



# ADP Earnings Call & Webcast Q1 Fiscal 2020

October 30, 2019

# Forward Looking Statements

This presentation and other written or oral statements made from time to time by ADP may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature and which may be identified by the use of words like “expects,” “assumes,” “projects,” “anticipates,” “estimates,” “we believe,” “could” “is designed to” and other words of similar meaning, are forward-looking statements. These statements are based on management’s expectations and assumptions and depend upon or refer to future events or conditions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements or that could contribute to such difference include: ADP’s success in obtaining, and retaining, clients, and selling additional services to clients; the pricing of products and services; the success of our new solutions; compliance with existing or new legislation or regulations; changes in, or interpretations of, existing legislation or regulations; overall market, political and economic conditions, including interest rate and foreign currency trends; competitive conditions; our ability to maintain our current credit ratings and the impact on our funding costs and profitability; security or cyber breaches, fraudulent acts, and system interruptions and failures; employment and wage levels; changes in technology; availability of skilled technical associates; the impact of new acquisitions and divestitures; and the adequacy, effectiveness and success of our business transformation initiatives. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. These risks and uncertainties, along with the risk factors discussed under “Item 1A. Risk Factors” of our most recent Annual Report on Form 10-K, and in other written or oral statements made from time to time by ADP, should be considered in evaluating any forward-looking statements contained herein.

## Non-GAAP Measures

Adjusted EBIT, adjusted EBIT margin, adjusted diluted earnings per share, adjusted effective tax rate, and organic constant currency are all non-GAAP financial measures. Please refer to the Q1 fiscal 2020 earnings release available at [investors.adp.com](http://investors.adp.com) for a discussion of why ADP believes these measures are important and for a reconciliation of non-GAAP financial measures to their comparable GAAP financial measures.

This presentation is a supplement to our Q1 fiscal 2020 earnings release; it is intended to be read in conjunction with, not as a substitute for, or in isolation from, the earnings release.

# CEO's Perspective

- Solid start to year with 6% revenue growth, 60bps adjusted EBIT <sup>(a)</sup> margin expansion, and 12% adjusted diluted EPS <sup>(a)</sup> growth
- ES New Business Bookings growth of 6% driven by solid performance across U.S. markets
- Steady progress in Next Gen development yielding recognition by clients and third parties
- Ongoing innovation in data analytics and AI-supported service model continuing to elevate strategic role of HR
- Continued focus and progress on modernizing service and implementation



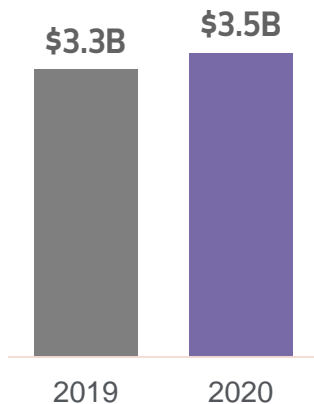
# Q1 Fiscal 2020 Financial Highlights

(unaudited)

## Total Revenues

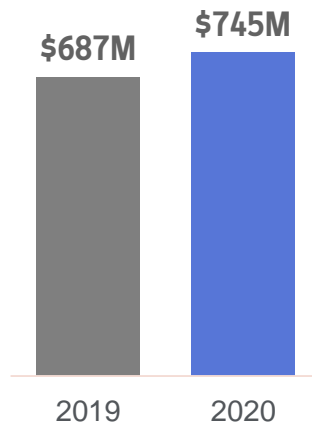
↑ 6%

↑ 6% Organic Constant Currency (a)



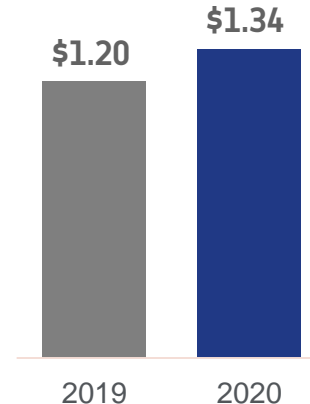
## Adjusted EBIT (a)

↑ 8%



## Adjusted Diluted EPS (a)

↑ 12%



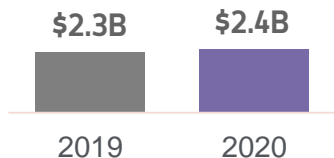
# Q1 Fiscal 2020 Employer Services Segment Results

