative and perhaps in previous.

But again, both of those spaces can be a bit lumpy. So to Peter's point, I think it's relatively consistent. We have high hopes and lots of investment and focus as we continue to uniquely put together global payroll, global time, global HR, and global service into a unique offer in the market.

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**Bryan Bergin** - *Cowen and Company LLC - Analyst*

Okay. That's helpful. And my follow-up on ES PPC. So can you just comment on the pickup here. I'm curious if that was broad-based or there were select contributors of that performance across certain client sizes.

And as you just thought about the full year, still roughly a flat outlook. I know last quarter you said you're rounding down to zero here. You're accounting up to 1. But just curious how you thought about the second half, just given that pickup of trend.

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

Yes, it's a good question, Brian. I think in terms of, like I was saying earlier, I think from an industry group contribution, very consistent also across the segments, our segments of the small market. Small business market, the mid-market, and the enterprise space.

What we do not really see is what the wider economy is seeing, which is set out in the down market. Again, our base has tend to proved to be more resilient, if you like, I think, over the years with respect to hiring than the wider small business segment. So it's really a pretty broad-based contribution, whether it's from industry groups, whether it's from the segment sizes.

In terms of the outlook, we had quite a lot of discussion about it. It's not an easy one to predict because we're really talking about -- we're very confident, I think, that we will continue to see growth. It's a question of, is that growth just above or just below the 0.5% mark. So we decided not to adjust our guidance.

I think we need to see a little bit more, as I've sort of mentioned, we're talking about the tens of basis points above or one or two sort of below the 0.5 point mark. So it's very consistent. You can extrapolate, I think, sort of the ADP NER and the BLS. Apply your usual sort of ADP factor to that, and that's exactly what we're seeing.

So I think the back half, we'll see where it comes in and where it rounds to. But at the moment, it certainly looks very much like it's in and around what we have seen in the first and second quarters.

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**Operator**

Ramsey El-Assal, Cantor Fitzgerald.

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**Ramsey El-Assal** - *Cantor Fitzgerald LP - Analyst*

I wanted to follow-up on Tien-Tsin's question before on margin cadence. I mean, there seems to be a few more moving parts in terms of the flow-through in the second half. And given Q4 is typically a lower margin quarter for you guys, I just was wondering if you could speak to your confidence level about getting to where you need to get to deeper in the year? And just also whether there are any sort of underappreciated levers you might have access to help things along.

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

Ramsey, yes, thanks for the question. I think it's really what I did say to Tien-Tsin. We delivered 80 basis points this quarter. We're not guiding sort of by quarters, obviously. But we're expecting sort of similar strong underlying margin contribution across the remaining two quarters. There is that dynamic on the short portfolio, which you can pretty easily, I think, extrapolate from our filings and our press release. We give the sort of the rates by quarter and the balances by -- between the portfolios in our press release.

So there is clearly about a 75-basis point reduction on the yield of that short portfolio in Q3 versus last year. The other two portfolios continue as they are. So -- and more importantly, I think in terms of the true underlying margin expansion from revenue growth and diligent cost management. That continues and they also obviously continue, particularly cost management continues to be a lever for us. So I think we are -- we reiterated our range.

We do that confidently in terms of our margin expansion range, and we don't necessarily anticipate any headwinds in the back half of the year, absent the sort of the dynamics I've already spoken about with respect to margin expansion.

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**Ramsey El-Assal** - *Cantor Fitzgerald LP - Analyst*

Okay. Got it. And a quick follow-up for me. Could you comment on the pricing environment right now? How does it feel in terms of your ability to deploy pricing? And maybe what contribution are you expecting from that in your numbers?

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

Sure. No, I think the environment, again, is very consistent with what it has been. We feel similarly confident with respect to our ability to price. Our pricing across our 1.1 million clients, we don't just have a date in the year where we apply a price increase across the base.

It's feathered in. So we're halfway through the year already. I think our pricing has been very thoughtful as always and generally well received as these things go. And again, we're not expecting anything to deviate from what we've said before, which is around 100 basis points of contribution from price in in fiscal '26, which is a little lower, not a huge amount of difference, but a little lower than what we had in fiscal '25 and a little higher than sort of what we were doing pre-pandemic, which was more in the 0.5 point range.

