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EDITED TRANSCRIPT

ADP.OQ - Automatic Data Processing Inc Investor Day

EVENT DATE/TIME: NOVEMBER 15, 2021 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, and thank you for joining us. Please welcome Vice President, Investor Relations, Danyal Hussain.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Welcome, and thank you for joining us for ADP's 2021 Investor Day. We're excited to have you here today, but more importantly, we're excited for the years ahead here at ADP.

For our agenda today, we're going to start with 3 main presentations. Carlos will kick it off with a big picture and talk about where we stand today; Don Weinstein will update us on our product and innovation journey; and then Maria Black will talk about how we're taking it all to market. After a short break, our Chief Strategy Officer, Chris D'Ambrosio, will facilitate a discussion with our business unit presidents about how we're driving

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growth in each of their respective business units. And then, we'll wrap up the prepared portion with Don McGuire, our new Chief Financial Officer, as he talks about how it all translates to the financial outlook.

At the end, of course, we'll have Q&A. Now we have folks in the room with us today. And of course, they'll be able to ask their questions. However, the majority of our attendees are joining us virtually today. And so for those of you joining virtually, we ask that you submit your questions through the Q&A box, which should be in your webcast platform. And then during the Q&A portion, I'll be able to ask those questions on your behalf.

And of course, we'll be making forward-looking statements today. These statements come with risks, and we encourage you to refer to the Form 10-K filed with the SEC for more information on these risk factors. We'll also be referring to non-GAAP measures today, and you can find in the appendix of today's presentation a discussion and a reconciliation of these non-GAAP measures to their most comparable GAAP measures.

And with that, let's get started.

(presentation)

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

I'd like to now welcome our President and CEO, Carlos Rodriguez.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Thanks, Danny. Appreciate it. I don't know if it was a hint from my team, but there was no seat for me. Everyone else has assigned seating, but it's great to have everybody here, both the people in person and the people here virtually. Hopefully, this is a sign of time, things to come in terms of a little bit of normalcy. I didn't think I'd ever be excited about a presentation or an Investor Day, but this is pretty exciting, especially to have some of you here joining us in person. So thank you for being here.

Let me start with really the beginning, right, which is what is it that ADP does. And all of you know this, but as usual, there are subtle hints in our words and the way we describe what we do is that we're about providing technology and solutions. You heard in the video the term expertise, but we always try to make that differentiation that we definitely are a software builder and provider, but we also provide expertise and solutions. And you'll hear a lot about that today, both the technology and the solutions.

And the other thing that's changed or evolved over the last several decades with ADP is instead of just doing things for clients, we do things for clients and for the workers of our clients. And you'll hear a lot about that today and some of the opportunities that presents for us. But one of the things that's always true about ADP is that we're constantly trying to help both the clients and their workers adapt to the changing world of work. And boy, is it changing, obviously, today right around us.

It's been going on forever. So change has been a constant for decades for employers and for employment in general. The latest examples, of course, were all the legislative changes during the pandemic, which were all intended to help. You think about the PPP loans, the tax credits, so many things done across multiple governments all over the world to "help." And I believe that help they did -- and I think history will judge, I think, our governments well.

But in their attempt to help, it created a lot of complexity for employers. And we're here to help with that, and we've been helping with it. But this is just kind of the latest example of something that I've been saying for a long time, which is that employees are really an instrument of public policy. And we saw it here during the pandemic in full display where government saw it as a way to really achieve the health objectives that the government had.

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So whether it's -- you would go back to the golden old days of ACA or the most current legislative changes around the pandemic or just kind of routine day-to-day regulations, change is obviously something that employers have to adapt on a regular basis, and it creates a lot of opportunity for ADP.

And the legislative changes are not the only changes that our clients and the world of work are facing. The whole HCM industry is changing as well. When you look at it from the product side, obviously, now we're all going to be working in a world where everything is hybrid. If you look at this meeting, we have people that are participating virtually. We have people in person. The same thing is going to happen with work. People are also demanding more flexibility in their pay. They want early access to their pay. HR leaders are demanding employee-centric solutions, and they're demanding things like AI and other machine learning in order to make better decisions.

And on the tech side, it's no longer okay to stitch together a bunch of different platforms. People want consumerization with great experience. They want platforms with apps, and they want everything in the cloud. And then when you go to the purchasing cycle, well that's changing as well. We're seeing it in some of our businesses where there's greater demand for transparency around pricing and ease of pricing.

There's a desire for multichannel interactions with us, whether it's virtual salespeople or live in-person salespeople. And more importantly, and this maybe applies a little bit to what we're doing around digital marketing, everyone is doing a ton of research just like we do as consumers before they engage in any kind of buying decision.

And on the service side, there's an equal amount of change there. You've heard a lot about some of the digital transformation that we've been undergoing, you'll hear more about it today. Here again omnichannel is important. People want to get help and contact us however they want, whether it's through chat, phone, e-mail, you have to be prepared for all of those. The most important thing is to have great user experiences where people have the ability to use self-service so they never have to contact us to begin with.

And lastly, on the service side, the one thing that's constant for us is the expertise. Fortunately, it's something that we've always been able to deliver on. The expertise we have around compliance, also around HR and around the various processes that we provide.

So the bottom line is the message here is change is good. That's why I'm talking so much about change. It's good for ADP, and I think it's an important reason why you should be excited about ADP. Change equals opportunity for us. And thank goodness, we've been, for 70 years, able to figure out how to change with the landscape, not just because of the pandemic, because of ACA, because of recessions. There's been a number of major changes in the HCM industry and the economy and the global markets ADP has had to adapt to. But the underlying theme is that these changes are actually opportunities for us. And it's probably why the HCM industry is growing faster than GDP.

Now I've really always appreciated being in an industry that has kind of underlying tailwinds. And when I read about some of the challenges that other industries have, I feel really blessed. And so when we go through something like we've just been through, where employers need our help and there's a huge acceleration of change, I count my blessings yet again.

And the one thing that's constant besides the fact that things are changing is that the market that we operate in is huge. You guys call the TAM, the total addressable market. We talk about it in terms of being around $150 million -- sorry, $150 billion and growing around 5% to 6% per year, which again, is a little bit faster than GDP and provides a little bit of tailwind for the industry.

But when you think about what's happening in the short term, the tightness of the labor markets, we talked to a few of you at the beginning of the meeting here about what's happening with turnover, the "Great Resignation." So it's not just about legislative changes. It's about the environment, which, in the short term, is going to create even more pressure on employers and I believe a favorable backdrop for our industry. So we can consider it a $150 billion industry with 5% to 6% growth. But I think we can debate maybe some of the questions, how do we calculate that number is probably a little bit bigger than that, but that's the way we look at our addressable market.

And the other message around that market is that there's plenty of space for us to grow. There's no shortage of opportunity. That's really not the problem for us. It's not the size of the market or the opportunity. We think we have about 10% of this $150 billion because we're obviously $15 billion today. And one of the other interesting things that we believe is that we exhibited really good resiliency during the downturn.

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When we look at ourselves on a relative basis in terms of our performance versus some of our competitors, we believe that we outperformed some of them. I recognize that some of them have higher growth rates than us. As a result, in some cases because of size differences, but when you look at the relative growth rates, we have, I think, some evidence that says that we were able to outperform the market and some of our competitors.

And not exactly sure why that is. I'm not sure if it's that we had better retention. I'm not sure if it's because we had better sales. I'm not sure if it's because our pays per control dropped less than some of our competitors. I don't know because our competitors don't, in most cases, provide that kind of information. So it's very hard to tell.

And we've gotten to where we are today and being able to deliver on this resiliency and adopt to this change in part because of the strategic framework that we adopted 10 years ago, which I think has allowed us to create opportunity for us to extend the success that this company has had for so many decades. And we call this simplify, innovate and grow.

And many of you have heard this before, but let me just talk about a couple of the ideas and the points. First one on the simplification part was our belief that [complexity] (corrected by company after the call) was getting in the way of our growth and getting in the way of our client service. We decided that we needed to simplify in order to unlock innovation. We talked a lot starting about 10 years ago about the need to innovate at a faster speed and complexity was getting in the way. So that's the idea behind simplification.

You saw us do some -- take some tangible actions around that to consolidate platforms. We went from having platforms that had hundreds of millions of dollars, which is still pretty good to now having platforms where we have billions of dollars on single platforms.

We also simplified on our service and implementation side. You've heard a lot about our digital transformation. You'll hear more about it today. There's been a huge effort, not just with things like what we communicated several years ago around our service alignment initiative, which was to consolidate some of our smaller locations, but it's really to apply technology also to the implementation and to the service side and to really simplify on that front as well.

And really, the simplification was the underlying requirement to the innovation. And in the innovation, you're going to hear a lot more about from Don, so I don't want to steal some of his thunder, but we've invested in some of the innovation labs that some of you have visited. We've increased our R&D spend. We've brought in talent from the outside to supplement the great talent that we already had in ADP, and we've generally modernized our infrastructure. And I think Don will give you a lot more of that flavor, and we can answer any questions that you have related to that in the Q&A.

So the bottom line is, this whole simplify, innovate and grow framework was really intended to strengthen the underlying parts of ADP. And I believe that's what we did. And the reason we did it and the reason we will continue to do it is because we're playing the long game at ADP. Unlike others, we don't have the luxury of starting from scratch. We don't have the luxury of a do-over. You've seen it in our results. We'll talk about the results in a minute. We've been doing this while we've been still growing, delivering margin improvement and delivering to our shareholders. And building the strong foundation was an important part of making sure we could do that over the last 10 years, but more importantly, you'll hear we've been doing on the innovation side to make sure that we can do it for the next 10 to 20 years.

And so where have we gotten to or where do we stand, give us some proof points of what we've achieved through the strategic framework. Well, we talked about the innovation labs. We have 7 of those labs now. We talked about our increased R&D spend, and we have some stats to share with you on that as well. We've also modernized our sales organization. We have 7,500 sellers now with modern sales tools. They can sell virtually. They can sell in person. They can sell through chat. They can use Webex. They can use Zoom, whatever it is, they have all the tools they need to be successful.

And on the service side, we've also modernized. We've used AI and BPI to eliminate low-value transactions. We've been talking about that for a long time. Every year for the last 4 years, we've reduced the number of non-value-added service calls, which allows us to, yes, part of it is a margin play, but more importantly, it's so that we can focus on high-value transactions with our clients.

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So the bottom line is, again, same theme. We've built a strong foundation so that we can benefit from that for years to come. And hopefully, that's one of the takeaways you'll have today. We've built modern scalable platforms. We've built a modern go-to-market, and we've digitally enabled our service and implementation. And we hope to prove that to you today.

And the proof is in the pudding on some of the stats we have, if you look at our NPS scores, a measure of client satisfaction. Our NPS scores are up [30 points] (corrected by company after the call). That's with service alignment initiative. That's with reducing the number of contacts with our clients. So this pivot to quality and to self-service has worked, not just because it's made us more efficient and more effective, but our clients are happier.

And this 30-point improvement has been broad-based because we've gotten that question recently as well, is this just kind of a temporary thing because of the pandemic? But the fact is, maybe we didn't talk about it enough, but this NPS improvement has been taking place now for 5 or 6 years. It's been broad-based and it's happened ratably over the years. We've got a little bit of extra help from the pandemic, but most of it actually occurred pre-pandemic. And the retention proves it.

Our client retention, when you look at the way our business model works, I know it's not typically the way many people model long-term value of a company because we tend to use other metrics and other ways of doing things. But retention is a single biggest driver of long-term value for our company. And retention has been improving consistently for the last decade.

We've obviously had some ups and downs with the economy. We had a blip with ACA, but the retention rates are better and stronger and not just because of the pandemic. As a student of history, I love to look at ADP history. I went back prior to the last earnings call, and I looked at the progress we've made on retention in our down market SBS business and also in our PEO, and in both cases we've had an almost 500 basis point improvement from a decade ago, pretty damn impressive and shows that this framework of simplify, innovate and grow is working.

So what have we gotten from this strong foundation in addition to some of the things I've already mentioned around NPS scores and some of the other accomplishments. Well, it's not bad that we've had a 25% improvement in productivity from our workforce. Some of that is a result of eliminating non-value-added work for them, which makes them happier, makes them able to service the clients better, but also makes them more efficient and more effective.

We've increased our client count by 40%. I just talked about retention. We've reached record retention. We would have reached record retention, I'm confident, had we not had the pandemic. We're already on the path to do that after the blip we had with ACA, and we've done all of that while still delivering better margins. Again, as a student of history, I went last night just to make sure that I was correct. And our margin -- our adjusted EBIT margin has improved every year for the last 10 years.

And if you exclude client funds interest and the pressure from 0 margin pass-through, which is just a mathematical exercise, what I would call a really core operations and core earnings, that has improved almost 100 basis points per year. So I think we're doing something right.

And again, we're not big on adjusting out things like stock compensation or amortization of acquisition intangibles like others, I'm just making some mathematical assumptions here of taking out things like 0 margin pass-through and the pressure from float income, which are very easy to figure out from our financials. And when you look at that, you see a very strong underlying margin improvement in our business. And Don will talk a little bit more about what we expect and how we expect to extend that success into the future.

While we've been doing all this, we've also remained committed to sustainability and to being a good corporate citizen. I know that's important in today's world, and we want to make sure that we address that as well. We're committed to net-zero by 2050, like a lot of our colleagues in the BRT. And we've linked our commitments to our compensation, and our Board is monitoring our progress towards our commitments on sustainability.

On the diversity and talent side, we've made a lot of progress. It's never enough, and we're not happy with where we are yet. But we've again made significant progress in gender and minority representation in this company over the last 5 and 10 years, and we're very proud of that. And by the way, that's another place where our compensation is linked to progress on that front.

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And in governance, in general, it's hard to find anyone that's as squeaky clean as ADP. And besides always being squeaky clean, we're always refreshing our Board. We have a strong, independent Board. We brought in tech talent, cyber talent, people with experience with strategy. We have a really broad-based set of people on our Board, and we're really grateful to have them helping us pressure test the strategy and set the path for ADP.

