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Q3 2020 Automatic Data Processing Inc Earnings Call

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PRESENTATION

Operator

Good morning. My name is Shannon, and I will be your conference operator. At this time, I would like to welcome everyone to ADP's Third Quarter Fiscal 2020 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions)

Thank you. We will now turn the conference over to Mr. Danyal Hussain, Vice President, Investor Relations. Please go ahead.

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

Thank you, Shannon. Good morning, everyone, and thank you for joining ADP's Third Quarter Fiscal 2020 Earnings Call and Webcast. Participating today are Carlos Rodriguez, our President and Chief Executive Officer; and Kathleen Winters, our Chief Financial Officer.

Earlier this morning, we released our results for the third quarter of fiscal 2020. The earnings materials are available on the SEC's website and our Investor Relations website at investors.adp.com, where you will also find the investor presentation that accompanies today's call as well as our quarterly history of revenue and pretax earnings by reportable segment.

During our call today, we will reference non-GAAP financial measures, which we believe to be useful to investors and that exclude the impact of certain items. A description and the timing of these items, along with a reconciliation of non-GAAP measures to their most comparable GAAP measures, can be found in our earnings release. Today's call will also contain forward-looking statements that refer to future events and involve some risks. We encourage you to review our filings with the SEC for additional information on factors that could cause actual results to differ materially from our current expectations. As always, please do not hesitate to reach out should you have any questions.

And with that, let me now turn the call over to Carlos.

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

Thank you, Danny, and thank you, everyone, for joining our call. Before we begin, I want to first say that our thoughts and prayers are with those who have been or know someone who has been impacted by COVID-19. Everyday, we hear about how much of a challenge it has been for employers and workers alike, including our own. I'd like to recognize our associates for rising to the challenge and delivering exceptional service to our clients despite the extraordinary circumstances they've had to face. To them, I want to say thank you.

For our discussion today, we'll spend a little less time talking about the third quarter and more time on the current operating climate, and I'd like to offer a couple of upfront points.

First is that ADP is not immune to the global pandemic's impact on the labor markets. But while we may make tactical adjustments as we navigate through this crisis, we believe our long-term strategy is unaffected. And we remain optimistic about how we're positioned over the coming years once the business environment and our clients return to more normal operations.

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The second point is that we will continue to serve our clients in the way we know best, by offering the tools, resources and support they need to manage their business and their workforce through all types of operating environments, including this challenging one.

With that said, this morning, we reported our third quarter fiscal 2020 results with revenue of $4 billion, up 6% reported and organic constant currency and in line with our expectations. We expanded our adjusted EBIT margin by 60 basis points in the quarter, which was ahead of our expectations, even though it included an unplanned $50 million global associate assistance payment in response to COVID-19. And with the solid revenue and margin performance, we were pleased to deliver 8% adjusted diluted EPS growth, which was also slightly ahead of our expectations coming into the quarter.

Turning now to the current situation. I'd like to take a few minutes to go deeper on how COVID-19 has affected our operations and what we've done to respond. As the situation evolved over the past couple of months, we focused first on the safety of our associates. In March, we took steps to quickly shift over 50,000 of our associates to work from home and now have approximately 98% of our workforce working remotely in a secure manner. In doing so, we leveraged our previous investments in business resiliency. And in addition, we ordered thousands of laptops, expanded remote access capacity, provided at-home Internet, and for those critical personnel that needed to work on site, we took steps to ensure their safety while they performed at those essential on-site tasks. This was a huge undertaking by our global IT, security, legal and HR organizations, and I'm extremely proud of their execution.

We also worked with our critical third-party service providers to ensure they were positioned to continue to support us. And in March, we also had our field sales force shift from in-person to a virtual sales model. And while that's not an ideal circumstance for some of our quota carriers, they're making the most of the situation.

While we were executing on these business resiliency plans, we also worked nonstop to address our clients' needs to ensure uninterrupted service across our HCM solutions. We provide a mission-critical service and process payroll for 1 in 6 Americans and over 40 million workers around the world. And to offer immediate support, we provided a number of online resources, including an employer preparedness toolkit and webinars attended by tens of thousands of clients. We also quickly made available for free the payroll cost and headcount reports necessary to apply for forgivable loans under the Paycheck Protection Program of the CARES Act. And these reports have been downloaded hundreds of thousands of times.

Service is more important than ever in times like this. We saw call volumes increase significantly beginning in March and had nearly 2 million inbound requests across our service channels in a matter of weeks, with clients looking for help with a variety of issues, including adding custom paycodes related to COVID-19, redirecting checks to different locations and requesting new time-tracking hardware that doesn't require a physical contact. In many cases, they were simply seeking general guidance in understanding new legislation.

To meet our clients' needs, we retrained and quickly redeployed hundreds of associates to where they were needed most. And our service and IT teams worked quickly to digest and translate new legislation from the many jurisdictions around the world into our global payroll, time and attendance and other systems in a short period of time to allow our clients to comply with and benefit from these changes in legislation.

As the environment for companies continues to evolve, whether due to legislative changes or operational realities, we at ADP are committed to supporting our clients to help them best navigate those changes. As we communicated in an open letter to U.S. policy leaders, ADP stands ready to facilitate current and future initiatives that provide support to our clients and their workers.

And in support of our local communities, ADP has made over $2 million in donations to relief efforts, including a dedicated relief fund for ADP associates that needed assistance as well as donations of medical supplies for hospitals, food banks and their workers.

With all that said, the significant impact of COVID-19 is having on a broader economy is, in turn, having an effect on our reported metrics and in a much more abrupt fashion as compared to previous macroeconomic slowdowns. You can see this in our Employer Services New Business Bookings metric. This quarter, we reported a decrease of 9% as we saw bookings decline significantly and rapidly in mid-March, when we typically would have expected to close many deals for the quarter. These results were, of course, well below our expectations

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coming into the quarter. And while some of our businesses performed slightly better than others in March, the weakness was generally broad-based as the health crisis is affecting companies of all sizes and regions, including internationally.