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**Operator**

Ashish Sabadra, RBC Capital Markets.

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**Ashish Sabadra** - *RBC Capital Markets Inc - Analyst*

You talked about a lower revenue per client. I was just wondering if you have seen anything on that front in terms of the number of products that are opted by your clients?

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

Ashish, I apologize, we missed the first word, who spoke about a lower revenue per client?

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**Ashish Sabadra** - *RBC Capital Markets Inc - Analyst*

It was paychecks that talked about a lower revenue per client. So I was wondering if you have seen anything on that front or in terms of like just the number of products that are adopted by your clients?

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

Yes. No, fair enough. I'm happy to comment on that with respect to, I believe the reference that they made was at point of sale. Lower attach rates, perhaps is the way that we would think about it or a lower number of employees.

We haven't seen any of those trends. We monitor that closely, especially this time of year as we're looking at tremendous volumes, and we haven't seen anything that would lead us to believe that there's a lower revenue per client or per client employee, if you will.

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

No. And just to follow on to that, some of our strongest bookings performers have actually been our retirement and insurance services in that down market space. So if anything, I think we're perhaps seeing the reverse of what you're referring to.

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**Ashish Sabadra** - *RBC Capital Markets Inc - Analyst*

That's very helpful color. And maybe just another follow-up question on PEO. When we think about the bookings came in modestly below expectation, are there any particular regions or verticals where you have seen any particular softness or in terms of, again, attach rate or employee penetration? Have you seen -- any color on those fronts?

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

I would say with respect to the strongest fit across the PEO markets, whether that's some of the states that have more concentration of PEOs, they continue to perform well in terms of those markets. But again, the performance is broad-based, if you will, across various industries.

Certainly, the usual suspects of industries continue to fare well in terms of the strongest fits across PEO, whether that's the likes of property management, professional services. We kind of fit into that white collar end of the PEO, maybe perhaps slightly blue collars. So I think all of that feels normal as it relates to the overall offer.

I think the other piece that I heard a question in there and perhaps you weren't referring to it, but I'll take the moment just comment on it because it is such a big contributor to the value proposition of the PEO which is the health benefits piece and what are we seeing with respect to participation at the client employee level.

And what I would tell you is participation across health insurance and health offers across our PEO are healthy and remain strong, which, to me, is a direct reflection of the strength of the value proposition of that offer in the market.

**Ashish Sabadra** - *RBC Capital Markets Inc - Analyst*

And congrats on strong momentum in employee services.

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**Operator**

Kartik Mehta, Northcoast Research.

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**Kartik Mehta** - *Northcoast Research - Equity Analyst*

Maybe just on PEO. In the last 12 months, have you seen a change in the type of client that is asking for PEO in terms of are the clients larger or smaller or the type of industry? Any noticeable difference?

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

No, no noticeable difference. I think the momentum across what is our strongest fit, if you will. So the PEOs that we look -- or the PEO opportunities that we look to bring into our PEO remains really consistent. I think that's a big piece of the strength of ADP and ADP TotalSource and our offer is that we're incredibly guard-railed as well as strategic in terms of the clients that we target inside of the ADP base, who we want to be in that PEO.

And I would say that it's largely consistent across the last couple of decades, both with respect to size as well as respect to industry. Over time, we have pulled up a little bit in average size over the last couple of decades. Part of that is the PEO does have our best-in-class offer in the mid-market. So if you imagine the PEO sitting on Workforce Now, that stretches it into a little bit perhaps beyond just the small businesses. But again, that's relatively consistent over the decades we've been in the business.

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**Kartik Mehta** - *Northcoast Research - Equity Analyst*

And Peter, just a question on AI. I know you talked a little bit about AI and maybe impact of employment for your clients. I'm wondering for ADP, I think you've implemented AI. I think you've had success on the sales side. Just a two-part question.

Has that changed the number of people that may be salespeople you need or made them more productive, so changes and maybe the number of hires. And is the success of allowing you to increase investment or one leading you to increase investment in that?

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

Thanks for the question, Kartik. In terms of the headcount, no, we have not sort of taken a different approach to our headcount. We remain committed to growing sales head count. We have seen over decades the contribution that, that can make. What it has done to your point is it's enabled our sellers to be more -- both more efficient and I think also more effective.