So let me end with giving you a little bit of a picture here of our portfolio so disaggregated in a way that you've probably not seen it before. One of the things that may be surprising here is the size of our Small Business Services division, which is the largest of our businesses now.

You also may be surprised to hear that we have an HRO business, excluding the PEO. This is outsourcing with bundle of services in addition to kind of traditional payroll that's more full service, that's almost $1 billion business now, our HRO business, excluding the PEO. And we also have a bunch of complementary businesses that you'll hear about today, some of which are traditional like tax services and garnishments, but we also have a lot of high-growth opportunities in what I would call new complementary solutions like Data Solutions and Wisely.

But the bottom line is that our portfolio is strong, and we have good growth opportunities in front of us. And this portfolio is incredibly exciting to us, and you'll hear from most of the leaders who run these businesses today, and you'll be able to ask them questions as well.

So let me leave you before I turn it over to Don with kind of a rundown of kind of what I hope we can accomplish today. Today, I'm hoping that you'll walk away with a few things: one is that despite our commitment to service and solutions, which is a huge differentiator for us and a big advantage, you should also know that we are committed to leading with product, and product and technology is the tip of the spear for us. We're going to have a great user experience, and we're going to have platforms and apps. That's how we're going to lead with technology, and Don will talk about that in a minute.

We're also going to invest in our go-to-market. We're going to continue to drive our sales force to modernize, to have the right tools they need to sell any way that the clients want to be sold to, and we're going to continue to invest in marketing. You'll hear from Maria on that.

And you'll hear from our BU leaders, you just saw the disaggregation of our businesses, and you'll be able to see it come to real life when you hear the people talk about what they're doing on a day-to-day basis, and you can ask some questions in the Q&A as well. And then we'll end with Don, who will go through the financials and hopefully convince you that ADP is one of the highest quality compounders out there.

We are the original flywheel. Like, flywheel is now a big term in business, just like cloud was a big term in business. Nobody ever believed that we were the original cloud even though ADP really was the inventor of outsourcing and hosting solutions itself. Likewise, we are the inventor of the flywheel. And hopefully, Don will be able to convince you that the flywheel is strong, and the flywheel will continue to generate the kinds of returns for all of our stakeholders that we've been able to generate for the last 60 years.

And on that, I will note because we just had our shareholder meeting, and we actually talked about reaching our 60th Anniversary. We do a little exercise over the weekend to see what the compounded annual growth rate of our stock has been over those last 60 years, and it comes to a nice round 20%. And so it's not bad. I'm not sure if it's at the same level as Warren Buffett, who I think has been at it for 57 years. Obviously, he's 1 person, so it's pretty impressive from 1 person. But maybe you can Google it during a break to see what Berkshire Hathaway's compounded annual growth rate under Warren Buffett has been and compare it to ADP because it might compare pretty favorably, and we're pretty proud of that. He has done it at a bigger scale, but we're still pretty proud of our performance.

And today, we're going to sit here and we're going to be up here trying to convince you that we've built the foundation to continue that kind of -- to deliver those kinds of results for the -- for whatever -- however much time you give us as investors.

And with that, I appreciate, again, all of you being here, and I'm going to turn it over to Don to talk about our products.

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Donald Weinstein - *Automatic Data Processing, Inc. - Corporate VP of Global Product & Technology*

Thank you, Carlos, and good morning, everybody. I'm excited to be here with you and share our innovation road map. Carlos just talked about the strength of ADP's portfolio. One of the key enablers of that strength has been our investments in our market-leading platforms in each segment of the market that we serve. And we have a robust road map of investment in differentiating capabilities in every single one of these platforms. That innovation road map spans not only our front-end HCM solutions, but also our critical back-end transaction processing engines like Next Gen Payroll and tax as well as our marketplace, DataCloud and Wisely platforms.

It also includes innovation in the way we use digital technologies to implement and service our clients. One area that I am particularly excited about is our new user experience, which we have just begun rolling out. We've built a best-in-class design system that all of our strategic products are converging to, and we are going much deeper into all aspects of the experience, including extensive use of analytics to guide our designs and continually improve the experience over time.

The key enabler underpinning this work has been systematically building a world-class user experience team, including several new hires who are new to ADP. As Carlos shared on our most recent earnings call, RUN has been the first product to launch this new experience in the market. So let's take a look at the new RUN experience in practice.

(presentation)

Donald Weinstein - *Automatic Data Processing, Inc. - Corporate VP of Global Product & Technology*

The new RUN experience has a very clear and consistent, action-oriented navigation across the entire application. It makes extensive use of intelligent search to further streamline interactions. And of course, we'll offer a fully mobile responsive experience throughout the entire application.

We've now rolled it out to all of our traditional RUN clients, and they've been giving us some great early feedback. At the same time, we launched a brand-new all-digital, mobile-first small business product called Roll that expands our addressable market by targeting the fully DIY segment of the small business market with a 100% digital end-to-end experience from self-purchase through implementation and ongoing self-service.

It was built natively in the public cloud, using the most advanced serverless architecture that only runs when invoked. It makes extensive use of machine learning to power intents. So Roll becomes more intelligent the more you use it. And we've gotten some really good early traction on Roll, and we're continuing to enhance the solution and add more advanced capabilities.

In the mid-market, Workforce now continues to be the leading full-suite, single database HCM solution with over 75,000 clients. That includes over 1,000 clients who have greater than 1,000 employees. And of course, it powers our PEO business as well, and we are continuing to innovate aggressively with a completely new tech stack under the hood.

It starts by leveraging our groundbreaking Next Gen Payroll engine, but then we rearchitected the rest of the underlying platform to run fully natively in the public cloud, including extensive use of containers and zero-downtime deployments for greater agility and faster time to market. We now have over 1,000 clients sold on the next generation of Workforce Now, and we will be taking it up another level in the second half of fiscal '22 as we apply the new user experience design, building on the great work that has been done with RUN.

And as I mentioned, we are continuing to gain traction with Workforce Now in the lower end of the upmarket with over 1,000 Workforce Now clients in this segment and the overwhelming majority of new unit sales coming in on Workforce Now. And of course, the entire road map of innovation that I just shared applies here as well, including the Next Gen Payroll engine, fully public cloud native tech stack, brand-new user experience. At the same time, we are focused on scaling our award-winning Next Gen HCM solution for larger enterprises.

As a reminder, it is built for the future of work, including a modern team-centric architecture, it's built on a graph database that encompasses all types of work and workers, including gig workers to manage how work actually gets done inside an organization. It, too, is built on a state-of-the-art

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tech stack. It was born natively in the public cloud, and it decomposes your traditional monolithic one-size-fits-all HCM or ERP systems into a much larger number of function-specific discrete mini apps that you can configure on a company, team or even on individual basis.

It leverages a low-code cloud development platform that clients and parties -- a third-party partners can extend into their environments, and that development platform can also be federated to our local teams around the world. So we're able to take advantage of our global footprint to offer a differentiated level of local in-market configuration.

We recently started our largest client to date, a logistics provider with over 22,000 employees and are focusing our investments in building out the necessary operational and technology capabilities to enable us to continue scaling to larger and more complex geographies. This is an exciting step for the long-term future of ADP, and we are building it for the long term.

Global remains central to our overall innovation strategy. We now serve more than 60,000 international clients in 140 countries around the world. We have leading positions in several segments of the international market. Starting with iHCM, our solution for the International HCM mid-market, which has more than 3,000 clients in 10 countries across Europe and Asia and is delivered in 9 languages.

We've been recognized by Fosway, a leading European HCM Analyst Group as a core leader in cloud HR. And now with the integration of Celergo, iHCM offers coverage for employees in more than 40 countries today and is expanding to the full 140 country footprint within the next year. And looking ahead, iHCM is also adopting our new UX design system with a fully responsive UI, ensuring that best-of-class experience agnostic of any device for these clients.

Additionally, with over 1,500 clients already successfully migrated from legacy solutions, iHCM plays an important role in enabling us to streamline our international product portfolio as Carlos was just describing, from a simplification perspective.

In addition, ADP is the undisputed leader in multi-country payroll, consistently recognized by the Everest Group across multiple award categories. We, of course, partnered with all of the leading HCM solution providers who leverage our global payroll capabilities to the benefit of their clients. In addition to integrating with our own strategic HCM solutions like Workforce Now and Next Gen HCM to drive additional growth in our global payroll business.

And now with the introduction of Global myView, our clients enjoy an even more seamless payroll experience that's unified across all ADP solutions and countries. Taking this new experience even further, we are enhancing our Global Insight Dashboard with advanced analytics from our DataCloud on several key metrics, such as retention, turnover, cost of workforce, just to name a few.

And data continues to be a significant differentiator across all ADP segments. We are leveraging our vast data set and industry-leading analytics to deliver true insights for our clients. With over 920,000 companies in our database and over 90 million unique employees served over the last 10 years, the breadth and quality of our data is unmatched in the industry.

We're applying machine learning to this highly valuable data for predictive insights on topics that matter most to our clients. Our Executive and Manager Insights continues to see growth in usage with over 140,000 unique active monthly users coming in and visiting every single month.

We've been recognized by the likes of the Brandon Hall Group and HR Executive Magazine for our innovative technology. In fact, we just picked up another HR Tech Product of the Year Award this fall for our diversity, equity and inclusion dashboards. The DEI dashboards give our clients visibility into the makeup of their workforce by ethnicity, gender, age and ability status as well as regional and industry benchmarks, allowing them to make informed decisions and meet their DEI goals.

Further, the Pay Equity Storyboard identifies pay gaps across gender, race and ethnicity, along with an estimation of the cost to close those gaps. Already more than 50% of active DEI clients have reduced their pay gaps by an average of 25% over the past year, making a significant improvement in a problem that is ex employers for decades.

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Next up is a new solution for Talent Market Insights. We are leveraging our industry-leading data set to generate insights on talent supply by job, geography and industry. Our solution provides benchmarks and trends for several key metrics, including talent availability, compensation, turnover, time to fill positions. Given the current war for talent, these insights are critical for our clients to drive effective talent strategies and attract great candidates. And our incredible data set enables us to offer deeper insights than any of our competitors. And we are really excited about Wisely, our digital pay and financial wellness solution where the unrivaled reach of ADP offers substantial growth opportunity.

Wisely cardholders average more than 20 transactions each month. Additionally, our Wisely app continues to earn high marks on the Apple App Store, with an average rating of 4.8 stars on over 20,000 user reviews. We've recently delivered on several exciting new features to help workers better manage their personal financial goals, including savings envelopes, where cardholders can create customized savings categories with preset goals and then automatically allocate inbound payrolls to them. And we've nearly doubled the number of new savings users this year and cash back rewards with a partner network of hundreds of thousands of retailers giving our cardholders a wide range of benefits.

Looking ahead, we are bringing best-in-class financial tools to market. I'm thrilled to share just a few of these with you. First is our Earned Wage Access offering, enabling workers to access their earned wages in between pay periods directly on their Wisely cards. Second, is a cardless Digital Wallet, allowing workers to use Wisely immediately upon account activation without necessitating a physical card delivery. And third, we are building a fillable Bill Pay experience enabling workers to manage more of their financial responsibilities all in one place with seamless automated payment options.

Taken together, these solutions offer workers the broadest suite of market-leading tools to achieve their financial wellness goals as part of a next-generation digital pay experience. As I mentioned earlier, our innovation agenda also extends to the way we implement and service our clients, which have contributed to our increased productivity and margin expansion throughout ADP.

Starting with the onboarding experience, where we are leveraging multiple digital tools to automate the implementation process across all of our products. For example, by using machine learning to automate the extraction and transformation of new client information. One area with particularly measurable success has been RUN, where over 36% of new RUN clients have been able to fully onboard themselves without requiring any support from an implementation specialist.

Once onboarded, we've placed considerable focus on enabling more self-service capabilities throughout the products, empowering clients to be much more self-sufficient. This has resulted in a 20% reduction in service contact since we started this journey. As we roll out our new and enhanced user experience, we expect a further reduction in client service contacts stemming from the more intuitive workflows and increased self-service capability. And for clients who do require service, we've deployed multiple digital service capabilities, enabling us to either partially or fully digitize up to 1/3 of those service interactions.

Looking ahead, we have a broad and ambitious agenda for innovation across our global product and technology landscape. First, we will continue to enhance our strategic HCM platforms with that industry-leading, best-in-class user experience. We will continue the journey of migrating more of our workloads to the public cloud, leveraging the most advanced technology frameworks and architectures along the way, and we will continue digitizing the way we implement and service our clients, enabling our service associates to focus more of their time and energy on those highly value-added interactions with our clients.

Next, we will continue to enhance our ecosystem of market-leading innovations, including leveraging our industry-leading DataCloud to help our clients make smarter decisions about their people and putting more actionable insights directly into the hands of their frontline managers and leaders. Expanding Wisely's product capabilities to help employees of our clients manage their digital financial lives and continuing to grow our industry-leading marketplace, which now has over 800 apps in its ecosystem and is growing. And we're continuing to expand and scale our key next-gen programs, both here in the U.S. as well as internationally, where we are looking forward to releasing the branding of Next Gen HCM by the end of next year.

And while all of this innovation is exciting to us, what really gets us excited is seeing how it comes together for our clients. So let's hear from a long-standing ADP client, who happens to be one of the largest employers in the world about their journey with ADP and how they are leveraging our investment and innovation to help them achieve their objectives for their business and their people.

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(presentation)

Donald Weinstein - *Automatic Data Processing, Inc. - Corporate VP of Global Product & Technology*

We're proud to have supported and grown with Amazon for over 20 years. And as you heard in the video, we've expanded our relationship with them to now provide data analytics, Wisely and are in the beginning stages of rolling out our next-gen capabilities to a subset of their workforce. We look forward to continuing to serve them and the rest of our 920,000 global clients in the years ahead as we continue to develop new and innovative solutions for managing an increasingly complex global workforce.

Thank you very much. And now let me turn it over to Maria.