We believe the impact to bookings stems from 2 factors: First is the buying behavior of our clients and prospects. As with prior uncertain economic environments, our clients and prospects have become time- and resource-constrained and are faced with reassessing their own operations to best ride out the impact of this health crisis. And although our products support mission-critical functions, making decisions about additional HCM services or making the decision to switch from another vendor to ADP can get put off to a later time. Even in circumstances where decisions have already been made, clients are understandably delaying implementation, which can also cause us to adjust down the bookings we record. The general change in behavior is common in recessionary periods, and we are certainly not surprised to see it this time. It's clearly happened in a more abrupt manner compared to what we've experienced in the past.

Second, as I mentioned earlier, there have naturally been constraints that limited the activity of our sales force. While we have been able to lean more heavily on an inside sales strategy and virtual interactions by our field sales force, there has still been a reduction in our sales force productivity.

Our sales organization is experienced and resilient and will continue to work hard in the fourth quarter. Because of a variety of factors, which we believe will have an outside impact on the fourth quarter bookings, including the effectiveness of the Paycheck Protection Program in supporting small to midsized businesses and how quickly our clients can adapt to working in this new environment and resume more normal buying behavior, there is clearly a very wide range of outcomes.

But to calibrate your expectations, we are guiding for a full year ES New Business Bookings, our ES New Business Bookings to be down 20%, which implies our fourth quarter bookings will be down by more than 50%. But with all that said, we remain confident in our product portfolio and optimistic about our ability to drive sustained growth in ES bookings in a sounder economic environment.

I'd now like to spend a minute or 2 on some of the other macro-driven trends we've observed in our client base. Our pays per control metric, which represents employee growth for a broad subset of our client base, was solid through February but decelerated to a slight negative growth by the end of March, averaging 1.9% growth for the quarter. Early in April, we saw it deteriorate further to a double-digit negative decline, with the steepest decline among smaller businesses. For context, this level of pace per control decline is significantly worse than even the worst quarter in the financial crisis, underscoring that it's hard to compare this environment even against past recessions. While we hope that legislation aimed at preserving employment will drive a recovery in pays per control, we had not seen it through mid-April.

On retention, we were actually pleased with our performance in the third quarter, with both third quarter and year-to-date retention performance better than our expectations and ahead of pace for our previous annual guidance. We set all-time third quarter retention records in our downmarket and mid-market businesses as client satisfaction scores were at or near all-time highs and as the benefits of our technology and migration strategy over the past several years continue to bear fruit. But clearly, out-of-business losses are a concern for the fourth quarter and beyond. And although they have not yet meaningfully picked up by the end of March or even into April, early indicators of stress in our client base have shown up, and we expect deterioration in retention in May and June. Kathleen will share some of the assumptions for the fourth quarter when she goes through the outlook.

I'd like to pivot now from the current macro environment and focus on our strategy and what we're doing to drive longer-term value for our clients. At ADP, we remain steadfast in our commitment to lead in the HCM industry with best-in-class technology and service. At our February Innovation Day, we shared an update with many of you about the innovation we are driving across our key strategic and next-gen solutions. The HCM industry is an exciting place with constant change, and we will continue to invest to position ourselves to meet the evolving needs of our clients over not just the coming years but the coming decades.

At Innovation Day, we covered several topics, and I'd like to reframe a few of our key products against today's backdrop. With ADP RUN, we help small businesses manage their essential HR tasks from basic payroll to a full HCM suite. We highlighted our push to drive digital sales and onboarding capabilities, which is especially relevant in today's environment. And we also highlighted innovations in automating service and implementation, which relieves pressure on our service organization.

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We discussed Workforce Now in our public cloud-native version that we are pairing with our next-gen payroll engine, which utilizes a fully transparent policy-based model for improved implementation, maintenance and self-service as well as continuous payroll calculations for clients looking for on-demand pay options. We also talked about Wisely and the ease of use and the financial tools that make it attractive -- an attractive way to get paid. And just this month, we made Wisely Direct available to our mid-market Workforce Now clients, which we believe will be beneficial to the many workers in our base that still get paid by a paper check. And of course, we discussed our next-gen HCM, which we believe represents a big step ahead of current offerings in the market and for which we remain excited about scaling and selling more broadly.

Before I turn it over to Kathleen, I'd like to take a moment to once again thank our associates. This health crisis and the resulting economic fallout hasn't been easy on anyone, but our associates have really stepped up to ensure we continue to provide our clients with the support they need. And our clients and I appreciate it.

Kathleen, I'll turn it over to you now.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Thank you, Carlos, and good morning, everyone. As Carlos mentioned, we were generally pleased with our execution in Q3. And our financial results were not significantly impacted by COVID-19, with the exception of new business bookings. We expect Q4, however, to be challenging on a few fronts. And I will cover this when I go through our guidance.

This quarter's revenue growth of 6% reported and organic constant currency was in line with our expectations. Our adjusted EBIT margin was up 60 basis points compared to the third quarter of fiscal 2019, even though it included a $50 million cost of a global associate assistance payment related to COVID-19, which we disclosed in an 8-K several weeks ago. Excluding this, our margin performance was even further ahead of our expectations and continued to benefit from a combination of cost savings related to our transformation initiatives and operating efficiencies as well as lower-than-expected incentive compensation expenses. These benefits were partially offset by growth in PEO zero-margin benefits pass-through expenses and amortization expense as well as certain other expenses related to COVID-19.

Our adjusted effective tax rate increased 30 basis points to 23.8% compared to the third quarter of fiscal 2019. And adjusted diluted earnings per share increased 8% to $1.92, driven by revenue growth and margin expansion as well as fewer shares outstanding compared to a year ago.

Moving on to segment results. In our Employer Services segment, revenues grew 3% reported and 4% organic constant currency, reflecting steady underlying performance with strong retention trends, offset by continued FX pressure and a growing headwind from interest income. Interest income on client funds declined 5%, and average yield on client funds declined 20 basis points to 2%, offsetting growth in average client funds balances of 4% to $31.3 billion. This growth in balances was driven by a combination of client growth, wage inflation and growth in our pays per control in the quarter, partially offset by lower SUI collections and the closure of our Netherlands money movement operation earlier this year.