I would still say we're in the relatively early innings in terms of taking dividends, if you like, from these investments and really seeing sort of the lift we expect to get from this over the coming years. But it's less about, okay, a shift change in how we approach investing in the sales force or sort of where we expect sales to come from.

Really, it's a way that we are looking to make our salespeople more effective, more efficient, and ultimately deliver more wins. But I think you should expect us to continue to invest in both head count and tools, be the AI and also other tools. We've spoken about the zone, which obviously is AI infused but it's also a platform our sellers use. All of those things, we will continue to invest in to maximize our opportunity to be successful on the sales front.

**Operator**

Dan Jester, BMO Capital Markets.

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**Daniel Jester - Bank of Montreal - Analyst**

So maybe on Lyric. It sounded like you sold a couple of quite large deals this quarter that you mentioned in the prepared remarks. Maybe can you share a little bit of color about how maybe you won those deals or how they came together.

And as you think about the larger part of the opportunity in the enterprise for Lyric, do you have critical mass now in terms of reference customers? And are deals like this, should we be seeing more frequently? Or maybe just any more color about the upmarket momentum on Lyric.

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

No. Thank you, Dan. I'm so glad you asked. This is one of my favorite stories coming out of Q2 is the strength that we see in Lyric new business bookings. Really excited about those two specific deals as they do represent two of the largest. Do we anticipate and want to see more of them?

Of course, we do. That's everything that we've been building towards. So that is part of our goal and our expectation. I think the part that, again, also was a standout is that when you look across the pipeline, you look across the wins with Lyric, 70% of those are new logos. That's a direct correlation to how this product is resonating with CHROs, with the market at large.

It's being cited, not just the awards we're winning but by the buyers. So how do these deals come together. They come together because CHROs today are looking for flexibility and their products. They're looking for dynamic tools. They're looking for products that have AI built in the fabric and in the core, not after and attached. So it is an AI-centric, human-centric platform that we built with really that worker at the center. That's unique. It's different. That's how these deals are coming together. That's how the pipeline is coming together.

So you probably hear it in my voice, but yes, we're very excited to see this, and we are building critical mass. Now again, I think Peter mentioned earlier on the international, same thing on these deals. These are large deals. They will take some time to onboard, to get to huge revenue contribution. But definitely material bookings contribution from Lyric at this time.

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**Daniel Jester - Bank of Montreal - Analyst**

Okay. That's great. And then maybe just to go back to your prepared remarks on the customer feedback, it sounds like extremely strong, some of the highest you've seen. I guess I'd love you to compare and contrast that with sort of the retention commentary that it just kind of came in line with your expectations.

So if your customers really love the product and retention is coming in line, any thoughts about sort of what's impacting the market in terms of exogenous factors from the macro or the competitive environment sort of -- anything you'd share on retention.

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

Yes, sure. So I'll start with the client satisfaction because it's another highlight. It was a record quarter. It's a record first six months. I hope we always have a record because that means that the efforts that we have to improve the experience that our clients have engaging with us, the investments we're making in those tools Peter mentioned the zone.

That's true for sales. We're also investing tremendously into AI tools for our internal associates as well as into our products to make our clients more productive and our practitioners, whether it's ours or our clients in the HCM field, be able to navigate this space even better.

So the investments into product, the investments into the tools. I'd like to believe that NPS improvements that we continue to make. And by the way, they're broad-based. I think that's the other piece that stands out to me from a structural perspective. So really excited about that. And as mentioned, it is a direct connection to retention. We do have strength in retention.

That said, it was in line with our expectation, and that expectation is really how we set out the plan for the year. And Peter can comment on this as well. But we do anticipate this year a bit of a moderation. So it's hard to believe that it's six years later, and I'm still sitting here talking about pre-pandemic out of business rates. Are we back to fiscal '19 or not?

And I would tell you, we're almost there. But we are planning for even in the back half of the year, a bit of moderation as it relates to things like out of business. We did see a tiny bit of that contribute to the slight decline, if you will, in the second quarter. It's right in line with how we're planning, but it's not a byproduct necessarily of the tremendous efforts that we continue to make on client satisfaction and more a byproduct of how we really structured the plan for this. I don't know if you have anything to add to that, Peter.