Maria Black - *Automatic Data Processing, Inc. - President of Worldwide Sales & Marketing*

Good morning. Thank you all for joining us here today. My name is Maria Black, I'm President of Worldwide Sales and Marketing, and I am happy to share an update with all of you with respect to our sales and marketing organization.

Let me start with where we are today. As you heard on the first quarter earnings call, we already have great momentum across Employer Services as well as PEO new business bookings. Our distribution and reach and scale are unparalleled in the market and incredibly difficult to replicate.

In fiscal '21, our new business bookings exceeded $1.8 billion, which is higher than most of our competitors' revenues. We've expanded our highly trained team of 7,500 sellers with an average tenure of more than 4 years here at ADP. 100% of these sellers are virtually net with best-in-class tools and an incredible support structure that allows us to provide training, coaching and ongoing development.

1/3 of these sellers are in our inside sales organization, focused solely on digital and outbound prospecting as well as upsell opportunities. This organization, it makes us highly agile, highly flexible as we respond to a continuing shifting buying behavior.

To further highlight the scale of our distribution, last year alone we sold over 170,000 new clients. We have sales coverage in over 140 countries across both developed as well as emerging technologies or economies. When we prospect, we leverage our extensive network of centers of influence, which includes CPAs, bankers as well as brokers. In fact, more than 50% of our new logos sold are referred through centers of influence.

Now let's shift our focus on how we plan to continue to grow in the future. Here is why I am confident about ADP's future. We have 5 key levers that will continue to ensure a long runway for sales growth moving forward. First, our new products and enhancements open new target audiences for us. They help improve our win rates, and they help grow our share of wallet.

Second, we continue to invest in seller capabilities to meet buyers where they want to be met with best-in-class selling tools. Third, we are investing in our marketing function to be clear, to be louder and to be bolder in our messaging. Fourth, we continue to expand our partner ecosystem. And finally, we will invest in headcount to continue to add capacity into the system.

Since Don just gave an overview of the exciting developments from our product and technology organization, I'll be brief in my remarks with respect to product. But I didn't want to miss the opportunity to share the excitement of the sales and marketing organization. Additions to our product portfolio help us unlock incremental growth in 2 ways. It allows us to reach new target audiences that are not currently served by us, and it allows us to increase our share of wallet for both prospects as well as our current client base.

In terms of new audiences, we're referring to our next-gen portfolio enrolled by ADP, which continue to gain traction. One of the most exciting aspects of Roll is that we are going after an incremental market, the entrepreneur who is just about to pay themselves or their first employee. Many of these new businesses, they will grow. They will become enterprise size employers, and we are now about to partner with them much earlier in their journey.

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We are also continuously improving our core offerings that serve our over 900,000 clients with a greater focus on innovation spend on the core platforms. We are giving our sellers a leg up on the competition. ADP is fortunate to have such a long history of serving clients and significant market share position across all segments, which gives us access to a rich data set. These 2 aspects, they provide a unique window into our clients' needs, into their behavior allowing us to predict experiences and solutions to address what truly matters to employers and to enhance our existing offerings accordingly.

The enhancements to the RUN platform, they're a perfect example of this. They're based on client feedback, a very user-friendly design. It's focused on ease of use, all while increasing the accuracy for our clients. In addition to the product and innovations, we have the ADP Marketplace, our industry-leading ecosystem of over 800 solutions from both ADP and from third parties.

In a moment, you will hear more about how we are meeting our clients, where they want to be met in our sales motion. But part of that flexibility also extends to our product choices. We have been diligent about continuing to add new partners and entire new categories to our marketplace as we see opportunity to drive ease of use for our clients. I am particularly proud of the new Marketplace category we created of COVID response and return to work to help employers manage through an evolving situation during the pandemic.

Beyond just selling solutions, Marketplace provides an integrated experience with data flowing between third-party apps and the core HCM. ADP's Marketplace complements our product strategy and gives us the ability to support industry vertical needs beyond HCM. This is a huge differentiator when we go to market.

We continue to be focused on understanding our buyer behavior. In some cases, our buyers are looking to buy digitally. And in other cases, they have a comprehensive RFP that it requires a deep interaction. That's why our go-to-market strategy is designed to provide clients and prospects with flexibility and to meet them exactly where they are and provide them a seamless and effortless experience.

So how do we achieve that? We have invested across the full spectrum of the buyer journey, which means our buyers can buy our products sometimes without even having to speak with a seller. We continue to introduce products that can be purchased and implemented digitally, which is a huge selling factor for many buyers, especially post-pandemic. We have also invested in buyer self-discovery, which means we provide buyer self-discoverable digital content that allows our buyers to experience ADP on their timeline.

In parallel, we have also built a sophisticated and industry-leading SEM program that helps with digital prospecting, and despite recent investments from our competition in this channel, we continue to maintain industry leadership in impression share. In fact, sales from digital prospecting has more than doubled over the last 5 years. We have also invested significantly in digital sales transformation. We are supercharging our existing distribution strengths by investing in new selling tools and technology that will continue to modernize the sales process. These tools, they will change our sellers' day-to-day life from the moment that she wakes up in the morning to the moment that she wraps up her day.

Let me give you a glimpse of this transformation. When an ADP seller logs on in the morning, she will receive virtual demos and buyer relevant content for that day, everything that she needs in order to have a meaningful first conversation with a prospect. She'll access a single 360-degree view of our buyer and an integrated tool set on our customer data platform. I've been in sales for a long time. And in the past, we used to use several tools just to get this information. Now it's available in a single snapshot. This is the new world of selling.

A few hours later, the Cadence Tool will recommend to our seller a next best step that's based on top-selling behavior. That means we're helping our seller cut out the guesswork. We're helping her save time, and we're getting to the next best step faster. She will then be able to leverage the database of advocates to find the right fit to assist during an active sales process.

And as the seller begins to wrap up her day, she'll access the coaching platform, which is powered by AI, which analyzes our sales calls, looks for keywords and trends in our buyer behavior. This information is then sent into our learning organization who uses it to provide new curriculum. So our sellers can quickly identify what's working and what's not.

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Digital transformation and sales has been a key priority for us, and we've spent a ton of time researching our sellers. What you're seeing today, this is just a glimpse of some of the investments we are making. It's an exciting time to be at sales in ADP because this is the modern seller of the future. We are truly on the forefront.

Now let's shift to our third lever of growth, marketing. We are all in on marketing, a cleaner, bolder and more tech-forward marketing approach. It will help ADP stand out in what's become an incredibly noisy world, and it will help ADP create a more consistent and a more meaningful brand experience. Simplicity is key. We must help our buyers understand who we are and what we do clearly and directly.

Our refreshed website provides a clear framework to explain what it is that we offer and helps guide our clients and our prospects through a carefully curated experience.

In addition, today's buyer craves an experience that's tailored to their needs. They want suggestions. They want recommendations. They want personalization. We are using an unparallel data insights to create a personalized experience for our buyer across accounts, across industries and across persona. We're empowering the buyers with a self-guided buying process, which provides them self-discoverable tools that's based on their previous behavior.

Our digital prospecting tools are also ready for action. They dynamically will signal our seller when a prospect is warm. This means that there's not a gap between I'm interested and let's do this.

The last element of our elevated marketing approach, it's probably my favorite, we are -- we're going on the offense. Marketing is turning up the heat on the competition. It's time to remind the world why we're better than the competition and truly unleash ADP in the market. That means things like head-to-head comparison pages, where we show side by side how our products stack up. That means bold and memorable advertising, targeted social ads and search engine optimization. And it means showcasing our wins and our accolades with clear and certain messaging that highlights our value proposition. We will remind the world that ADP is the name to beat.

Our fourth lever of growth is the scale of our partner channels across the entire market. We have built a well-oiled machine of referrals through the strength of our brand and through delivering to our clients for over 70 years. Channel coverage in the small business segment is focused on centers of influence for our entrepreneurs with CPAs, banks, financial advisers combining to contribute about 75% of the logos that we sell in this segment.

In the mid-market, we are focused on benefit brokers and franchise networks. One-fourth of our bookings are sold with the influence of our partner network. And finally, in our upmarket, we leverage our network of private equity firms and ERP vendors to drive unit volume across large domestic and multinational businesses. I am proud to see their growing number of firms that are willing to stamp their own reputation on an ADP referral. We certainly do not take that trust lightly and are committed to continuing to deliver for our partners.

And finally, we have headcount additions as the fifth lever of sales growth. As mentioned on the last earnings call, we believe the current environment is very conducive for HCM growth. Since fiscal '10, we have almost doubled our seller headcount, and we see continued opportunity to add sellers and build our world-class sales force across segments, across products and across geographies.

As I mentioned earlier, we already sell in over 140 countries, but our international headcount only represents about 10% of our overall seller headcount. We have additional opportunity to expand our international footprint. Our headcount investments are also set up to leverage our existing and new cross-sell opportunities as they continue to rise. This unique cross-sell capability, it gives us the ability to grow, and it gives us a huge competitive advantage.

We have a strong appetite for headcount growth along with all of the other sales investments I've highlighted, whether it's in marketing or sales or productivity tools, we are eager to invest in sales and marketing across the board. Looking ahead, we are targeting 7% to 8% growth in employer services new business bookings over the medium term. And given our levers of growth, I am confident we can continue on our steady growth trajectory.

Thank you so much for joining me in this discussion this morning. And now I'm going to pass it back to Danny.

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Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Thanks, Maria, and we're running about 2 minutes long. I'm going to blame of course, Carlos, for that. But I just want to make one more reminder to our virtual audience. You can ask your questions in the Q&A box in the webcast at any time, and those will queue up. Otherwise, we're ready to take our first break, and we'll meet you back here at 10:10 Eastern. Thank you.

(Break)

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Welcome back. I'm happy to now introduce our Chief Strategy Officer, Chris D'Ambrosio.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

All right. Thanks, Danny. Happy to be here with everybody. I'm Chris D'Ambrosio, ADP's Chief Strategy Officer. And I'm joined today by a panel of our BU leaders. So we've heard from several people so far this morning. We heard from Carlos about how ADP's actions over the last several years have put us in a very strong position for the years ahead. We've heard from Don Weinstein about what we're doing from a product development standpoint and how that should enable us to maintain our position as technology leaders in the HCM space. We've heard from Maria Black on how we're combining our stronger product portfolio with additional enhancements from a sales and marketing perspective that should enable us to continue to drive business bookings growth.

Now with this panel discussion, we want to give you guys an opportunity to hear directly from our top operational leaders to get their perspective on how all these things will come together at the business level to drive growth. So let me go ahead and introduce the panel and then we can jump into the discussion.

So joining me today, we have John Ayala, who is our President of North America, who has responsibility for all the businesses that we're going to talk about as well as several complementary solutions that span across segments; Laura Brown, who leads our major accounts division, which is focused on clients in the mid-market; Joe DeSilva, leads our small business division, which is focused on the down market; Debbie Dyson, leads our national accounts business, which serves U.S.-based upmarket clients; Virginia Magliulo, who is joining us remotely, leads our international business; Brian Michaud, leads our Smart Compliance business; and Alex Quevedo, leads our HR outsourcing business, which is comprised of our PEO as well as several other outsourcing businesses that are part of our Employer Services segment.

QUESTIONS AND ANSWERS

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

So Joe, let's actually -- let's start with you. Our Small Business Services division has been a phenomenal grower for us for more than a decade now. And as we saw earlier today, it now makes up $2.5 billion of our total portfolio. What's your sense, on from a strategic standpoint, what we need to be focused on in the down market that will enable us to continue to drive that growth trajectory as we move forward?

Joseph DeSilva - *Automatic Data Processing, Inc. - President of Small Business Services, Retirement Services & Insurance Services*

Sure. Thanks, Chris, and good to see everyone. We've been on quite a run here, 750,000 clients and growing, great story for ADP. But more specifically, to your question, Chris, when I think about the continued growth trajectory for SBS, I really boil it down to 3 key areas that we need to continue to execute on. First, digital. Think self-purchase, think self-install, self-service. Modernization, we've been on a great run to modernize our products,

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but we've already got to be thinking about tomorrow and modernizing to exceed expectations tomorrow. And then third is breadth and scale. Beyond payroll and HR, we have a wide variety, a wide array of products that drive value to small business owners.

So with that as a backdrop, I'll give you a little bit more on each. Digital, digital for me and for ADP, it's about flexibility of choice. That flexibility to purchase on your own or purchase through a salesperson. So as an example, you can buy RUN online. You can buy RUN from your CPA or you can buy RUN from someone in our sales organization. You have that choice. Digital onboard. Onboarding, Don touched on it before. Don's 36% plus, I like to say closer to 40%. 40% of our clients choose to self-onboard leveraging our technology as opposed to a human.

And then on the other side of the scale, you have Roll, which I think is worth bringing up again. I am personally really excited about Roll. First of its kind, first to market, and we're going to drive incremental growth by tapping it into the market that we have, we've not played in just yet.

Modernization, so when you think about modernizing for us, we've talked a lot about RUN. We've talked about modernizing RUN, but it's wider than that, bigger than that. It's not just modernizing RUN. It's modernizing all of our products, which includes our HR products, our time and labor product, our retirement services product, our insurance services product. We've got to modernize all of our products across the spectrum. The modernization journey never ends.

And then finally, breadth and scale. Beyond the payroll and HR, we have a wide way -- we're a broad ecosystem of products, Time and labor to name one as an example. It's up to us to modernize those products, drive attach of those products to our core payroll clients, which drives value to them and brings growth to ADP, of course. And I think it's worth noting that as you grow up through SBS, as you potentially outgrow us because your business got bigger, you then can be migrated on to Workforce Now or over on the Workforce Now or PEO.

Chris, thanks for the question.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

All right. Thanks, Joe. Laura, if I could move to you, a lot of what Joe described in terms of digital transformation and product innovation on a single platform, I think, would apply in your space as well. And I know Carlos touched on this earlier about some of the positive outcomes that we've seen from like a client satisfaction, NPS standpoint from a lot of the work that we've been doing. But I was hoping that you could talk a little bit more about the key aspects of the work that we're doing on Workforce Now that you think are going to enable us to accelerate growth as we look forward?