Our Employer Services same-store pays per control metrics in the U.S. was 1.9% for the third quarter, and I'll talk a bit more about the trends we're seeing in a moment. Employer Services margins increased 100 basis points in the quarter, ahead of expectations and driven by many of the same factors I mentioned earlier when discussing our consolidated results.

Our PEO segment [revenues] (corrected by company after the call) grew 11% for the quarter to $1.2 billion and average worksite employees grew 7% to 595,000, ahead of our expectations and driven by strong year-to-date new business bookings. We were pleased with this reacceleration in our worksite employee growth in the third quarter and believe we would have been positioned for further acceleration exiting the year, if not for COVID-19. Revenues, excluding zero-margin benefits pass-throughs, grew 9% to $490 million and continued to include pressure from lower workers' compensation and SUI costs and related pricing. PEO margin expanded 10 basis points in the quarter, in line with our expectations.

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Let me now turn to our outlook for the remainder of the year. I'll start by discussing some of the specific macro-driven factors that affect our financial performance. I'll caveat by saying that we're clearly operating in an evolving and uncertain situation, and we're using data currently available to us to make reasonable assumptions on which we are basing our guidance.

First, out-of-business losses. We expect our retention to be impacted by elevated out-of-business losses in Q4. And although the federal government is providing stimulus to help companies continue operating, we are seeing clear strain on our client base and have observed certain leading indicators, such as companies going inactive and no longer running payroll. Many of whom will restart their operations at some point, but some of whom we expect will not. Based on our experience with these leading indicators, we are building in an expectation for additional losses in our fourth quarter outlook. And as a result, we're lowering our full year retention guidance to be down 30 to 50 basis points despite running ahead of our expectations on a year-to-date basis.

Next, pays per control. We exited March with negative pays per control growth. And in April, it deteriorated to a double-digit decline. We are assuming a 2% to 2.5% pays per control decline for the full year, which implies a mid-teens decline for Q4. As a reminder of how this affects us, we have varied contracts throughout our businesses that blend base fees and per employee fees. And we also often utilize tiered pricing and have certain annual revenues that are not as affected. As a result, with our current mix of business, the direct revenue impact we expect to see is about 25 basis points in ES revenue growth for every 1% change in PPC. Some of our businesses are more sensitive to pays per control than others. And so the precise mix that pays per control by business can drive the actual revenue impact higher or lower in any given period. This direct impact also doesn't include the impact from our volume-based businesses like recruiting or payment cards.

Finally, on client fund balances. Through the combination of a challenging sales environment, an anticipated increase in out-of-business losses, a decline in pays per control and potential decline in wages and hours worked, we expect to see pressure in our balances in the near term. Furthermore, the CARES Act has a provision that allows companies to defer the payment of the employer portion of payroll taxes, which represents less than 5% of our average client fund balance. But depending on the actual take rate of that provision, we could see further pressure on our balance growth.

As a result of all these factors, we now expect 1% balance growth for the full year, which implies a low double-digit decline in the fourth quarter. To adjust the size of our client fund investments to match expected changes in average client payroll and tax volumes, beginning in March, we halted all new reinvestment of maturities in our client long and extended portfolios. And in April, we took the additional step of selling approximately $1.2 billion of previously purchased securities in the client long and extended portfolios. This decision to suspend new purchases means our Q4 interest income forecast reflects a slightly greater skew to overnight rates than previously forecasted. Both the suspension of new purchases and the completed sale of securities is contemplated in our guidance. To be clear, these decisions represent tactical adjustments and do not represent a change to our overall client fund strategy.

Let's now turn to our revised outlook for the full year and start with the ES segment. We are lowering our guidance to 1% to 2% revenue growth versus our prior outlook of 4%, driven mainly by an expectation of lower pays per control, new business bookings, client fund interest and retention versus our prior outlook. Much of this lost revenue comes at high incremental margins. And as a result, and also due to additional costs related to COVID-19, we now expect our margin in the Employer Services segment to be down 25 to up 25 basis points.

For our PEO, we saw good momentum up through the end of March. And as I mentioned earlier, we believe we are on track for continued acceleration exiting the year but are now layering in our expectation for layoffs and furloughs and additional out-of-business losses. As a reminder, in our PEO segment, we earn revenues as a percent of the gross payroll we process. And as a result, we are more directly tied to changes in our clients' headcount and hours worked as compared to our Employer Services segment.

As a result of these assumptions and our expectations for lower Q4 PEO sales, we are lowering our average worksite employee growth expectation to 3% to 5% from 7% to 8% previously. We are likewise lowering our revenue guidance and now expect 5% to 7% PEO revenue growth in fiscal 2020 and 3% to 5% growth in PEO revenues, excluding zero-margin benefits pass-throughs.

As we also discussed throughout the year, we continue to expect lower workers' compensation and SUI costs and related pricing to

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pressure our total PEO revenue growth, though we could see those trends change in the coming years.

For PEO margin, we now expect to be down 100 to 125 basis points in fiscal 2020. As we noted in previous calls, this outlook continues to include pressure from smaller favorable reserve adjustments at ADP Indemnity in fiscal 2020 compared to fiscal 2019. But we now expect about 75 basis points of pressure compared to our previous expectation of 50 basis points of pressure, but we still expect a slight benefit this year.

With these changes to the segments, we now anticipate total revenue growth of about 3% in fiscal 2020 as compared to our previous outlook of 6%. This revenue outlook continues to assume slight FX unfavorability for fiscal 2020. As I mentioned, we anticipate our growth in average client fund balances to be about 1% compared to our previous outlook of 4%, and we expect the average yield earned on our client fund investments to be about 2.1% compared to our previous outlook of 2.2%. We expect interest income on client funds to be $540 million to $550 million and for interest income from our extended investment strategy to be $550 million to $560 million.