(unaudited)

## ES Revenues

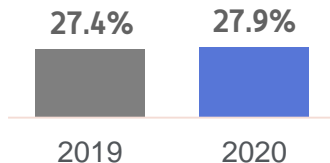
↑ 4%

↑ 5% Organic Constant Currency (a)



## ES Margin

↑ 50bps



## Highlights

- Overall performance in line with expectations
- Solid U.S. New Business Bookings growth
- FX unfavorability from stronger U.S. dollar impacting reported revenue growth
- 50 bps margin expansion off strong Q1 fiscal 2019 margin performance
- Continued positive trends in client satisfaction

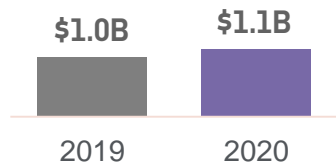
- ES New Business Bookings ↑ 6%
- U.S. Pays Per Control ↑ 2.4%
- Average client funds balances ↑ 7%

# Q1 Fiscal 2020 PEO Services Segment Results

(unaudited)

## PEO Revenues

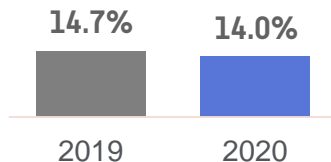
↑ 8%



- Revenues excluding zero-margin benefits pass-throughs ↑ 7%
- Average Worksite Employees paid ↑ 7% to 563,000

## PEO Margin

↓ 70bps



- Includes 60 basis points of growth over pressure from ADP Indemnity related to prior year benefit

## Highlights

- In-line 7% Average WSE growth consistent with expectation for acceleration over the course of fiscal 2020
- Greater-than-expected pressure of 60bps from ADP Indemnity in the quarter; no change to full year expectation for 50 bps of pressure
- PEO revenue revision reduces reported zero-margin pass-through revenue and costs; no impact to pre-tax profit or to revenue growth rate guidance

# Fiscal 2020 Outlook

	Fiscal 2019 Revised (a), unaudited	July 31, 2019 Fiscal 2020 Outlook (b)	October 30, 2019 Fiscal 2020 Outlook (b)
Total ADP	Revenues	\$14,110M	↑ 6% - 7%
	Adj. EBIT Margin (c)	22.4%	↑ 100 - 125 bps
	Adj. Effective Tax Rate (c)	23.8%	Flat at 23.8%
	Adj. Diluted EPS (c)	\$5.45	↑ 12% - 14%
Employer Services	Revenues	\$9,943M	↑ 4% - 5%
	Margin	29.8%	↑ 100 - 125 bps
	ES New Business Bookings	\$1.6B	↑ 6% - 8%
	Client Revenue Retention	90.8%	↑ 10 - 20 bps
	Pays Per Control	↑ 2.7%	↑ ~2.5%
PEO Services	Revenues	\$4,178M	↑ 9% - 11%
	Revenues Ex Zero-Margin Pass-throughs	\$1,530M	↑ 7% - 9%
	Margin	14.7%	Flat to ↓ 25 bps
	Average WSEs	547,000	↑ 7% - 9%
Client Funds Interest	Average Client Funds Balances	\$25.5B	↑ 4% - 5%
	Yield on Client Funds Portfolio	2.2%	Flat at 2.2%
	Client Funds Interest Revenue	\$562M	\$580 - \$590M
	Extended Investment Strategy	\$557M	\$585 - \$595M

(a) Fiscal 2019 results revised to include change in PEO Services zero-margin pass-through revenue and operating expenses; see our Q1 fiscal 2020 earnings release available at investors.adp.com for more details.

(b) Outlook contemplates the impact of prior fiscal year acquisition of Celergo and anticipated impact of foreign currency in revenue and operating results.

(c) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q1 fiscal 2020 earnings release available at investors.adp.com.

# Appendix: Client Funds Investment Strategy Detail

	Fiscal 2020 Outlook		
	Average Balance (\$)	Average Yield	Interest (\$)
Client Short	~4.9B	~1.5%	70 - 75M
Client Extended	~11.6B	~2.1%	240 - 245M
Client Long	~10.0B	~2.6%	~260M
<b>Total Client Funds (a)</b>	<b>~26.5B</b>	<b>~2.2%</b>	<b>570 - 580M</b>
Corporate Extended Interest Income (b)	~3.3B	~2.1%	~70M
Borrowing Days Interest Expense	~3.3B	~1.9%	~(65)M
<b>Net Impact From Client Funds Extended Investment Strategy</b>			<b>575 - 585M</b>

Interest on the Extended Portfolio flows into two separate sections of the Statements of Consolidated Earnings.