Laura G. Brown - *Automatic Data Processing, Inc. - President of Major Account Services & ADP Canada*

Absolutely. Thanks, Chris. So we're very excited about the NPS improvements for sure. But when I think about innovation for the future, it comes down to 2 things. First of all, it's product and it's also modernized service and implementation.

So on the product front, we've completely rearchitected Workforce Now together with Next Gen Payroll. 100% in the cloud, it enables new features for us. And one of the things that I'm really excited about and that clients love is this concept of reporting with natural language processing. So instead of if-then statements, you can just say, show me all my sales people with less than a couple of years tenure and get the answer right away.

We've also got continuous calculations now with Next Gen, which enables clients to offer continuous pay for employees so they can get paid any time they'd like. We've also introduced simple monthly pricing, which has been very well received. At the same time, we could not be more excited about the new user experience. It's refreshed. It's completely modern. It's intuitive. It makes it very easy for customers to use our products. and it's personalized for them. At the same time, we've got an integrated user experience across the different mechanisms that clients use, so whether it's tablet or PC or mobile, you're getting the same consistent experience.

I mentioned implementation and service and we've digitized there, too, which is providing a lot of benefit. It makes things much easier for our customers and helps them to onboard more quickly. So one, great innovation is the way that we're using AI to predict the policies that clients need

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to get configured in our systems. We've also automated data ingestion, conversion and validation for them. And at the same time, on the service side, we're investing in product training. We're making products easier to use with self-service functionality, and we're doubling down on our chat and our chat bots in the product.

So we know these things are going to lead to a better experience and in turn, years and years of growth for us in the mid-market.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

Great. Thanks, Laura. So Debbie, if we could move to you. So our national accounts business represents the traditional HCM portion of our U.S. upmarket business. And as we've outlined to analysts and investors, we've seen nice growth on our strategic platforms, although we've seen that offset to a certain degree by some of what we're seeing on some of our legacy platforms. And so I was just wondering, how would you characterize our current strategy in the national account space and what should we look forward to?

Deborah L. Dyson - *Automatic Data Processing, Inc. - President of National Account Services*

Yes. No, great. Thanks for the question, Chris. So I think what I would share with you is national accounts is really on a journey. And our journey is really grounded on being the leader in the global HCM integrated solution for the upmarket. And so we've taken a very critical 4-pronged approach.

So the first one is really around evolving the client and employee experience. You've heard really passionately from Don and Maria, I think we would all agree that service is not the same as it used to be many, many years ago. Clients are really looking for process optimization, and they're really looking for more self-service, more innovation, more automation.

And so we're leaning into that very, very heavily. But the other thing that we're doing is we are embedding client success executives in the success of our clients. And these are strategic partners that are really helping our clients understand what their HCM vision should be, and we're partnering and coming up with deep, robust success plans. And you already heard from Carlos earlier, our performance just in terms of Net Promoter Scores are on record high, and we have incredibly strong client retention.

The second area that we really think is critical is proactively migrating our clients from their current generation solution to next-generation strategic solutions. And so we are all about simplifying our portfolio that, again, will unlock our ability to innovate and grow, and we are actually seeing tremendous success there.

The third, you just heard from Laura. We're very, very excited about Workforce Now. This isn't just a play for the mid-market. Don talked about it. We're getting great success in the lower end of the upmarket. And so what we're starting to see is clients really are appreciating this tightly integrated solution wrapped with our upmarket service model that has great implementation and service delivery. The sales results have been phenomenal. You just heard from Maria say that. And so we're taking the innovation that Laura talked about and really, we're going to start to leverage Celergo, which gives us even a bigger global footprint. And so we're excited about that powerful combination.

So lastly and really no surprise is Next Gen HCM. So this is really an exciting time for us. Don already mentioned that we just recently implemented this large logistical company. But I want to just underscore what the other beauty of that whole partnership has been is this deep team dynamics where we're taking client, product in service and wrapping that all together. Clients are really appreciating the robustness and the richness of what this solution can offer. And so we know that together in terms of just growing that holistically will really just put us in a position of strength. So I'm excited about where we're going. We're having great success so far, and I know the future is going to continue to be bright for the upmarket. So thanks, Chris.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

All right. Thanks, Debbie. Virginia, if I could move to you. All right. So Virgin, you run our international business, which is very broad with both multinational businesses such as Global View and Celergo as well as single country payroll and HCM solutions. And fortunately, both portions of

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our international business are growing. And so I was hoping you could talk just a bit more about some of the core drivers of growth that you see in your space that you think will enable us to continue this momentum that we've been seeing in your space?

Virginia Magliulo - *Automatic Data Processing, Inc. - President of ES International*

Sure. Thank you, Chris. Always happy to speak about what's going on in international. I will start with HCM. This is a technology that is strategic for us, and it's a cloud technology, very intuitive, adaptive that you can use from any device and addresses the mid-market and the down market needs for HR and payroll for all of our customers in international.

We brought it to market very successfully in part, we have delighted the clients that migrated to this new technology had an improvement in NPS of 49 points. And we already have 3,000 unit lives in 10 countries, and now we count to finish this year with an increase of 33%. So really well received in the market and a lot of potential ahead.

Another very important offering I would like to touch about is the global payroll offering. Now if you think 3 years ago, ADP acquired Celergo I think you remember. And in these 36 months, we were able to integrate the Celergo technology with the ADP technology stack. So in 36 months, 18 of which during the pandemic, as you know, of course, we were able to double the number of ADP sale. So we accelerated a lot of the growth of Celergo prior to the acquisition.

And as I said, we integrated the technology. So with the convergence between the technology stack of ADP Celergo and the technology stack of ADP GlobalView, we can now offer a consistent and unified global payroll experience to our client in every country where they have large corporations with ADP revenue or when they have more populations with ADP Celergo. So we have a great momentum on that offer of the global payroll, and we keep investing.

We typically invest in user experience, analytics. You heard about it from Don Weinstein, our footprint expansions and integration. We integrate with the major HCM systems in the market and with our own HCM system. We recently announced the integration between ADP Celergo and Workforce Now, and it was very successful. So it was recently announced, and we already sold 100 units, and we have a large pipeline.

So a lot of excitement around Global Payroll that is really growing well. We have success but we don't stay still. We keep looking at the market, and we believe that this is the moment to address HRO in international. There is a big demand out there. So we want to grow that part of the business to increase the breadth of our offer and also to increase the attach rate of offers like the ADP Time. So stay tuned, more to come on that front. Thank you, Chris.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

All right. Thanks very much, Virginia. So on the topic of HRO, Alex, I think we'll go to you next. And so when we think about the HRO business, obviously, it's been a phenomenal grower for us for the past several years. And when we look to the future, we're optimistic that it can continue to drive outsized growth for us then as well. And so I was wondering, if you could just talk a bit more about why we think we're going to continue to see tailwinds in your space and what it is that we're doing within our HR outsourcing business to take advantage of them?

Alex Quevedo - *Automatic Data Processing, Inc. - President of HR Outsourcing*

Sure. Thanks, Chris. The demand for HR outsourcing was pretty strong prior to the pandemic. In the current environment, we've actually seen that further accelerate, and we think that's going to continue for the foreseeable future for a couple of reasons. I think first, as we have more employees that are working virtually across state lines or multiple jurisdictions, it adds additional complexity for employers in their efforts to stay compliant. So they're looking at HR outsourcing solutions to help them navigate that.

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In addition, the current administration has shown an inclination to pass additional regulations on employers and they're looking for HR solutions to help them alleviate that burden. From a talent perspective, employers are finding it difficult to find each HR talent, so they're looking for opportunities to supplement their HR workforce and our solutions do just that.

And the tight labor market and the talent shortage hasn't just impacted the HR function. It's really impacted every functional area, virtually across every industry. Our PEO offering enables small and midsized businesses to offer robust benefit packages, including Fortune 500 benefits that enable them to put their best foot forward in this war for talent and also to try to help them attract and retain their employees. And when we put all those things together, they've definitely contributed to the significant growth that we've seen in HRO bookings as well as client retention.

And Joe touched on the potential for upgrades. I believe that we have a structural advantage here at ADP in that we have a large installed base of HCM clients that are small and midsized, and they give us the opportunity to identify them for upgrade opportunities. We're leveraging technology to help us identify the best fits for both our PEO as well as our comprehensive services BPO offering. So when we are able to identify an HR outsourcing fit, it truly is a win-win for both the clients as well as for ADP. Thanks, Chris.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

All right. Thanks, Alex. So Brian, if we could move to you next. So you lead our Smart Compliance business, which encompasses many of the complementary solutions that we spoke to earlier, such as tax services, employment compliance services and tax credit services. And one of the things that I think often goes under the radar is the fact that these businesses on their own, generate hundreds of millions of dollars in revenue for us every year.

And when we think about them, they're critical differentiated pieces of our offering and they represent attractive growth opportunities for us in their own right. And so I was hoping that you could talk about how we've grown in this space up to this point and what excites you as you look forward?

Brian L. Michaud - *Automatic Data Processing, Inc. - President of Smart Compliance Solutions*

Yes. Thanks for the question, Chris. So Smart Compliance has several HCM compliance offerings that both extend and complement ADP's strategy. The business unit leverages regulatory expertise and compliance solutions for employers and workers in areas like unemployment management, wage garnishments, tax credits, health compliance and, of course, tax filing. And this regulatory expertise that I just talked about, coupled with great technology and a service wrapper has created a very sticky business for us with high margin. The products attach not only to ADP HCM platforms, but also to ERP HCM platforms. And that approach broadens out our total addressable market. And as you know, compliance isn't easy, but it's a must-have for every HCM provider.

Looking ahead, regulatory uncertainty is providing us with some nice upside. For instance, in tax credits, WOTC has been extended for 5 years, and R&D tax credits are permanent. In Health Compliance, ACA is here to stay, with the reaffirmation by the Supreme Court last year. So this new regulatory environment gives us some nice tailwinds. In addition, while the market slowed down briefly in these 2 spaces because of the regulatory uncertainty, we invested in digitization and automation to really simplify these businesses. And that work, coupled with the new regulatory environment will serve us well for additional growth. On to tax and garnishments, they've grown very well and they've kept up with a deluge of new federal and state laws. Beyond W2 payments, our clients are specifically asking us to help with other types of tax forms. And that's a growth opportunity we intend to pursue. Lastly, Chris, as you know, each one of these businesses is a leader in their respective category. We intend to use that position and everything aforementioned to really capitalize on winning additional share. Thanks, Chris.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

Great. Thanks very much, Brian. So John, we'll end with you. And so as we said earlier, you oversee these traditional HCM businesses, but you also have responsibility for several complementary businesses that span across business units. And I know you've recently split out 2 new businesses

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for increased focus because of their growth prospects, a data solutions business and employee financial solutions business. so I was hoping you could just talk a bit more about what these businesses are and how we're thinking about their potential for growth going forward.

John C. Ayala - *Automatic Data Processing, Inc. - President of Employer Services North America*

Thanks, Chris, and good morning, everybody. The scale of ADP really creates some exciting opportunities for us. Just last year alone, we produced almost 70 million W-2s and moved over $2.3 trillion in the U.S. economy. And that scale, we think, gives us an opportunity to monetize that data. And in there is also a consumer fintech opportunity that we're very excited about. On the data side, there's really 2 ways we can monetize that. Number 1 is to verify information for lenders and for other verifiers. They are willing to connect to our data cloud system in a very secure, very easy way. We've also made it very easy for our employees to get permission to move that data to those verifiers as well.

And then there's also an opportunity for our aggregated data, data that firms like real estate companies, retail chains, even government agencies can use the aggregated data to make better business decisions as well. And then Chris mentioned that recently, we started up a new business unit completely solely focused on this consumer fintech opportunity. Because of what we call this the source of pay moment, which is basically this intersection that we have when employees have to select how they want to get paid. It gives us just a fantastic opportunity to introduce wisely at that moment, whether they want it in a digital format and get paid digitally, whether they want a card or a combination of the two. And that's the big consumer fintech opportunity for ADP. Thanks, Chris.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

All right. Thank you, John, and thank you to all of our panelists. I want to thank you all for being here and for sharing your perspectives with the group. Thank you very much.

All right. Well, I hope that you found that helpful that it was good to get that additional insight in terms of how we're thinking about specific business strategy and addition getting insight into some of the different growth vectors that we're looking at over the coming years. And it's now my pleasure to turn it over to Don McGuire, who will give us some additional insight into our financial outlook.

PRESENTATION

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Thank you, Chris. Good morning, everyone. It's great to be here today, especially great to meet some of you for the first time. We've been over a lot this morning. We started with Carlos' vision, Don showed how that vision shapes our technology efforts and Maria talked about our go-to-market strategy. And then with our panel discussion, we've heard how all this comes together at the business unit level.

Now to wrap up this day, I'd like to talk to you about how we believe this vision manifests itself in our financial performance. I'd like to first set the stage by highlighting some of the characteristics that I really believe set ADP a part as a company and as an investment. And it's essentially 2 things. We have a proven, resilient, attractive business model that steadily grows earnings and cash flow year after year and has done so for decades. And we have a well-established, balanced, consistent financial framework and strategy that over time has guided us to effectively balance growth investments with delivering shareholder returns. And what that means is, as a shareholder, we think you're positioned to benefit from predictable, sustainable growth in revenue, profit and cash flow.

So why own ADP? Let's expand on that idea. If you're an investor or an analyst, what about our business makes it so attractive. I'd bucket this into 3 key areas. There's our diversified, high-quality earnings profile marked by a high proportion of recurring revenue, and ADP's broad market leadership. There's robust cash flow, which funds our growth as well as consistent cash returns to shareholders. And then there's the strength of our balance sheet, which offers a highly visible testimony to our disciplined, resilient and long-term approach to the business.