We anticipate our adjusted EBIT margin to be down 25 to up 25 basis points as the benefits from our workforce optimization and procurement transformation initiatives are now being offset by the impact of expected lost revenue due to COVID-19 as well as incremental expenses related to COVID-19, including the $50 million in global associate assistance payments. We now anticipate our adjusted effective tax rate to be 22.9%. The rate includes this quarter's unplanned tax benefit from stock-based compensation related to stock option exercises. It does not include any further estimated tax benefit related to potential future stock option exercises.

As a result of our lower revenue and margin outlook, we now expect adjusted diluted earnings per share to grow 4% to 7% in fiscal 2020. In light of this revised 2020 guidance, the multiple headwinds created by the global pandemic and the uncertain and evolving situation, we are withdrawing the fiscal 2021 targets that we set out at our 2018 Investor Day as they are no longer appropriate to the current circumstances. However, we continue to believe in our long-term strategy and are well positioned to continue to invest to execute this strategy.

Finally, before I conclude, I'd like to talk about the strength of ADP's business model and balance sheet. We have a highly cash-generative business with low capital intensity, and the HCM solutions we provide give critical support to our clients' HR and management functions, especially at times like these. In addition to having a resilient product and business model, we also have a significant buffer between our free cash flow and our modest debt obligations and our cash dividend. This enables us to absorb the impact of downturns and continue to prioritize investments aligned with our longer-term strategy as well as our commitments to shareholder-friendly actions. So although our revenue growth can clearly be impacted by challenging macro conditions, our recurring revenue model and high retention rate positions us to continue the type of investments we highlighted at our Innovation Day even when times are tough.

We will, meanwhile, continue to manage our cost base prudently. We have instituted hiring containment and started to execute on our recession playbook with a preplanned set of areas where we will see some of our expenses self-adjust, such as management and sales incentives, and we will eliminate or defer nonessential spend. We are working through an evolving and uncertain situation and are formulating our approach for next year. And we will, of course, provide you with our expectations and outlook for fiscal 2021, when we report our fourth quarter results. As always, expect us to be balanced in our approach.

With that, I will pass it back to Carlos for some comments before we go to Q&A.

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

Thanks, Kathleen. Before we move on to the Q&A, I just wanted to share with you an excerpt of one of the many notes we received from our clients that captures how we want to define ourselves. This one said, "We are a small business that has used ADP for quite a few years now. Every time we call, there has been a knowledgeable professional at ADP that immediately solves the problem and answers the question. We recently needed payroll data to apply for the COVID-19 Payroll Protection Program. I immediately went to ADP's website to see how I should go about selecting and downloading the required payroll data. Imagine the relief when opening the screen, there was a COVID-19 pop-up that proactively provided your clients with the payroll data needed. I was floored. This type of customer service is unheard of these days. We just want to tip our hats to everyone at ADP for a great job."

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As this client suggests, the value of a true HCM partner becomes even more critical at times like these. And it continues to be our goal to exceed the expectations of our clients. And with that, I'll turn it over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from the line of Ramsey El-Assal with Barclays.

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

I hope you both are doing well. I wanted to ask about your visibility on the paycheck protection loan program in terms of, can you see that it's having the desired impact on businesses in the country? Are you seeing furloughed or terminated workers that are being brought back on book? And I guess just tying that back to your own performance or potential future performance, are you seeing these leading indicators of bankruptcy sort of staved off a little bit in your book?

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

It's a great question. We're obviously keeping our eye on that. Unfortunately, what we have is really kind of limited anecdotal evidence that people are beginning to get money to be able to continue their payroll or continue to pay people. As an example, a few days ago, I was forwarded a letter that was sent to -- or an e-mail that was sent to one of our associates from a client that was grateful for kind of the help that we give them in applying for the loan. And they sent a kind of a screenshot of their bank account that had $10 the previous day and then now had $84,000, like indicating that they had gotten their money from the SBA deposited into their commercial bank account.

But I think as you've heard, same as us, in the press, the process has been, given the magnitude of the -- and the scale of the challenge, it's been a difficult process both for the SBA, and I think for the banks. We've tried to do our part to help, and we're optimistic and we're hopeful that it will make a difference and that there will be rehiring and that it will at least, in some respects, stop the furloughing and the elimination of jobs going forward. But unfortunately, it's just a little too early for us to give you any kind of concrete evidence other than some anecdotal stories that money is making its way into the bank accounts of small businesses.

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

Okay. That's helpful. And then just a follow-up. In terms of your overall product strategy in the context of this crisis, are there any kind of adjustments you're having to make in terms of how you're thinking of new challenges as employees work from home? I'm thinking like your time and attendance offering and also just on some of your major initiatives like Lifion. How is the time line to market been impacted? How are you thinking about the product set sort of evolving from here out?

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

I mean, clearly, we have to be nimble and, I think, remain open to making further adjustments. But I think it's safe to say that if you go back over the course of decades, the concept of "outsourcing" and now what some people would call the SaaS models, which I think ADP was kind of one of the pioneers of -- I think by definition, lend themselves to these kind of remote work environments, whether it's for the technology people because we generally obviously host and maintain and update the -- all of the systems for our clients. But also through the variety of portals we have for our clients and the employees of our clients, all of the information that anyone needs is available online through all the tools we have to access that information, whether it's for the payroll practitioners or for the employees of our clients, including when you think about the app that we have for the employees of our clients to be able to check whether they've gotten pay, they can check their hours, they can make changes to 401(k). There's no -- really no need to move paper or for anyone to be in the office to do that kind of work.

So clearly, there will be things that we will learn, and we're probably here in the early innings of this kind of new challenge and how it might affect our products. But I think in general, as an industry -- it's not just for ADP. I think in general, for us as an industry, we're pretty well positioned, I think, for this kind of work environment.

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Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

And I think we're -- if I could just -- yes. If I could just add to that. I think you had asked about -- I couldn't quite hear, but I think you had asked about Lifion and any updates to that and changes to our view on go-to market. I would say over the longer term -- while certainly this year looks like things have slowed down at least for a little bit, I would say over the long term, no change to how we're thinking about that. And we've got a handful of live clients. We're continuing to sell clients on and implement clients on Lifion, and we're encouraged about the long-term prospects there.