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

Yes. No, I think that's well said. I mean the -- again, our reported retention rate last year in the US was 92.1%. So you can do the math, obviously, on a \$14 billion-plus business. But 10 basis points to 30 basis points is actually a pretty small movement, if you like, that we are anticipating.

As we said, we -- our second quarter came in more or less where we were expecting. The first quarter was slightly better than what we were expecting. We'll see where the back half goes. It's more a back half story, particularly Q3 is the most definitive period. So I think we are just anticipating to your point a little bit maybe more on the macro side.

But again, very small margins, a very small uptick in, as Maria said, or normalization of out of business levels in the small business segment. But all of this is very much on the margins, given we're only talking about 10 basis points to 30 basis points against the very high retention rate to start within a very large business.

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**Operator**

Bryan Keane, Citi.

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**Bryan Keane** - *Citi Infrastructure Investments LLC - Analyst*

Just had a follow-up on PEO. Peter, maybe you could help me understand the first quarter revenue ex pass-throughs grew at 6%. This quarter, at 3%. That's a pretty big move or bigger move than usual, we see between first and second quarter or just in the cadence of quarters. Is the 300-basis point delta there? Maybe you could help us some of the drivers there. It sounds like maybe some of that is the softer bookings, but I didn't know if there's other things at play there.

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

Yes, Brian. So if you take the routing, it's actually a little less. We had some rounding up and down and what have you. But still, it is a bit of a differential. There's a few factors there. One is the slightly softer Worksite employees we were talking about earlier, which came from -- again, from a solid but slightly below our expectations, bookings performance and some moderation in pays per control.

The second factor is, you may recall, Q2 last year, we had a bunch of pull forward in [SUI] revenues that we would not -- last year, we were anticipating in the third quarter, we pulled forward just due to the way the processing calendar worked into the second quarter. We did not have that this year. So there was a bit of a grow over challenge or challenging compare, if you like, from a revenue growth perspective as a result of that.

And then the third factor we saw was which, again, all going in the same direction, hence, the differential that you're referring to was wage growth. We saw a little bit less wage growth in the PEO in the second quarter. Again, this happens from time to time. I wouldn't necessarily grow a trend that employers in that space are looking to put through lower wage increases.

If anything, the third quarter is more a quarter where -- our third quarter being this current first calendar quarter is more when you see sort of wage rate changes, if you like, for Worksite employees. But just due to movements in the base clients moving out, other clients moving in and the timing of that, we saw a little bit less in terms of the payroll base or the wage growth levels in the PEO. So a bit of a step off from Q1. I would acknowledge that.

I think though we are still positive with respect to the outlook for the year, and that's why I reiterated if you like, by the fact we did not change our guidance either with or without zero-margin pass-throughs.

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**Bryan Keane** - *Citi Infrastructure Investments LLC - Analyst*

Yes, I was going to ask about the guidance. I think you did reiterate the 3% to 5% ex the pass-throughs. Should we be on the lower end of the range more just given the trends or not necessarily for the back half of the year?

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

Yes, I would say not necessarily. But we don't guide on the quarters, obviously, but there's a lot to be done. Again, we're in sort of prime selling season now. Retention is a little bit more of the fourth quarter play. So much more of a back half story than front half. So it's hard to sort of give clear guidance, I guess, as to where in the range we think we will finish.

We are confident about being to land in the range. But I would say at the moment, the range is there because all possibilities still exist and will depend on largely bookings and pays per control and to some degree, retention.

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**Operator**

Dan Dolev, Mizuho.

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**Dan Dolev** - *Mizuho Securities USA LLC - Analyst*

Really nice results. I think Maria, you mentioned in the beginning, you're very proud of the CashFlow Central partnership, Fiserv. Can you maybe discuss a little bit of sort of the contribution, when should that become really material? And then I have a follow-up quick question.

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

Yes. Thanks, Dan. I appreciate the question. And the nice comments about the quarter. I am really excited about our continued journey of the strategy of embedded offerings.

So we've spent a lot of time talking about embedding RUN into other offerings. I think now I'm incredibly excited to talk about Fiserv's CashFlow Central being embedded into RUN. What this allows for is a small business owner to really leverage run powered by ADP as a one-stop shop platform where they have the ability to run payroll.