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Our cash flow priorities remain consistent. And although we generate significant cash flow, we have and do prioritize it in a clear and consistent way. First and foremost, we invest in high-return organic growth projects to ensure the business keeps growing. Second, when the opportunity is right, we will actively participate in M&A. Finally, we distribute excess cash to our shareholders through a growing but sustainable dividend and ongoing share repurchases with the remainder.

Let's look at each of these a little more closely. We have a high-return options for our organic investment. Having ample opportunities to invest organically is key to sustainable growth. And we do have several high-return areas to do so. We group these opportunities into 3 main buckets: the core competencies of ADP, our leading product, our sales and the deep service we provide to our clients. In product, our investment in R&D has steadily grown, and you're seeing the results with a great advancements in RUN, Workforce Now and our Next Gen offerings. Our technology has come a long way, but we're not finished and have further opportunity to invest and improve. And as Carlos said, we're also continuing to simplify that portfolio of technology we have in the market. And in many cases, that means making investments in migrating clients from our modern tech stack -- to our modern tech stack from older platforms, and that's an investment that makes absolute sense when executed well.

With our go-to-market investments, we see plenty of runway to push forward. We are growing our sales force, as Maria outlined. We've been increasing our marketing budget, and we're seeing great results in response. You heard Maria talk about our focus on digital and more sort of brand marketing. And we continue to grow our channel partnerships with accountants, brokers, banks and other partners who introduce us to new potential clients every day. Finally, when it comes to service, we continue to make investments in digital capabilities, operating efficiencies and better implementation to drive gains in speed and efficiency. Judging from our positive Net Promoter Score trends, we're doing very well here, but have more room to improve.

For M&A, we will remain sportful but disciplined. To be clear, we have many potential deals we look at each year. What we're most interested in are technology solutions that extend our product suite for which we can drive synergy by leveraging our leading sales and service organizations. We also see significant opportunity to expand our geographic footprint in a number of markets where we have a smaller presence today. But with that said, we insist that anything we buy has to offer a very clear enhancement to our offering or footprint. We also need to consider 2 additional factors.

First, we've spent the past decade, simplifying ADP, and we still have a way to go. If a target would add significant complexity or redundancy that would be a high hurdle for us to clear. And second, the valuation must make sense. At ADP, we don't want to grow at any cost, paying too much is an easy way to destroy shareholder value. We've made and grown investments significantly over the years. And we've also done so while accumulating an impressive history of shareholder returns. Since FY '10, we have returned a cumulative $24 billion to the owners of our stock. And we've now raised our dividend 47 years in a row, which puts us in a very elite group.

Remember, these growing shareholder returns are still secondary to our investments into the company. But we think a healthy and productive level of investment into the business will naturally drive growth that produces a very consistent trajectory of shareholder cash returns and what you get is something that looks like this slide. Our capital structure approach is balanced. Another strength of ADP is our balance sheet. As you know, we have $3 billion in debt on our balance sheet. But relative to our earnings, that's still very manageable. We are committed to a strong investment-grade credit rating for practical reasons, which you see here. As we look ahead, you should continue to expect us to increase our debt as our capacity increases.

One last topic I want to cover before our outlook is client fund interest. As you know, falling yields have created a headwind to our financials for over a decade. The magnitude of the headwind is made clear by the fact that interest once represented 40% of our earnings, whereas today, it's down to the low teens. But here's the good news. First, this means we've grown our overall revenue and increased our margins quite nicely despite this headwind. And second, the fact that we're much less levered to interest rates means we're less exposed to significant macro events than before. So as a shareholder, this is hopefully something for you to be excited about.

We often get asked whether the low-yield environment has triggered any change in our client fund strategy. And the short answer is no. And our priorities remain intact. Our responsibilities to our clients, the value of our reputation and the critical role we play in the financial infrastructure of the U.S. and other countries require us to prioritize the safety of principal, liquidity and diversification above all. But within those constraints, we

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do make tactical decisions as we are active investors in the fixed income market. And we'll continue to make thoughtful, tactical decisions going forward.

Let's move on from our strategy to our actual outlook. Our medium-term objective for ES bookings, Maria already spelled this out, but I think it's worthy of repeating. The investments we're making in product and go-to-market are primarily designed to drive this number higher. Although we talked about bookings all the time, and you've gotten used to hearing about it as a simple metric, the reality is there are many underlying contributors across the portfolio that drive these new sales every year. A multiyear trend in bookings is probably the best validation of the strength of market conditions and our strategy. We raised our bookings guidance for this fiscal year just a couple of weeks ago and that outlook would bring us to about $1.7 billion in ES bookings for fiscal '22. From that level, we're targeting 7% to 8% ES bookings growth rate higher than the 6% CAGR we've had from FY '10 through this current year.

Our retention rates were trending higher into the pandemic as we began to benefit from consolidation and enhancements of our solutions that we executed across the down and mid-market. As you know, our 92.2% revenue retention rate over FY '21 was an all-time record, driven by strong fundamentals, but also supported by the pandemic. In fiscal '22, we've guided for a modest partial reversion as some pandemic-related benefits dissipate, but we still expect to end at a record level, excluding the pandemic. And we feel quite confident that our clients are happier than ever on our solutions. Therefore, we believe it is reasonable to expect a relatively stable retention performance over the medium term and these record levels.

One thing to note is that our HRO and small business divisions do have lower retention rates than we see in ES overall, driven in part by greater out of business rates. So underneath the hood, what we've been contemplating is continued improvement in client satisfaction and retention on a business-by-business basis. But with some modest offsetting headwind from mix shift towards these faster but lower retention businesses. Our medium-term objective for PEO worksite employees. We've been excited about this business for decades, and you heard from Alex during the panel about how much opportunity we think there is particularly coming out of the pandemic.

For fiscal '22, we're also getting a nice bump from employment growth, which we think gets us back to trend line. The outlook here is a function of 2 things: we think industry tailwinds will continue to support very healthy demand. And we think we have a differentiated offering in the market with a strong platform in Workforce Now, unmatched benchmarking and analytics, Marketplace Wisely and more.

Over the medium term, we think high single-digit growth is a very achievable outlook to deliver year-in and year-out. But like everywhere else, if industry tailwinds coming out of the pandemic proved to be even stronger than we're anticipating, we'll do everything we can to maximize the opportunity and drive growth even higher.

For client fund interest, the recent uptick in yield curve will help us out a bit over the coming years if it holds. Just a few months ago, we thought -- we maybe flatten out in the 1.3% to 1.4% average yield range over the medium term, but now it's looking more like 1.5%. But as we've said in the past, you should expect over the long term client fund interest revenues to be driven mostly by portfolio balance growth, supported by client count, higher pace per control and general wage inflation.

Our medium-term revenue objectives. We've been through the main drivers. There are some other pieces of our outlook outlined here.

For our ES segment, we have the combination of our 7% to 8% bookings growth and our outlook for stable retention as primary drivers. We also have an expectation of 50 bps of contribution from price, depending on inflation and another 50 bps from pace per control growth, and this results in a 6% medium-term outlook for overall ES revenue growth. For the PEO, we start with our high single-digit assumption for work site employee growth and they layer in a low single-digit benefit from higher 0-margin pass-throughs and general wage inflation. We expect PEO revenue growth to be in the 10% to 12% range over the medium term. On a consolidated basis, we expect total ADP revenue to grow 7% to 8% over the next few years.

Looking now at our margin expectations, we felt that the best way to frame our outlook ahead was to highlight the key factors driving margins over the medium term while also highlighting some that will benefit us longer term. First, as always, we have operating leverage. As we grow 7% to 8%, we'll get natural margin improvement even while we reinvest to drive growth. Second, as we've outlined for a few years now, we have a

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transformation office working on a pipeline of initiatives that we plan to pursue to drive additional discrete expense benefits. Third, and partially offsetting these 2 drivers, we expect continued strong growth of our PEO business will create some pressure on our reported margin. The PEO has high underlying margins when you remove 0 margin pass-throughs. But because we have to include 0 margin pass-throughs in our revenues, the margin as reported is quite a bit lower. This will continue to be a headwind.

Over the longer term, there are 2 other additional sources of margin improvement for ADP. First, upward movement in interest rates will benefit our client funds interest income, which is effectively 100% margin, and this can be meaningful if the move is large enough. Secondly, there are additional margin improvements we expect to realize as our clients transition to our most modern platforms, particularly in our upmarket and outside the U.S. It took us several years to get through the U.S. small business and mid-market transitions, but now we're really starting to realize that benefit in our margins. For the rest of ADP, the transition is ongoing, and we expect to get the same end state where we see benefits in retention, reduced maintenance spend and ultimately higher margins. But it will likely fall beyond this medium-term horizon, so something to look forward to in the future.

Summing all this up, what can you expect from ADP over the medium term? We expect revenue growth of 7% to 8% per year, supported by about 6% ES and 10% to 12% PEO growth. We expect our adjusted EBIT as measured in dollars to grow 10% to 12%. Embedded in this objective is a net annual margin expansion of approximately 75 bps, driven by operating leverage and expense initiatives. The more important number to us and the real target is the adjusted EBIT growth because that won't be affected at all by the zero-margin pass-throughs. Together, this should support medium-term EPS growth of 11% to 13%, assuming we continue to retire around 1% of our outstanding shares each year when added to a 2% dividend yield this would bring total shareholder return of 13% to 15%. And as a very important clarification: These are growth figures we expect we can deliver in a typical year over the medium term. But if demand for HCM and for HRO sees continued strong tailwinds, then we would look to exceed these targets.

What we expect you to take away. ADP is in an attractive industry with significant tailwinds that position us for a long runway of durable organic growth. Our leadership in the market is supported by a consistent and effective commitment to reinvest in product, sales and service. ADP's drive towards simplification has now resulted in ADP having less complexity and record level client satisfaction. Every single business within ADP has a clear strategy to either sustain growth at attractive levels or reaccelerate growth. Our financial model and steady approach should drive an attractive 7% to 8% revenue growth plus margin expansion to get to 13% to 15% TSR in the years ahead. And we'll look to exceed that if we can. Thank you so much. We'll take a quick break, and then we'll move on to some Q&A. Thank you.

Chris D'Ambrosio - *Automatic Data Processing, Inc. - Chief Strategy Officer*

Thanks, Don. So we are running a few minutes ahead. I think everyone would enjoy if we allocated a few more minutes to Q&A. So I think we'll actually start the Q&A at 1105 Eastern, which should give us enough time here to regroup. So we'll see you back then. Thank you.

(Break)

QUESTIONS AND ANSWERS

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

All right. Welcome back, and thank you for joining us here for our Q&A session. For those of you again who have submitted online, thank you very much. For those who haven't, feel free to do so, and I've got my handy dandy iPad here and the questions show right up.

And we've got, of course, Don McGuire and Carlos, but also available is the rest of our leadership team here. So with that, let's get started. Dan?

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Dan Dolev - *Mizuho Securities USA LLC, Research Division - MD & Senior Equity Research Analyst*

Great Analyst Day. Great job. So if I think about your medium-term guidance -- this is Dan Dolev from Mizuho, just to FYI. If I think about your medium-term guidance, it looks like you moved up the ES growth by about 50 basis points from the one you issued in '18, and the PEO moved down by a few hundred basis points. Can you maybe talk to us through some of the puts and takes? Kind of if I do a side by side today versus where we were in '18, what is looking -- what is the outlook for both businesses and kind of like that apples-to-apples comparison? And then I have a very quick follow-up.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Sure. I'll let Don chime in. But since he's -- how many weeks have you been in the job?

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

6, 6 weeks, so the '18 question definitely goes to Carlos.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Yes, exactly. So I'll do the '18 reference. So the PEO has a lot of different components, as you know, including what we've talked about a lot today, the zero-margin pass-throughs that really don't have any impact on EBITDA growth or EPS growth, but it affects margins and so forth and also affects the top line in terms of the revenue.

And we learned the hard way, ironically, in that presentation how that can vary because shortly after that presentation, we were positively surprised by lower health care inflation, which lowered our zero-margin pass-through growth and hence, lowered the revenue growth we're getting from the PEO. No impact on cash flow, on profitability or anything but just the optics.

And so some of this is that we -- about not knowing what the true health care inflation is going to be, if we get higher health care inflation, the PEO could grow faster. But really, what you should focus on is the average worksite employee growth and our ability to grow our processing revenue slightly higher than that, which then creates scale and leverage for profitability. That's really the right way to look at the PEO question if you will. I don't think that 100 basis points more or less on the top line is the most important thing because of the pass-throughs.

On the ES side, I don't know, so that one, I don't remember exactly what we said that day, but the growth rates for ES are pretty much driven by the size of our sales engine in comparison to the size of the revenue base. And some of this is probably related to our assumptions about our ability to grow our bookings at a slightly faster pace as you're seeing than what the revenues are, thereby, over time, lifting our revenue growth slightly year after year if you will.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

I can actually add a little more color to that too, Dan. So in addition to the main factors that drive our revenues, so that's bookings, of course, retention, pricing, pays per control, there are some other factors that don't quite get captured in that waterfall. So as an example, we've got a Wisely business now. The growth in Wisely doesn't show up anywhere in that waterfall. Likewise, we've got a recruitment outsourcing business, tight labor market and you get some contribution from companies hiring more people. So it doesn't show up in the waterfall, but those small things do add up and they contribute to the growth.

Dan Dolev - *Mizuho Securities USA LLC, Research Division - MD & Senior Equity Research Analyst*

Can I ask a very quick follow-up or...

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Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Sure.

Dan Dolev - *Mizuho Securities USA LLC, Research Division - MD & Senior Equity Research Analyst*

This was very thorough. And Carlos, maybe a long-term kind of strategic question. I think ADP has been an amazing stock, and we're very happy with it. I think that kind of the long-term bull case for a lot of people is you really making a -- turning the corner in the enterprise business because that's where the multiples are very high for some of your competitors. Like how should we think about the next few years? Like how aggressive are you? Do you intend to be in that particular area of the market?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Well, I think you're maybe touching on the right tone, which is that's really the upside for us because that's part of the reason why we provided the disaggregated view, so you could see what the potential is. But as you know, because of the -- one of the nice things about our business is the recurring revenue in nature. But the other part of it is that it creates a lot of resiliency on the downside, but on the way up, it takes a while.