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

Yes. It's clear, like every time that we have, whether it's an economic downturn or -- now this is obviously a new challenge. There's always questions about will this drive greater adoption. I think intellectually, it makes sense that this would drive greater outsourcing and greater adoption of SaaS, but it's kind of hard to make that statement kind of where we are today. But theoretically and intellectually, 2 to 3 years from now, there should be more demand and more people using SaaS solutions than there are today.

Operator

Our next question comes from the line of Tien-Tsin Huang with JPMorgan.

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

Appreciate the disclosure here. Just on the -- somewhat of a follow-up to Ramsey's question, just on the sales performance side. You mentioned productivity challenges in addition to the demand factors. So how quickly do you think you'll get your productivity back on track and align your sales to where you see the pub going next in terms of demand as it evolves?

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

So we're trying to actually keep an eye on it week-to-week to get some sense of what levers they are still there. We clearly still have -- our sales force is still selling, and they're selling a lot of business. But it's at lower levels than, obviously, we had expected and at lower levels than you compare it to the previous year. So unfortunately, given the nature of the situation, it's kind of difficult to give you a kind of scientific or a concrete answer.

I think as we generate more information, I think, probably for our guidance for next fiscal year, we'll be able to -- and I know that's not helpful to you today, but it's really a very difficult thing to talk about. We have a lot of -- our sales force was already what we call an inside sales force. And so we've proven that we can sell-through inside selling, but we have some products that are, what I would call, high involvement decision sales. And it doesn't mean that those can't be done remotely, but it hasn't been the norm. So when you sell a very large complicated multinational solution or, frankly, even when you sell the PEO, historically, there's been a relationship that's built there and a trust that gets built before that transaction gets consummated.

So clearly, this is -- these are new and different times. So I don't think everyone is going to sit and wait around for everything to go back to normal before making decisions, but I think it's safe to assume -- I think common sense would tell us that it's safe to assume that there will be some level of hesitation and pullback in terms of decision-making, even though a good percentage of our sales force is still out selling as they have before, although they're doing it virtually now.

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

Yes. Sure. So we'll check in with you on that, again, next quarter. So then my quick follow-up. Both of you have talked about cost initiatives. You guys did much better than we thought on the margin side, even with the $50 million. But you've also both hinted at a pipeline of more cost takeout, potentially pre- the pandemic.

So I'm curious, your willingness to pull incremental expense levers, maybe some chunkier stuff, is that available to you? And are you willing to do that at this stage?

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

So we did have a number of transformation initiatives underway. A lot of them were really around digital transformation efforts to kind of automate and improve the way our implementation and our services is delivered, which would create a better experience for our clients,

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the employees of our clients, frankly, also for our associates that we thought would result in lower cost going forward. Part of the challenge we have is as -- and again, every company may be different in terms of how they approach their level of support for their clients, but based on our model and the way we see ourselves playing a role in -- and, frankly, in society and with our clients, we've actually experienced quite an increase in volume and cost in the short term. And so as an example, as the government rolled out the Payroll Protection Program, we saw 40% to 50% spikes in inquiries right through, whether it's phone or chat or by e-mail. And so we had to work people over time. We had to work people on weekends, which we're very grateful that people were willing to do it because, as you can imagine, they've got lots of other concerns and distractions as this is all going on. And so we made a commitment that we're going to deliver to our clients through this and help them work through it, whether it's for themselves or for their employees. And unfortunately, I would say in the short term, we actually have an increase in cost. Now realistically, that's not going to continue indefinitely. But every week that we said we think our call volumes and our workloads are going to go down, there's a new government program or a change in the government program, which, by the way, we think, is great. I think that the efforts by the fed and by the policymakers, I think, to help clients and their employees, I think, is the right thing to do, and we're very supportive. But as an example, there was just -- as you know, there was an approval of an additional amount for the Payroll Protection Program, which generates additional volume for us. By the way, I think the banks are in the same -- probably in the same situation in terms of having to handle kind of increased volumes. And so we expect these levels to normalize and then to be in a position where we can reevaluate our cost structure. But again, given the timing of this call and where we are today, we really can't tell you that there's been a meaningful decline in our workloads. In fact, it's actually been an increase.

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

Got it. I appreciate the work behind the...

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

So Tien-Tsin, if I could just -- let me just add a little bit more to that because I made some comments on our transformation efforts and our transformation work, even with the significant increase in service demand. So even with this kind of very abrupt disruption and need to move our entire -- practically our entire workforce to work from home, we were able to do that almost seamlessly. I mean, that worked really well through the huge, huge efforts of many of the different parts of the organization, from our technology group to our HR to legal. I mean, it was a huge effort, but it worked really well. And so that said, we've been able to continue our normal processes, if you will, around the transformation work. There were certainly some projects that we had to look at and assess and say, "Okay, because of the big service demands, we may need to slow down these." But our process in terms of tracking progress, continuing to execute, adjusting as necessary based on service demand and, importantly, continuing to look at pipeline of projects, that continues. And I would just add one further comment that, in particular, in this environment, the ability to look at procurement and find procurement opportunity is potentially even greater today than it was, say, 3 or 4 months ago.

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

Yes. And I think if I can just -- one more just comment. I think that the part of the challenge here is that we are -- the nature of our company and our business and our Board is to not focus on 1 month or 1 quarter. And I think when you look at what we were able to deliver just in this quarter in terms of margin improvement, and we've been able to do in the last couple of years, I think, demonstrates very clearly our ability to, I think, achieve and take advantage of operating leverage and also to manage our cost very effectively. We've had a couple of years with a very modest, if any cost -- true cost increases, while revenues were growing at what, for us, is our very healthy rate. So I think we've demonstrated what we can do. But unfortunately, we've been handed a very abrupt change here in the environment. And we're going to handle it first to take care of our associates, next, to take care of our clients. And I think when we get through this transitory period, which we all know is transitory. Now what we don't know is a transitory for a month or 2 or is it transitory for 6 months. But either way, it's not multiple years. And we want to make sure that we continue to invest in our business, take care of our people and take care of our clients that when we come out of this, we come out of it as strong as we were before we went into it.