(a) Reported as Interest on Funds Held for Clients in the revenue section of the Statements of Consolidated Earnings.

(b) A component of Interest Income on Corporate Funds, reported within Other Income, net, on the Statements of Consolidated Earnings.

# Appendix: Revision of Previously Reported Financial Information

(in millions; unaudited)

	Q1 FY2019			Q2 FY2019			Q3 FY2019			Q4 FY2019			FY2019		
	As Reported	Revision (a)	As Revised	As Reported	Revision (a)	As Revised	As Reported	Revision (a)	As Revised	As Reported	Revision (a)	As Revised	As Reported	Revision (a)	As Revised
<b>Segment Revenues</b>															
PEO Services	\$987.8	(12.9)	\$974.9	\$1,058.2	(13.5)	\$1,044.7	\$1,134.7	(19.2)	\$1,115.5	\$1,062.0	(19.4)	\$1,042.6	\$4,242.7	(65.0)	\$4,177.7
<b>Other Segment metrics</b>															
PEO zero-margin benefits pass-through	653.4	(12.9)	640.5	673.2	(13.5)	659.7	684.5	(19.2)	665.3	701.5	(19.4)	682.1	2,712.5	(65.0)	2,647.5
PEO revenues excl. zero-margin benefits pass-through	334.4	—	334.4	385.0	—	385.0	450.2	—	450.2	360.5	—	360.5	1,530.2	—	1,530.2
<b>Statement of Consolidated Earnings</b>															
Revenues, other than interest on funds held for clients and PEO revenues	2,218.6	—	2,218.6	2,319.8	—	2,319.8	2,546.9	—	2,546.9	2,290.5	—	2,290.5	9,375.8	—	9,375.8
Interest on funds held for clients	118.5	—	118.5	129.1	—	129.1	167.4	—	167.4	146.9	—	146.9	561.9	—	561.9
PEO revenues	986.1	(12.9)	973.2	1,057.0	(13.5)	1,043.5	1,133.1	(19.2)	1,113.9	1,061.3	(19.4)	1,041.9	4,237.5	(65.0)	4,172.5
<b>Total revenues</b>	<b>\$3,323.2</b>	<b>(12.9)</b>	<b>\$3,310.3</b>	<b>\$3,505.9</b>	<b>(13.5)</b>	<b>\$3,492.4</b>	<b>\$3,847.4</b>	<b>(19.2)</b>	<b>\$3,828.2</b>	<b>\$3,498.7</b>	<b>(19.4)</b>	<b>\$3,479.3</b>	<b>\$14,175.2</b>	<b>(65.0)</b>	<b>\$14,110.2</b>
Operating expenses	1,709.9	(12.9)	1,697.0	1,785.9	(13.5)	1,772.4	1,874.5	(19.2)	1,855.3	1,775.4	(19.4)	1,756.0	7,145.9	(65.0)	7,080.9
<b>Adjusted EBIT (b)</b>	<b>\$686.7</b>	<b>—</b>	<b>\$686.7</b>	<b>\$786.5</b>	<b>—</b>	<b>\$786.5</b>	<b>\$1,013.4</b>	<b>—</b>	<b>\$1,013.4</b>	<b>\$669.1</b>	<b>—</b>	<b>\$669.1</b>	<b>\$3,155.7</b>	<b>—</b>	<b>\$3,155.7</b>
Adjusted EBIT Margin	20.7%		20.7%	22.4%		22.5%	26.3%		26.5%	19.1%		19.2%	22.3%		22.4%

(a) Reflects a revision to PEO revenue and operating expenses as noted in our Q1 fiscal 2020 earnings release available at [investors.adp.com](http://investors.adp.com).

(b) For a reconciliation of this previously disclosed non-GAAP financial metric to its closest comparable GAAP metric see our Q1 fiscal 2019, Q2 fiscal 2019, Q3 fiscal 2019, and Q4 fiscal 2019 earnings releases available at [investors.adp.com](http://investors.adp.com).