So if we were to grow our bookings in the upmarket as a result of the simplification strategy, along with next-generation technology, et cetera, clearly, that would accelerate our revenue growth and it would accelerate our ability to generate margins there, et cetera, but it would do so over a relatively long period of time. So again, unfortunately, nothing in ADP really is being done or is built to generate results in the next quarter or in the next year.

So I think you're right. That's why we've been doing what we've been doing for so many years, is we expect that for the next -- this is a foundation whether it's Next Gen HCM or Next Gen Payroll or data or the UX. All those things are really intended to move. It's related to your first question, which is to move that growth rate up, hopefully, 50 basis points, 100 basis points because it makes a huge difference, especially if we maintain record retention rates and we continue to execute on our sales strategy and so forth in terms of cost per sale.

So it's not -- so I would say, when you look at the disaggregated view, there's optimism in terms of the upside there. You can tell based on what we have versus what you know to be the market opportunity. On the other hand, we have $15 billion in topside revenue. So you can just imagine what we would need to get in terms of bookings to then drive that revenue growth to really be -- make a difference for us.

But that's exactly what the plan is. We've done that with our downmarket business. We did it in other parts of our business with the PEO, and the idea now is to do the same thing with our mid-market business and the upmarket business and then international as well and then continue to keep this train going for the next 10, 20, hopefully, 60 more years.

By the way, the one group you didn't hear from earlier today was the legal group. And they did tell me, based on my comments about our 60-year performance, that past performance is no guarantee of future results.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

All right. While we transition to the next person, I do have an online question, a perfect softball for you, Don. So the question is what is medium term.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Yes. So we're talking about the next 3 to 4 years, is what we're talking about in terms of medium term. So we specifically and purposely didn't try to put out bars year after year beyond FY '22 because we were a little bit concerned that people would get out the rulers and draw across the axis

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and think they know what our earnings were going to be and our revenue is going to be for each of the upcoming years, and that wasn't the intention. So very much talking about the trends and talking about that mid-3- to 4-year horizon is what we're talking about beyond FY '22.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Kevin?

Kevin Damien McVeigh - *Crédit Suisse AG, Research Division - MD*

Carlos or Don, the business is significantly transformed from a digital delivery perspective. Where are you on that journey today? And then with more of the real-time pay, how does that tie into payments overall as -- because part of our thesis is the lines across payments and payroll blur with each passing day from a technological perspective. Where are you, I guess, on the front end in terms of digitization, the back end? And then ultimately, what can that mean to payments overall beyond traditional payroll?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Hope we have all day for that answer. So I may phone a friend for a minute and in a minute and ask maybe John to talk about overall in terms of where we are in that journey in terms of digitization because there's been a ton of work that's been done. And it's not just on the intersection of payments and payroll, but it's also around a lot of other parts of our business that you heard about from a lot of the people on the panel today.

So for example, digitization for us also means onboarding clients, like how easy it is to do data conversion. Like this is a complicated business. It's really not like some other businesses where you download an app and you perform a function, et cetera. It's -- the business in the back end is difficult and complicated, and we're seeing it with a lot of these regulatory changes. And it's as complicated when you're onboarding a new client, very complicated for upmarket clients, but it's also very complicated for small clients.

When you're bringing over, for example, balances, right, if a client is in business and they have 20 employees, they have X number of years of tax records and of earnings information that you can't just ignore. That's important in terms of -- especially if they're coming in the middle of the year, if you want to have a correct W-2, you got to move all that information over. So the digitization of that implementation process and that onboarding process is an important part of the overall digital strategy.

And then on the service side, you heard a lot of the things that we're doing there. And then there is work being done, for those of you who are not aware, I think Don may have touched on in terms of our next-gen tax engine, but some of the things that we're doing around our kind of back office to be able to modernize there as well to be able to really accomplish what you're describing is underway.

It's not something we talk about a lot because it's not the most exciting thing for the average person, but it's exciting to us because it creates the foundation and the infrastructure to be able to do, I think, what you are alluding to. But I don't know if John maybe has a general comment about kind of just overall where are we in terms of maybe I'll use a sports analogy. Everybody knows how much I know about sports. But maybe if there's 9 innings and -- I think it's 9 innings in a baseball game. Like what inning do you think we're in, John, in terms of the digitization?

John C. Ayala - *Automatic Data Processing, Inc. - President of Employer Services North America*

Yes. For me, I think we've talked a lot about the front ends of our product, modernizing the front ends of our product, modernizing our implementation tools, using technology to solve all those problems. The piece that you probably haven't heard a lot about is the stuff that we do in terms of the back office, modernizing the back office.

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So I think I'll give you an example. Today, garnishments, which you can imagine how many garnishments we process as ADP. About 60%, 65% of those garnishes that come in, we don't even touch anymore. Systems take them, distribute them to the agencies and process them. So there's been a lot of work on just modernizing our back office in a significant way.

The biggest one, if you ask me, is going to be Pi. Pi and our real engine, our real-time engine that we're building today will really significantly change this company in a meaningful, meaningful way just because it really is going to be the heart of a lot of things that we connect with.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

And the modernization, again, of Pi along with N8, which is our tax engine, I think enables the payments that you're talking about or our ability to be more bold in that space and expect more growth.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Ramsey?

Ramsey Clark El-Assal - *Barclays Bank PLC, Research Division - Research Analyst*

Ramsey El-Assal from Barclays. I wanted to ask a couple of questions about your -- about sales. And one has to do with international. To what degree are you seeing any type of a mix shift in international to actually selling into clients who are in market rather than cross selling into existing customers that might have international business? How would you kind of parse out the growth drivers of that above average growth in international?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I don't know if we have Virginia or -- but if not...

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

I'll do the...

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Surely, 6 weeks ago, you could answer that question. So hopefully, you can still answer.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

So I think the mix of sales international is -- if I back up a little bit before I get to your direct question, I think what we're seeing and one of the reasons that we're so optimistic and one of the reasons that Maria talked earlier today about increasing the headcount in international for sales is that we've really changed our approach. And so we talk a lot about, internally, we've called things best of breed, and that's really a single product or a single market sale. So you go to a German opportunity or a French opportunity or a Singaporean opportunity, and you sell into that specific opportunity. That's not the way our sellers think or act anymore.

The way they act is they show up and they show up or they do it virtually using our digital tools, and they say, "So where do you do business?" And if the answer is we do business beyond this single country, that's where we start. And so we really start by trying to make sure that if someone's doing business in 6 or 7 or 8 countries that we start with that multinational, that multi-country opportunity, and that's relatively new to us over

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the last couple of years because now the Celergo tools, the streamlined tools, the GlobalView tools, have come together so well. So we've been able to do that, and that's really accelerated our growth in that multi-country payroll for Celergo and for GlobalView.

So if I then move on to where do we get most of our opportunities, I think the opportunities in international, I think, are very similar to other parts of the market. So we get more than 50%, kind of 55%, 60%, if you will, of our -- they're new logos, brand new. And then we get 50% -- a little bit less than 50% from existing clients and making sure we reach out and say, "Hey, we noticed that you've got a payroll in Uzbekistan and we're not doing it. So can we do your Uzbekistani payroll?" And, "Yes, you can." So that's the other side of it.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

And I think if I can just add on the international side, back to the disaggregation of the businesses, and we talked about upmarket being an upside for us, this is a way underestimated upside for us, is international. And I would confess that if -- when I look back at the goals I set for myself 10 years ago, we accomplished a lot of goals and the one that I feel despite what's been actually good performance in our international business, because of the size of the opportunity there, like my sense was that we had more opportunity there than we've been able to execute against.

Now some of that is Don, to his credit, has been the simplification part that was so important to other parts of ADP is -- it's the same picture in international. There's a lot of work that has to be done to create the right foundation. Hopefully, we're getting there. We're making progress in that direction. But I think people way underestimate the size of the opportunity because when I went into my job, to me, that was the most obvious thing to do and it's where I would say I'd fall in the most short. And it's not because the business hasn't performed. It's just the business didn't perform as well as I thought it could and as well as it should based on market share.

Ramsey Clark El-Assal - *Barclays Bank PLC, Research Division - Research Analyst*

Interesting. One quick follow-up. It was interesting also to hear Maria talk about the seller partners ecosystem, going to market through partners. I'm just wondering to what degree does that represent an opportunity in and of itself. How do you go about expanding your partner network or moving into different categories of partners? Is that an opportunity? Or is it sort of the table sort of set is -- will stay?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Well, I think in that show, I forgot what it's called, you get 3 phone a friends or something, 3. So I'll go to Maria and see if Maria can help with that one.

Maria Black - *Automatic Data Processing, Inc. - President of Worldwide Sales & Marketing*

Yes, absolutely. So if I follow the instructions, I'm supposed to go to the X, right? Something like that. Yes. So listen, as it relates to our partner ecosystem, we're certainly, as I mentioned today, very, very proud of the partnerships that we've had, in many cases, over 70 years, that partner all across the small business, mid-market and upmarket.

And so when you think categorically about finding new partner relationships, that's a big piece of our strategy. Where else can we partner? And you've seen that evolve. I would say the mid-market is a good example of that. Over time, we've developed more relationships with brokers and retirement services. We've continued to evolve our relationships with financial advisers. And so in terms of forging new partnerships, it's always on our radar.

In addition to that, and I mentioned it, we don't take that trust lightly as it relates to the partnership. And a big piece of what we do and our value proposition at ADP is about the tools and the functionality that we actually give back to the partnership. So we have through -- as an example, in our small business segment, we have a specific portal that's dedicated to the CPA and the accountant community called Accountant Connect. We've been building this now, gosh, it's probably 8, 9 years-ish. Time flies. Started as a portal for CPAs, as an example, to be able to see their

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aggregate number of clients that they support. But today's version of that Accountant Connect also has the influx of, as an example, our DataCloud, data analytics, tools that actually will give the CPA the ability to have a modern way to engage with their clients and their clientele.

So it's just one example. We're doing similar work with financial advisers, doing similar work across different pieces of our partner ecosystem. So clearly, a big part of our strategy, a place that I believe we've been investing for years and are going to continue to invest in existing relationships as well as forging new ones as they become relevant to the market.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Maria, wait. A question from our virtual audience. Saving you a trip. Maria mentioned putting more side-by-side comparisons in front of clients. What's the story those tell today? Maybe this is for Don as well. Are there particular strengths or weaknesses across customer segments?

Maria Black - *Automatic Data Processing, Inc. - President of Worldwide Sales & Marketing*

Yes. So absolutely. So by the way, I welcome all of your feedback as you do head out to adp.com. We recently refreshed adp.com, our website. And on there now, you will find some head-to-head comparison pages. And the layout is very simple, right? So back to what do they show, they show a lot of incredible green checkmarks on the ADP side of the scale. And certainly some products and features and functionality that exists across our competitive set as well.

So from a by design perspective, I think the places that we really stand out is, again, the breadth and depth and the reach of the functionality within our products. I think if you look at the list, if I think about one of these comparison pages in the down market or the mid-market, I think what you would find is, again, the feature functionality, the ability to serve across various means has a lot of green check on the ADP side, and sometimes there are some gaps that exist among the competitive set.

And it really comes back to who we are and what we've been doing for as long as we've been doing it. So when you think about selling 170,000 new logos in a given year or you think about serving 920,000 clients, we have a lot of different places that we serve that have created a lot of feature functionality that really continue to put us in a competitive place where we are able to win. And that shows in these comparison pages.

So I don't know, Don, my -- can I phone a friend? Is that also how it works?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Well, you can use 1 of my 3, but go ahead.

Maria Black - *Automatic Data Processing, Inc. - President of Worldwide Sales & Marketing*

I'll use one of mine. But I don't know if you have anything else to add on the comparative pages.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

We feel good about our products, and we're happy to highlight the differentiators against the competition to the market.

Maria Black - *Automatic Data Processing, Inc. - President of Worldwide Sales & Marketing*

That's right. That's exactly right.

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Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Very proud.

Maria Black - *Automatic Data Processing, Inc. - President of Worldwide Sales & Marketing*

Loud and proud.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Mark?

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

It's Mark Marcon from Baird. When we take a look at the new bookings on the ES side, traditionally, it was more skewed towards new logos. Historically, it's become more balanced in terms of new logos versus upsells. I'm wondering, of all the major opportunities that you've laid out, which opportunities are you the most -- which would contribute the most incrementally to the new logos? And which ones would incrementally contribute more to upsells?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I think that the answer to that question is probably rooted in -- to some extent in our size and our scale, which -- because the short answer is it's going to continue to look like the way it has looked for the last decade. And I think you'd have to go back further than 10 years. Danny may be able to help me with this. But I've been looking at this for a long time, and it's always been about 50-50.

And then during ACA, it skewed a little bit more. I think it was either 55-45 or even maybe 60-40, but then it went back to 50-50, again, in terms of new logo versus upsell. And I think that's where we are today in the last couple of quarters, the last couple of years despite pandemics, despite everything else. And I think some of that is, I hate to be simplistic, but I think it's just the number -- the law of large numbers. The numbers are big. So it could change over time to do some kind of strategic shift.

But what you heard about this large installed base that we have, so we're going to keep taking advantage of it. We're going to keep moving clients up to HRO, which, as you know, it doesn't mean only PEO. We have other HRO solutions. We're going to continue to add additional products and services. You heard about the complementary services that we have that are available. So I would hope that the combination of those 2 things will allow us to grow the overall bookings that the number that you're seeing here without worrying a lot about we have to -- like our plan is not that we have to get 70-30 now in order to hit these goals if that's the question. Like we expect business as usual as we go forward. I don't know if that makes any -- if that's the right answer in terms of the...

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Well, that is right. And actually, we do have a related question online. It's ADP is targeting 5% ES growth. Excluding pricing in PPC, how much of that is being driven by underlying client growth? And then can we drive that higher? So exactly to your point, Mark.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

And it would be obviously related to the 50-50. Some of it is from -- some of that revenue growth is from upgrading. Some of it is from new logos as well. That combination is what gets you to the 5%.