Operator

Our next question comes from the line of Kevin McVeigh with Crédit Suisse.

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

Great. And obviously, a tough environment. Any thoughts on -- one of the question we get a lot is how much of the layoffs are going to be furlough versus structural? So just any sense within kind of the pays per control, how much of that would be potentially for load workers versus structural? Maybe start there.

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

It's a great question. So we have -- as you know, we operate in multiple countries and also multiple segments, small business, midsized, national accounts, but also in many countries and also with multinational companies. And the policies that companies have around how they treat employees is going to vary from company to company and generally also varies from segment to segment. But what we can tell you is that the way we count pays per control is very straightforward. It's whether or not someone got paid during that period of time that we're counting. And so we would not probably be able to give you a firm number of how many people are furloughed versus how many people are laid off because we don't control necessarily that coding in the system. And clients can exercise some discretion about how they, I guess, tag some of their employees. But what we do know is that if somebody doesn't get paid, they don't get counted in pays per control. And if they do get paid, even if it's at a reduced wage, that does count. And so that creates a number of challenges, obviously, because you could have reduced wage levels, which then doesn't negatively impact pays per control, but impacts the employees themselves, and may, in some cases, impact our fees, generally, wouldn't other than in the PEO, but could impact our fees as well. So I would say that the best thing to do is to stick to trying to use the pays per control metric as a way of building your models and using the guidance that we've provided around 25 basis points of revenue growth impact from each 1% change in pays per control. I think that gives you a very -- we spend a lot of time pressure testing that assumption. I think Danny did a lot of work on it. And I think it's a pretty solid way for you to look at things. So when you hear guidance from us about pays per control and you use that metric for your models, I think that's a much cleaner and easier way than to try to separate how many are furloughs versus how many are layoffs, et cetera, et cetera.

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

That's super helpful. And then I guess, just a quick follow-up would be kind of coming out of this, obviously, in this type of event, you really turn through in terms of the caliber of the organization. Do you see any change competitively, particularly as obviously coming out of the last cycle much more service-oriented as opposed to shift to the cloud in this one? But from a competitive perspective, any changes where you look to even build on that attrition number longer term in terms of improvement?

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

I think you do see some subtle differences in terms of company cultures and, I think, behavior. So as an example, one of the things that we have always, I think, proud to talk about is this willingness by us to really help our clients navigate these things, not just provide them the software solution. We actually take some responsibility for the outcomes of what they're trying to accomplish. And so the support we're providing around all these regulatory changes, I think, is an example of that. That doesn't mean that other competitors aren't doing similar things. But as an example, some competitors would be more along the lines of providing tools online and directing clients to third parties or directing them to resources where they can get help, versus, in our case, we actually take the work on, and we help our clients get to where they need to get in order to get their retention credit, tax credit, in order to get their payroll protection loan, in order to calculate. In a few weeks or, at least, in a couple of months, people are going to be needing help with calculating how to get forgiveness on those loans. I mean this is a complicated environment.

By the way, employment, in general, is always complicated, but this is a very complicated environment. And having great tools and technology is incredibly important, and we're totally committed to that. But I think it's undeniable that you also need extra help in these situations to help with questions and to help you navigate through all the various regulatory hurdles. As an example, some of the legislation that was passed in the U.S., you have to really understand the interplay. Like as an example, you can't take advantage of the deferral Social Security taxes and the payroll protection loans, but if you -- you can take advantage of the Social Security deferrals up until -- so you can get a loan. But then once it's forgiven, you can no longer defer your Social Security taxes. I mean, those are things that are typically not well understood by our client base. And I think just directing them to a website or to a tool, we don't think it is really the -- is the best way to help them.

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Operator

Our next question comes from the line of Bryan Bergin with Cowen.

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

Hope your families are all well. I wanted to try an outlook here. I'm just understanding the material uncertainty. Can you help us frame some initial fiscal '21 guideposts? I'm trying to think how we should be thinking about next year based on some of the implied 4Q run rates. Any sense of visibility you have across the businesses or maybe thinking across client size would be helpful.

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

First of all, thanks for asking about our families. I hope yours is well as -- also. Unfortunately, I mean, it's a very fair question, and I can understand why you're looking for any additional color. As you can imagine, we struggled with even providing kind of fourth quarter metrics because 2, 3, 4 weeks ago, we had -- or people had a certain view of "how long" the issue was going to continue and when things are going to open up again. And then it got more negative. Then now, it feels like it's gotten more positive. So I think that it's very difficult for us to go really beyond the fourth quarter in this environment. We have to remain optimistic that things are going to "improve". But I think that we all have to take advantage of the time we have to wait and see how things play out, whether it's with the clients or with GDP or with the economy or with these government programs, so that we can make more informed, I think, decisions about what 2021, I think, might look at. So I apologize for not being able to give you any additional color, but I think it would be a mistake to assume that the levels of activity that we've given you in the fourth quarter will continue into 2021. But it's also a mistake to assume that things are going to go back to normal at the beginning of 2021. And so we're going to kind of keep an eye on the data and the information and do our best as we gather more information to give you a good view of what's going to happen in '21 when we get there.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. Maybe I could just add a few comments around the process and what we're doing and the data that we're looking at. Since -- while, as Carlos said, we can't really give you the view right now or the exact guidepost, at least, if you understand and know the process we're doing, that might help a little bit. So look, things are, as Carlos said, it's extremely fluid right now. We're spending a lot of time studying and watching developments every single day and kind of looking at -- I think about it in 3 steps, if you will, in terms of, first, understanding what's happening from a pandemic standpoint in the epidemiology, then understanding how that impacts the economy broadly around the world and then understanding how that impacts each of the BUs. So as we do that, obviously, we're looking at numerous forecasts that I'm sure you all are looking at the same forecast that are being put out. But we're really spending a lot of time in parsing through those and kind of eliminating outliers and really utilizing the ones that we feel makes the most sense and then applying that to, as I said, the implications for our business units. And when you do that, as we've said, largely, PPC is going to be an extremely significant driver for us. And then, certainly, the shape of the recovery from a new business booking standpoint will be critically important. So we're watching that as well as we see different regions and states kind of formulating and attempting the return to work.