They have the ability to do bill-pay, APAR. They have the ability to pay contractors. They have the ability to pretty much pay everyone in one single platform. We believe in this ecosystem approach. Anytime you can come together with other technology to make it easier for a small business owner to navigate the work that they need to do, is something that we're incredibly interested in and it's part and parcel to the embedded strategy, whether it's putting RUN into other ecosystems or leveraging other best-in-class offerings into our platforms. So really excited about it.

That said, though, we did just complete that integration in December. And so there's not a lot of contribution yet with respect to revenue and/or bookings. So that opportunity is largely in front of us, which also makes me incredibly excited as we continue down the journey of embedded.

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**Dan Dolev** - *Mizuho Securities USA LLC - Analyst*

Great. And I do have like a little bit of a longer-term question. I think one of the key concerns, obviously, not ours, is sort of the long-term terminal value in sort of an AI-driven white-collar job-killing world, like software engineers, et cetera? Like I'm sure you guys are very -- I mean you've been around for decades. ADP has been around for decades.

Like is there like -- are you guys working I'm sure internally about sort of the more like the three- to five-year outlook? How can ADP add value or how changing kind of the framework, if the AI thing does reduce long-term jobs? Just maybe some long-term comments would be great.

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

Yes, absolutely. I'm happy to start. And then Peter, if you want to chime in kind of from a terminal value and things of that nature and things we may or may not be modeling. But I think maybe I'll start with the things that I think every day about, which is the -- some level like the beauty of this business, when I think about what it is that we do, which, as we've talked about at Investor Day, and we continue to see each and every day, what we do is not discretionary.

What we do is an imperative. Paying people on time and accurately. It's not just a brand promise. It's candidly how the whole world goes around. So I think deeply about what does that look like in the future? You said it well, which is ADP has navigated many of these innovation cycles. We've been around for 76 years.

If you think about how payroll was processed 76 years ago to where it's processed today, a lot has changed. Work has changed. Workflow has changed. I spent the last week over in the -- at the World Economic Forum. And as I walked up and down the promenade, this concept of AI changing workflow and augmenting the workplace as it automates tasks that is real, and that is happening, and we see that.

We see that in our business. We see that in our clients' business, but we also see that it has to be still anchored to, call it, human centrality. The world of work is a human place. What we do is probably the most emotional part of humanity, which is connecting people to their purpose, connecting people to their work.

By the way, the way to test that is if you ever want to really upset somebody, get their payroll wrong or get something with respect to benefits wrong. And so what we do will continue to evolve. And I think we're right there with it. That's why we're really excited about the work that we're doing across each of the domain disciplines of HCM with respect to AI.

I talked about it in the prepared remarks, having ADP Assist agents and payroll in tax, in benefits, and in all of these different areas will continue to change how work happens, whether that's for us or our practitioners. But at the end of it, -- the other thing I think a lot about, whether it's this last week during the snowstorm or perhaps December 23, when one of the largest global clients in the world had a challenge with payroll on their end.

Do I see a world where a bunch of humanoid are going to be sleeping in offices to get payroll done and navigating things to ensure that people get paid accurately and on time without people involved. Candidly, I can't see it. So I think workflow is changing. Yes, are we prepared to continue to innovate in that space. That is exactly what we're doing, but I also believe what we're doing and what many companies do outside of ADP is anchored in humans.

And so only time will tell truly what the future holds, but we are navigating this innovation cycle at a rapid clip, no different than all the other ones that ADP has navigated.

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**Dan Dolev** - *Mizuho Securities USA LLC - Analyst*

Great. Thank you for this help. We believe in you.

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

Thank you. Appreciate that.

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

Thank you.

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**Operator**

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

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

Well, funny enough, I think those probably serve as a pretty good closing remarks. I will only add one piece, which is exactly where I started, which is thanking our associates because it is our associates that are innovating. It is our associates that are showing up for our clients, whether that's at the holidays to get things done or it's weathering snowstorms to get things done. I'm really proud of the work that we're doing.

It's a direct reflection of how we get recognized by companies like Fortune for 20 years in a row as a most admired companies. I am in awe of the ADP's spirits and how human the work that we do and how it shows up, and I'm really proud of that. And I just want to once again acknowledge our associates and thank everyone for their interest.

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**Operator**

Thank you for your participation. This does conclude the program. You may now disconnect. Everyone, have a great day.

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