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Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I guess what I was trying to get at was, within the new logos, like is it RUN? Is it Workforce Now? Is it international? Where do you -- you presented so many different opportunities, so many exciting opportunities. I'm wondering which ones are you the most excited about in terms of contributing to the new logos? And then of all the upsells, which ones are you the most excited about?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Got it. Well, I thought you would be happy with the disaggregation we gave you, but obviously, you're the man who wants to go 2 levels deeper. So it's good questions. In terms of -- because I don't think we're prepared from a planning standpoint and especially from a medium-term standpoint to get into the details of which pieces of our business are expected to drive more new logo growth than others. But when you hear our tone today, I think -- I don't know if it was clear, but we're excited about all of them.

And again, back to the law of large numbers, it may not be obvious to everyone, but we don't achieve these goals and we haven't achieved these goals for 60 years without having -- we do have every now and then someone who's a little bit further behind than someone else. But eventually, everyone has to contribute because the numbers just don't work unless they do.

So I'd say that the last strategic planning cycle and as you know, things don't always work out the way you plan from a strat plan standpoint, but we expect to have strong logo growth, for example, in the mid-market where maybe 5 years ago, it was tougher because we're coming out of ACA. We had some competitive challenges. We migrated clients. We see some underlying positive things happening there competitively and otherwise that would lead us to believe that we can generate global growth. You heard this about the upside in upmarket. You heard about our enthusiasm about international. And I don't know how you can't be enthusiastic after Joe's comments. So I think the answer is all of the above.

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Can I ask one follow-up? John was talking about source of pay and fintech. I'm wondering, can you talk a little bit about the business model for Wisely in terms of if you get -- if you go digital versus the card, how should we think about that? Because you obviously have a huge opportunity in terms of your installed base as you penetrate. So just where are we in terms of the percentage of clients that have taken Wisely? You mentioned 20 average transactions, what are the economics behind those transactions?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So John can help with this as well. But I don't think -- again, it's just a matter of word choice. Like we, years ago, started calling this card. It's really a digital wallet. So it doesn't -- you don't have to have a physical card. That's kind of old-school stuff. So we got to maybe get that out of our lexicon in terms of calling it card. It's just the way we've been referring to it.

I don't know if, John, if you want to talk a little bit about where we are. We're obviously in early innings. We bought a platform not too long ago. We had some work to do. I mean I think we've been somewhat transparent with folks in terms of what our goal there was, was to build, like we do with a lot of things, a strong foundation from which to grow.

I think that's all behind us now in terms of that integration, if you will, of Global Cash Card, which by the way, meant us moving onto their platform because that was part of the idea. And we've achieved a lot of the objectives of that acquisition, particularly the ones around back office and also scale and margin. And now we need to get the growth from it.

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John C. Ayala - *Automatic Data Processing, Inc. - President of Employer Services North America*

So Mark, you know we've been in the card business for a while. And it used to be that most of that business came from companies that wanted to provide cards for their employees. They didn't want to have checks. They didn't want to do direct deposit. They just wanted to provide cards.

What we're really excited about is what I talked about, which is that moment of truth now that we can provide Wisely however they want it. Now you asked a good question, which is do we make less money or more money digitally. Whether it's with the card or not, it's the same. Basically, our approach is to try to -- and you saw it in Don's presentation. If we believe that if we create great features to keep people on the card so that they use it, we eliminate as much friction as possible because we know in the consumer space friction is the enemy, so eliminate all that friction, give them really, really good tools and then have a fair value proposition there, right, make the fees reasonable, do right by the employees, make it valuable for them, make it easy for them to get it. We think that's going to be a big winner for us. But specifically to your question, we make the same money digitally and with the card.

The truth is, is that we -- everybody talks about digital wallets, but you need a card because you can't use digital everywhere you go. So it has to come with a card. It's really the same thing. It's -- you can use it on your phone, or you can take your card out when you really need it to pay.

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Can you talk about the interchange fees? And what the cost of funds are?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

No.

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. That's a try.

John C. Ayala - *Automatic Data Processing, Inc. - President of Employer Services North America*

Thank goodness for that.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Mark, it's not debit interchange. So this is not ruled by Durbin, so they're attractive. We can share that. Over this side, Tien-Tsin?

Tien-Tsin Huang - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes. Tien-Tsin from JPM. I wanted to ask -- just listening to you guys talk about sort of a shift towards the consumer, shift towards the employee, in my head, I'm thinking is there a consumer platform hiding inside of ADP. But curious of your response to that. But just the thinking around servicing the employee or the consumer, is there greater risk to invest heavily in tech? And then also, is there opportunity to reduce support costs if I'm thinking about it from a P&L perspective given that shift?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I mean Don can chime in, but I think we're there already. Like we're talking about other things like consumer finance, et cetera. But I mean anyone who talks to people who use our products, I think, knows that we're -- we've consumerized our apps and our technology for sure for the employees.

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Like there's no way that a client comes to us today unless they believe that their employees are going to use self-service. They're going to get information on their own. They're going to make their own changes as long as they're simple changes. That's a prerequisite in today's world. So we had to make that transition, I think, to the -- to being able to deliver to a consumer if you will. So that's, I think, a given.

Now whether or not there are incremental opportunities, I think there is something hidden. I don't know what you want to call it because, today, we serve tens of millions of consumers already because of what I just described in terms of their interactions with ADP.

And just as an aside, again, back to being a student of history, for those of you who followed ADP for a long time, I mean, ADP never talked to employees or interacted with employees. I mean that's a -- that was like a no-no. And in fact, I don't even know if we published our phone number or any information about ADP because we don't want anybody calling us. It just wasn't -- it wasn't part of the business model.

So that's probably 20 years ago already, where we made that transition and we understood what we needed to do. And I think what we've done now is we've taken it to the next level so that people have the same experience on the ADP app that they have on Amazon or their bank or their brokerage firm or on whatever they're using out there in their consumer world. And that's what the clients expect from us. And when we go to an RFP, that's what we're being evaluated on in addition to all the other things, the regulatory compliance, the expertise, the tech for the practitioner.

The last thing I'll say on the consumer side is that, again, when we talk about this large number of clients in our downmarket business, there's a -- that line is blurry. I mean those clients are also consumers. Like it's not unusual to have the person who's using our apps be a person who has a small business who is a practitioner, but at the end of the day, they're also consumers. So we've had to kind of sharpen our skills, especially in the down market. And you see it in this kind of this new RUN experience manifested that we have to be able to behave and act like any other great consumer apps out there do.

But I guess the bottom line, though, is that back to your -- I think it's an underlying question. It is not clear. We believe, in addition to upmarket, in addition to international, in addition to all of these other opportunities that we have for the long term there is something hidden within ADP on the consumer side that is an opportunity. And John is trying to figure that out by putting more focus on it and breaking out into a different strategic business unit, which historically has helped us uncover what those opportunities are and then execute against them rather than having them get lost within the broader organization.

Tien-Tsin Huang - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes. I appreciate you going through that because when I think about it -- because that's how I started following a couple of decades ago and that was a big change, I remember. My follow-up is just on the PEO side. I know there are some tailwinds that are probably brewing here on the PEO front. Can you get into another gear on growth on PEO from a tech or from a servicing perspective? So a similar question down market, but just feels like there's also a lot of opportunity around PEO from here.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I mean, again, the challenge is that we try to talk in terms of medium term here, but I would say, in the short term, I don't know if Alex has a different view. But based on what I'm seeing in terms of bookings and which, by the way, now makes it -- now we got to like go out and make sure we have the implementation resources and the service, infrastructure and so forth. But it doesn't feel like a tailwind. It feels like a hurricane coming. And hopefully, it's spinning in the right direction to help us forward.

The question is, of course, is that transitory like everyone talks about and it's like my new favorite term besides flywheel, transitory inflation. And I -- that remains to be seen. So I think it was right for us to be, I think, careful in terms of our -- because the PEO is getting big now, and it's at a big scale but it feels like in the short to maybe half the medium term that we're going to have quite a lot of tailwind at our back here in the PEO.

And I think it's all the things that Alex talked about. He said it -- I couldn't say it any better in terms of all the things that are driving that. It's not the first time we've seen this, like when the PEO has done well through multiple business cycles. But when labor markets tend to get tight, that's when

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the PEO -- people pick the PEO because when they have an opportunity to hear about it and they have an opportunity to engage with someone on what they're going to get from it because it's a high involvement decision and so when -- in this kind of environment, where there is a lot of regulatory uncertainty or I don't know where I'm going to get people or I just lost my payroll person, I don't just need software, I need a payroll person.

That's an opportunity for outsourcing, whether it's HRO or the PEO. And I've seen this now, and now that I've been here for a while, I've seen this 2 other times where the PEO gets some tailwind in this kind of environment when there's a "war for talent". Having said that, we've done pretty well in recessions as well because then people start looking for, "Can I trim my back office and outsource my payroll department, et cetera?"

So it's an all-weather business, but it seems historically to have performed better in this kind of environment with the tailwinds that we have. So then that means that we just have to figure out a way to take advantage of it, which means we have to have the sales capacity and the ability to onboard and execute and maintain those clients, keep those clients happy so that they're referenceable.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Bryan?

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - MD & Analyst*

Bryan from Cowen. A question on the sales force. So how are you thinking about the pace of sales force expansion you need to make to drive to the growth targets given the factors you've been talking about around productivity and digital sales? And does the model change at all when you think about the mix of direct versus inside going forward?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So I don't know if -- did Maria use the term inside? Because we're trying to like vanish that from our language because the lines are clearly blurred now. Like what's happened over the last 2 years makes it clear that it's going to be some combination of -- I don't think anyone's ever going to like go back to I only will have this person. You're only allowed to sell if you're in front of someone and then there's a different department if someone wants to engage virtually, right? It's going to be a mix of tools.

So where we left off pre-pandemic is we're already at about 1/3 of our sales force inside. But I would say that, today, we would say that 100% of our sales force is capable of selling virtually rather than using the term inside. So we're kind of blurring that line.

And then in terms of growth, we've always said that we would be looking obviously to get sales force productivity from things like new product introductions and some of it is also just from better sales tools, better execution. It's just like the way the world works, right? You want people to be more productive, no different that we want our service and our implementation associates. We expect the same thing from our sales force. But they also have some tailwinds from new products, from all the things that you're hearing about that we're investing in, right, that should make them more productive.

So in a crass way, getting half of our growth from sales headcount growth and half from productivity would be our general objective that will vary from year to year because right now, we have a lot of tailwind on the productivity side because of what's happened as we're coming out of the pandemic, right? We're not -- we just finally got back to the same productivity that we were at before the pandemic. And we have a little bit more room in the next few quarters to kind of continue to grow that. But I think over the kind of medium term and certainly over the long term, I would say it's a mix of sales force headcount.

So people really -- this stuff doesn't sell itself despite -- because I think people like to talk about digital marketing and how much they're investing in that. But all of our competitors add salespeople every year. Again, unfortunately, we're the only ones that disclose as much as we disclose about our bookings and about our sales force and so forth, so I really can't tell what's what. But when I do go and look at 10-Ks and so forth, I notice that

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companies that are in the technology space have very large sales force like Oracle, Microsoft. It doesn't matter whether you're in the down market or you're in the upmarket or in the mid-market. Everybody has a very large sales force.

And they clearly support them with digital tools and other productivity enhancing tools, but so far, no one that I know has discovered the secret to just the stuff just magically happening and the bookings just coming -- the fish coming just into the boat. I think that's the expression. The fish are not jumping into the boat. You got to actually still catch them.

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - MD & Analyst*

Okay. And just a follow-up on margins. So Don, can you maybe unpack some of that expected contribution to EBIT margin expansion, pure operating leverage versus some of the larger discrete initiatives over the next couple of years?

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Yes, at some point but certainly not on the fly from the stage today. Short answer so...

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

I'm actually going to ask one from the virtual audience. Well, actually, I'm going to bundle together 2 different related questions for you. So one is it's getting more difficult to find people in the current tight labor market. Are you doing anything differently to recruit and retain talent? And then related to that is the general impact of wage inflation on our business.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Let me start with the second part because that's better news. So wage inflation is generally good for us. It affects our balances and our float business. Not as much as you would think because the majority of that float income actually comes from the tax business. But certainly, wages are part of that. So wage inflation -- and by the way, wages can drive taxes as well because taxes are -- typically, government taxes are a percent of wages. So it's generally a positive for ADP. It's also a big positive in our PEO business where it's a unique billing model there where, at least in the short to medium term, our billings are expressed as a percent of wages.

Now if we get 10% inflation, clearly, clients come back and say, "I'm not going to just let you charge me 10% more because you're charging me as a percent of wages." But you get the drift, right? As long as there's reasonable inflation, the PEO generally gets more uplift from wage inflation than not.

So it's generally a positive for us in our business on a number of different fronts. But one of the challenges is, back to the talent question, which is related because the reason wages are going up, it's good old-fashioned supply and demand, it's hard to find people. And you have the -- whether you call it the reshuffling of people or the great resignation, it's a challenge for us as it is for anyone else.

We do think that we have a relative advantage back to the HRO business. If you're a company and you lose someone in your payroll department and you put out feelers or try to find someone and you can't find someone, we would think that we have a relative advantage in finding payroll people, HR people, benefits people, people who know time and attendance. That doesn't mean that it's easy. And so we are coping with the same things that others are coping with, which is trying to hold on to our valuable people and also trying to onboard new people.

And I would say that, at the end of the summer, the -- from what we've seen so far, again, a caveat on these are limited data points, the turnover peaked at the end of the summer, and we've been better in terms of our attrition. And likewise, our ability to hire and onboard also has improved since, call it, September 1.

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There's nothing magical about those dates. Some of it could be schools. It could be the end of unemployment benefits. I don't know what is driving it, and it's only a few months of data. So even though we do look at it weekly, so you have to be careful to jump to any conclusions. But we are concerned about that as any other company is in terms of making sure that we have the right resources to be able to deliver against not only our growth objectives, but the expectations our clients have in terms of the current delivery as well.