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

Okay. I appreciate that. I wanted to ask on retention. The comments on the assumptions in 4Q, is the reduction wholly due to business closures? I'm curious if you're seeing any change in the competitive client loss.

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

Well, I mean, I think based on the comments we gave you about the third quarter and the year-to-date, I think we're doing pretty well competitively because our -- I think our retention was up. I mean, we don't talk about quarterly retention, but why not? Like everything's -- everything is out the window in this kind of environment. But I think we were over 50 basis points improvement in the third quarter. And through the year-to-date, I think we were well ahead of both the guidance we had provided in our own internal expectations. So it's pretty clear that we were doing something right competitively. Our NPS scores are at record levels across most of our businesses. So again, the problem is this is not the time to brag and talk about the third quarter, but we had -- we really had incredible momentum coming into the third quarter on a number of fronts. But that's that. And we're onto now figuring out how to deal with the future challenges. But I have no concerns about the solidity of our business on every front coming into the third quarter.

Operator

Our next question comes from the line of Kartik Mehta with Northcoast Research.

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Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***

Carlos, I was wondering, based on the data you're seeing, and I realize this is so early in, but what kind of changes do you anticipate for the business, permanent changes or at least over the next 12 to 18 months because of this current crisis?

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

Well, over the next 12 to 18 months is probably the right focus because, I mean, I think it would be naive to think there are some things that are going to change permanently, but I'm not sure I have that kind of crystal ball to be precise about that. But for the next 12 to 18 months, because of the focus we have on our associates, it's unlikely that we will be going back to business as usual here in the next few months. Now the good news is we've adapted to the current work environment. So -- but a kind of a concrete change in terms of the next 12 to 18 months is we don't anticipate having 100% of our workforce back working in these "win as one" locations and some of these other places where we have large populations of associates. And so that's a change that we have to make sure that we stay on top of, that we support our people and lead them remotely and virtually and help them kind of navigate through what's a very different way of working. Now obviously, we plan on -- as society kind of normalizes, we plan on coming along for the ride with that. So we do -- we are formulating plans, as we speak, very preliminary plans around how do we slowly get back into some of our offices with limited number of personnel. But that's a change that we're definitely going to have to continue to live with for the next 12 to 18 months. Now what that means is that impacts our sales force. And so the question is, if the demand equation improves significantly and our sales force is still working remotely, how can we make sure that they have the right tools and the right processes to continue to take advantage of the demand that's out there because we don't anticipate having large numbers of salespeople back in our offices. Our salespeople, by definition, many of them are inside sales, but many of them are out in face-to-face transactions, and that's not something that's going to normalize in the next 12 to 18 months. Sadly, I'm sad to report that of the number of associates that we had impacted by COVID-19, we were disproportionately impacted in our sales force. So as we go back to normalization, we're going to be exceptionally careful about protecting our sales force as well.

Kartik Mehta ***Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst***

And then just finally, Carlos, what do you think the recovery will look like? We've heard so much of V, a U, an L. I'm just interested in your perspective of what you're anticipating from a recovery.

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

Well, I think the -- again, we're looking at -- we get information from all of the usual places. Like Morgan Stanley is obviously our bank, So they're -- they've been very helpful in giving us their information. But we have access to information from a number of other sources. I don't want to say any other names, so I don't hurt anybody's feelings. But all the usual banks, we get the information from them. We have information from Moody's. By the way, we also work with the fed, we work with treasury. We have a lot of sources of information to give us some sense of kind of where things are headed. The challenge is that I don't think anyone has really -- well, not -- I don't think -- I know that no one has ever been through this. So there really aren't any great models, other than using inputs like PMIs or consumer confidence and other metrics that tend to be many of the metrics that people use in these models or lagging indicators, right? And you have regression that gives you some sense of where the economy is headed. But as I've seen myself in the last 4 to 5 weeks, you have to take any forecast with a large grain of salt. So the best approach we think we can have right now is to remain flexible and agile about how you're planning and what you're planning for.

If I were -- if we had to make a bet today, we would say that it's not going to be a V-shaped recovery, and it's probably not going to be U or an L, but it's going to be some other kind of shape where we obviously already had the precipitous decline. We're already seeing some signs of some stabilization. So we have metrics that we track like in our HR systems of our clients. For example, new job postings or number of screenings that are done, like background checks, and some of those metrics have actually begun to stabilize. So I think we -- we've had the abrupt drop. Another question is the recovery. It feels like that recovery will be not a V, but not an L. And so the difference between a V and an L is the checkmark, like I think some people are out there quoting. By the way, we have an economist on our Board, and he referred to it as the Nike swoosh, but that's probably a copyright or trademark violation, so I won't use the Nike swoosh. But you get the idea, abrupt drop and, hopefully, a climb back up over some period of time. Hopefully, that climb is over the course of 3 to 6 months and not over the course of 12 to 18 months.

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Operator

Our next question comes from the line of David Grossman with Stifel.

David Michael Grossman ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD***

Carlos, I think you've addressed this in a couple of previous questions, but based on how this may play out coming out of the crisis, and you talked just a moment ago about some possible structural changes, at least, in the intermediate term being work from home or virtual sales, how do you feel the way you're positioned coming out of that versus where you were going into it? And how do you view your ability really to leverage that to your advantage? Is it structural? Or is it based on execution? I'm sure it's a combination of both. But if you could just give us a little more insight into how you're feeling about what you can do with this crisis to really enhance your position, both competitively and operationally.