And in technology, that's another place where we cannot afford to lose our great technology people. And so we're very rapidly trying to figure out what this hybrid stuff works. We've -- we don't have all the answers yet. We haven't made any firm conclusions in terms of what hybrid work will look for -- like for us in the future because the one thing's for sure is we can't just make the decision without taking into account the reactions of our associates because they are the ones that deliver the results, whether it's in sales, in technology or in service. So unfortunately, stay tuned because that's a developing story, as we speak, for us and for other companies as well.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Okay. Let's go to Samad.

Samad Saleem Samana - *Jefferies LLC, Research Division - Equity Analyst*

Samad Samana from Jefferies. Great to see everybody in person today. One thing that really resonated with me today was the focus on innovation, R&D and consolidating the product portfolio. So I don't see, Don, but this could be for Carlos or you could phone in a friend. I think there's another one of those left still. I'd like to ask about the efficiency of that innovation R&D spend. With the Next Gen platform, how easy is it to develop new features and then include them across the portfolio? So whether it's in RUN or Roll or in Workforce Now, are we innovating around those separately? Or can we spread that innovation R&D at the same time across the product portfolio?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

It's my kind of question, a technology question, but one that has an efficiency twist. So Don, would you like to help with that?

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Yes, I'd love to. Thank you for that question because not that Carlos has ever asked me of that before. But I think, in some respects, you see a lot of that happening more and more today. A lot of the innovation that we talked about, really starting with our mobile platform, our DataCloud, our marketplace. We call that our innovation ecosystem, and it applies universally.

A couple of other good examples. Maria mentioned how we took the DataCloud and then move that into Accountant Connect. And then we took that Accountant Connect and DataCloud bundle, which was started in small business and moved that up now into the mid-market because we've got some of our accountant partners who have medium and small.

So I think, in general, you're seeing a much greater amount of reuse of innovation across the portfolio than we ever had before, some of that just made feasible by some of the architectures that exist in the technology frameworks. Folks have been talking about service-oriented architecture. These are services. We've been talking about service-oriented architectures and technology for as long as I've been in technology, but the key is now the execution and part of that is being in the public cloud makes it that much easier to componentize.

So like one other perfect example to your question, as we were talking earlier today with Roll, which we brought out to market really, really fast, Roll [calls] our Next Gen Payroll engine for the payroll and tax compliance service. So we're able to innovate on top of that.

So the short answer is I think you're seeing much more of that happening than any time in our history. And that's what's helping us kind of go faster. Probably I'd give one more perfect example, would be the user experience, which is also moving very quickly. We've built one design system

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that all the different products are converging to. And so all the great work that you saw with RUN, like here we can fast follow with Workforce Now, with iHCM, our international products, because we're getting a tremendous amount of reuse out of that portfolio.

There's still some domain-specific stuff that each platform has as kind of its core secret sauce. But that's clearly the wave of the future, more of that microservices, service-based architecture that we can deploy very quickly in the public cloud and make it available to all of the clients or all of the partners as it would be the case.

Samad Saleem Samana - *Jefferies LLC, Research Division - Equity Analyst*

Great. And maybe just not a follow-up, but -- [I figure about] a follow-up more broadly speaking. Carlos, when I think about the medium-term financial objectives, I'm curious how the company would view it as if you were able to have more of 1 versus the other, if you could have, let's say, 10% growth structurally versus that 7% to 8% spread, would you sacrifice any of that margin expansion to achieve that? Or should we look at this as that this already strikes that balance? Or would you move on one end of the see-saw or the other? And if so, what's the bigger priority? Is it the growth side of the equation? Or is it the margin expansion cadence?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

If I were forced to make a trade-off, I would take the growth for the simple reason that it would hurt the competition more to grow because it means we gain more share. But my predecessor taught me a long time ago that that's -- in most business models, it's easy to think that you have that trade-off because you grow faster. There may be more expenses and so forth. And there is some of that. We have more selling expense all things being equal. To grow that kind of revenue growth, we have to have more sales expense, et cetera. But this business, always has and today has unbelievable operating leverage. So the negative of higher revenue growth is that there could be some costs associated with that, but I would tell you that I'd be shocked if we had to compromise on margins in order to be able to achieve.

That would be a good problem to have, and I think that it would just naturally -- we wouldn't naturally have to make that trade-off. If anything, this is like really dangerous to say, but I would think it would make it maybe even easier to achieve our margin objectives because each incremental dollar of revenue for us is extremely profitable.

So I would just answer the question that without -- because it's high level, right? It's a high-level answer to your question, but still, what's made this company great is its ability to grow through thick and thin, not sitting there and trying to eke out the next 10 basis points of margin.

So you heard what our objectives are, but I think the most important thing is to create a strong company that's durable and long-term oriented. And if we ever had to make trade-offs between growth and margin, we would make them in the direction of margin.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

Jason?

Jason Alan Kupferberg - *BofA Securities, Research Division - MD in US Equity Research & Senior Analyst*

Jason Kupferberg from Bank of America. I wanted to ask a little bit more about the Roll product specifically. I don't know if there's any metrics you can share in terms of number of clients so far. It sounds like you clearly feel it's incremental rather than cannibalistic to the RUN product, so I would like to hear a little bit more about the relative pricing of those products as well.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So I think I ran out of my phone a friends, but...

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Jason Alan Kupferberg - *BofA Securities, Research Division - MD in US Equity Research & Senior Analyst*

I'll give you another one.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

You can -- wow, that's a lot of power. So maybe, Joe, I don't know if we want to talk about the number of clients. I don't think we've made any disclosures and we're trying to avoid like 8-Ks and so forth. So -- but maybe Joe can talk about the second part around pricing.

And so it's a little early. I think we're happy in terms of the progress we've made in terms of number of clients. But relative to the size of ADP, even if we gave you a big number, you'd maybe start writing things about X number of clients, but it's really not going to make a huge difference in the short term on the top line and the revenues and so. It's going to take a while for it to make a difference. And the goal, as you heard, is it's also a feeder for other businesses. It's a way of bringing in clients in a different way, not necessarily short-term revenue opportunity but maybe in terms of positioning in the market, Joe, of the product.

Joseph DeSilva - *Automatic Data Processing, Inc. - President of Small Business Services, Retirement Services & Insurance Services*

Yes. So we built Roll. We see it as that -- for that consumer that's on the RUN. Think about a food truck person who wants to pay themselves or someone else who's also very sensitive to price. So right now, we're in a market for probably $17 per month, $5 per employee. But I will tell you, we just launched in February. So we're working through this. We're still testing the pricing. We feel really good. I will tell you without sharing exact results that we're well ahead of our expectations in terms of where we thought we would be with the product.

Jason Alan Kupferberg - *BofA Securities, Research Division - MD in US Equity Research & Senior Analyst*

That's great. That's great. And then maybe just shifting gears to Next Gen HCM. Can you share anything about number of clients that are on Next Gen HCM? And as you're building that client count, how much of that is just coming from graduating existing ADP customers versus new logos that are coming into ADP by starting with Next Gen HCM?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So we try to be consistent with what we said on the earnings call, again, trying to avoid any kind of new disclosures here on any of these topics. But I think we've been talking about this for a couple of years that we did go to our existing client base at first, right? It seemed logical because that's obviously a target-rich environment for us. And some of our clients have been with us for a long time. They're very loyal, and they can help us, right, in terms of making sure that we kind of roll these products out the right way.

I think I was also clear on the last earnings call that the pandemic was a disruption for us that allowed us also, besides being an actual disruption in terms of delaying some client starts, also allowed us to pivot the focus on some gaps we had in terms of implementation tools because one of the questions we get is, if we want to really go get this thing to scale, we eventually probably need to go to third parties to help us with implementations, the traditional systems integrators and so forth.

And we've known that from the beginning. And certainly 2 or 3 years ago, we began to think about that, but you have to make sure that when you're ready to make that step that you have the right implementation tools, implementation process to hand over to them. So that's been a lot of the work that we've been focused on in the last, call it, 12 months.

So we've continued to make progress in terms of starting new clients. We continue to sell new clients, but we've been focused really on making sure that we have the right implementation tools and the right foundation from which to hopefully launch what will be more exponential growth down the line.

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Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

All right. And we have time for one last question. So we'll go to you, Eugene.

Eugene M. Simuni - *MoffettNathanson LLC - Analyst*

To close out, maybe I'll ask a very high-level question, actually going back to the very beginning of your presentation, Carlos. So you highlighted secular growth in the industry as one of the upside opportunities. You kind of put it at 5% to 6% over the medium term, but it sounds like there is upside opportunity to that. So can you elaborate a little bit on what would drive the upside? What are the factors that could maintain maybe the growth at the industry level at the levels we're seeing now, post pandemic? Maybe it's some government actions. Maybe it's some other trends in the industry. Maybe it is something that you, as an industry leader, can do to make sure that the growth may be hits about 6% that, frankly, has been more a historical average.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Yes. I think you touched on actually on a lot of them, right, that each individually -- because it's easy. Like what I see is people always try to create a simple narrative, right, because then everyone gets excited and says, "Oh my God, because of this one thing, their growth is going to accelerate to whatever number it is." And usually, the truth is a little more complicated than that. Luckily, it's complicated, but there are multiple factors that means we're not dependent on any one thing.

So for example, talked about government regulation. It's likely that the next -- at least in the United States, which is still a large part of our revenues, it's likely that the next 3 years, we will continue to see not just legislative, in other words, coming from Congress. But the truth of the executive branch, obviously, is the one who appoints who's the head of the DOL, who's the head of all these regulatory agencies. And we expect, I think, regulatory tailwind like we had in the -- not the prior 4 years but the 8 years before that. So that's one factor.

Now how do you quantify that? It's hard because, ironically, when those 8 years ended, like you would have thought, "Oh my god, ADP is never going to sell anything again because now we have an administration who is not a pro regulation, is actually trying to reduce regulation." But we still continued to grow, but admittedly, it was harder. And the emphasis on trying to reverse ACA wasn't helpful. So right now, we see that as a positive as a tailwind. So that's a factor.

The second one is the economic cycle. I don't have a crystal ball in terms of what's going to happen here in terms of interest rates and then employment. But when you have a Federal Reserve and a government and I think a society who tends to be more oriented towards full employment and reducing income and equality, I would say that, that is supportive of a tight labor market for a longer period of time.

We're not naive, and we don't believe that the Fed will never act and will never increase interest rates. By the way, Don hopes they increase interest rates because it helps that part of our business. But the rest of our business benefits from strong GDP growth. And GDP growth fundamentally depends on real interest rates being relatively low or at least consistent with historical real interest rates.

So when and if the Fed ever gets to real interest rates that are above trend, that feels to me like pretty far off into the future, despite of all the talk about paper and -- if you increase rates 0.25 basis point -- sorry, 25 basis points or 50 basis points at the end of, what are they talking about now, '22 maybe. And in the next year, you're still talking about potentially 2 to 3 years before real interest rates have a real impact on GDP.

So when I hear, which I heard last night, the new forecast for world GDP because we are a global company, 6% global GDP growth for this year and 4% for '22, obviously, none of us know what's going to happen in '23, but I would say that the secular tailwinds are strong not just from legislation but also from the economic policies that the U.S. government has today and that many leaders in the world, I think, seem to be emulating and falling, which is easier monetary policy in the short term.

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And again, the caveat is no one's happy with inflation, and that will be the -- obviously, the debate for the next X number of months or years here, is who is that really hurting because it obviously hurts the consumer, who you're trying to help by creating full employment and by reducing income inequality. So it's a little bit of a conundrum for -- we admit, for the Fed. But our assumption is that, that will be a tailwind.

And then lastly, so the tight labor market, I think, is a factor. And then you just have -- when we show our market share figures, people like scratch their heads because we have some competitors that I don't think it's only because they're smaller because we have a lot of respect for our competitors. Some of them have done very well, but they're growing faster. So it's like how could you guys be growing if they're growing? And how do you claim that you're increasing market share? I think some of that is related to industry consolidation. So if you've been doing this stuff "on your own," it doesn't matter what size company you are. You wouldn't believe how many mid-sized companies there are that are still on legacy ERP systems and even some upmarket companies.

So that 5% to 6% growth depends in part on the fact that people have been for decades and will continue to realize that they cannot continue to work that way and operate that way. Now is that 5 to 10 years' worth of tailwind? I don't know, but there's a fundamental industry structure thing happening. I wouldn't call it consolidation in such simplistic terms because it's not like there's M&A going on, but I think there is consolidation going on that's not visible to all of you where people who are doing these things in-house or subscale players are ceding market share to the bigger players, including us and some -- to our competitors, unfortunately as well.

Danyal Hussain - *Automatic Data Processing, Inc. - VP of IR*

All right. Well, that takes us to the end of our time. Thank you, everyone, for joining us. Carlos, I'll turn it to you for any closing thoughts.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

No, I think I've done enough damage by talking about margins and our returns for 60 years. But I think that's the only -- the takeaway we want to leave you with is we try to give you as much detail as we can. We really do pride ourselves on our disclosures. I think we disclosed a lot of information for you guys to be able to really understand what the drivers -- I know you'd like to have more, and you'd like to know, within one business unit, what's driving the results there. But we try to do our best to give you enough information so that you can gain the confidence that what we've built here and we've -- that's the message we've been trying to deliver today, is a strong underlying foundation to be able to sustain this for, hopefully, for decades to come.

And certainly, the industry is supportive of that. And so we intend to do that and serve not just all of you. But we also -- our believers and the multi-stakeholder theories of corporate citizenship here, so we'd like to serve other stakeholders as well in our communities and our associates who have been so important in delivering the results for us over all of these years.

So appreciate seeing everybody in person. This was fantastic to actually -- and appreciate also the people participating virtually, which I assume this will be a best practice on a go-forward basis that we'll probably do both. And thank you for the high-quality questions. And as always, we appreciate your investment in ADP and your interest in ADP. And if you're not, you should be.

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