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

Well, look, I think that some of this is philosophical. I think that I, like everyone else, when we were entering this phase, I was scared, like everyone else's, not just personally for myself and my family, but also for the company and all of our associates and our clients that depend on us. And when you see the reaction and the ability of the organization to kind of get through it, and not just get through it, but actually deliver a higher level of service and help with very complicated questions in a very complicated situation, which was changing, in some cases, on a daily basis with the regulatory landscape, I think it tells you something about the strength of the culture and of the company. And so that gives me -- again, this is all intellectual philosophical, but I think gives me great hope about how we emerge from this competitively. We already had incredibly strong momentum going into the third quarter. As you saw from retention, we think we have a strong product lineup that was beginning to get traction. One of the things we didn't talk about when someone asked the question about our competitive situation, like we had really good growth in client counts, particularly in Workforce Now, and specifically in our mid-market business. So the combination of positive momentum in coming into this and then the reaction and the strength of the organization through this gives me great optimism and hope that we're going to come out of this stronger than any of our competitors.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. Let me just add to that. Yes, I would just add to that, in addition to the great service that we've been able to provide to our clients throughout this, which, theoretically, ideally, should sustain or drive even better retention going forward, I would say the strength of our balance sheet and the ability to continue to invest aligned with what we laid out at our Innovation Day, so investing in our strategic products, in Workforce Now, in RUN, in our Next Gen product, our ability to continue to do that throughout this should position us well.

Operator

Our next question comes from the line of Steven Wald with Morgan Stanley.

Steven Matthew Wald ***Morgan Stanley, Research Division - Equity Analyst***

I hope you guys are safe and well, and thanks for the shoutout from Morgan Stanley (inaudible) on that subject. Maybe just starting off on some of the puts and takes of the segments. You've pointed to worksite employee growth still in PEO versus lower pays per control and Employer Services. Just maybe run us through again because this has come up a lot in recent conversations around why the PEO should still be thought of as, employment wise, a little bit more defensive and how you guys see that tracking this downturn versus prior ones.

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

I think the #1 reason is really just structural in the sense that when you look at overall ADP, we have clients all the way from a single employee, all the way to very large national accounts. And so as we've said -- we said this obviously over multiple decades. Our downmarket business tends to be the most sensitive to out of business, but also to decreases in pays per control. And so as we track this pays per control data, I think we've probably given you some of the color that the pays per control numbers are down more in the downmarket than they are in the mid- and the up market. The PEO -- at least in our case, the PEO tends to -- the averaged-size client just, from a practical standpoint, is 45. And we tend -- we try to stay away from clients that are under 10 employees. We have some clients, obviously, that are between 5 and 10 employees. But in general, the sweet spot of the PEO is kind of around 45, that's the average. And so it's just the nature of the structural difference of that business versus the others that the pays per control is not going to decline as much as the overall average, if you will, where you have some of that average being in a small business market.

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And then the second more anecdotal comment would be the PEO clients, our PEO clients, not every PEO's clients, our PEO clients tend to provide health benefits, a retirement plan. They tend to be kind of higher average wage than the average U.S. worker, and that makes sense because you're paying for the help that you get with maximizing and managing that sales force. So it tends to be attractive to a higher-average wage employer that is very concerned with attracting the right people and retaining the right people. So that also tends to lead you in the direction of clients that are a little bit larger, maybe a little bit more financially capable of paying those fees, et cetera. So that -- but that -- not sure that we can have a scientific way of proving that one. But for sure, the average-sized client of a PEO -- of our PEO is larger than in our SBS business. And hence, the pays per control drop would logically be smaller.

Steven Matthew Wald ***Morgan Stanley, Research Division - Equity Analyst***

Got it. That's very helpful color. In terms of just a quick follow-up on capital management dividend. I know both of you have mentioned the strength of the balance sheet, continued ongoing investment and cost cutting. But in terms of how we should think about things like the dividend and the safety there or your willingness to raise that given the current environment or buybacks and other forms, like the acquisition to lower valuations, how are you guys thinking about that from a financial, but also a strategic and sort of, I guess, sensitivity to the times type of perspective?

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

So I'm glad you asked that question because I happen to talk to our Chairman yesterday before this call because I figured somebody might ask that question. It's a tricky question because, as you know, it's up to the Board to decide on our dividend. But I can tell you this that we had a Board meeting on April 8, and the Board [approved payment of our dividend] (corrected by company after the call). And they wouldn't have done that if they had concerns in the short or medium term about our capital position or about our dividend. So again, without speaking for the Board, I think we have a very long 45-year track record of paying and increasing our dividend. We have a strong balance sheet. We are a capital-light business with strong cash generation. Our payout ratio is 55% to 60%, which, I think, gives us some room to be able to continue even with increases without running into any major capital constraints or restrictions on our investing. And so I would feel optimistic that our Board would be supportive of continuing the long track record the ADP has of 45 years as it stands. And I'll let Kathleen maybe make a comment or 2 about that as well.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. Thanks. Yes, you covered it really well, Carlos. I would just say, in support of enabling the Board to make dividend decisions, we, on a normal basis, do ongoing analysis and stress testing and have been continuing to do that through this environment. So we've been doing -- looking really closely at that stress testing. So I really don't have anything to add there on what Carlos -- the points Carlos commented.

Operator

We have time for one more question, and that's from the line of Lisa Ellis with MoffettNathanson.

Lisa Ann Dejong Ellis ***MoffettNathanson LLC - Partner***

Glad to hear you're well. You -- just a little bit of a follow-up on the PEO question. I mean, as you just highlighted, the worksite employees in PEO are a bit more resilient because of the larger size of the company, but the revenue guidance there is down more significantly in Q4. Maybe like a tactical question just around what drives that in the short term, but maybe a broader question, Carlos, for you, coming from originally, the PEO business. How should we think about how the PEO will act through a recession period? Do you expect increased demand for the PEO or some clients dropping out of the PEO? How do you think about that dynamic?

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

It's a great question. I'll let Danny pull up the calculator to -- because I'm sure you're right about dropping greater. There's no intention -- there's no signaling or anything intended there, maybe rounding or the math or something, but there's no magic formula there that we're trying to send some kind of message. I mean we think the PEO business is solid and strong and, I think, tends to weather recessions better. Again, every time you have a recession, it's a different kind of recession. So we had a financial crisis last time. This time, it's a health crisis. So I'm always cautious to -- of making kind of bold definitive statements. But historically, we've always worried about the PEO going into a recession or into a crisis being challenged because it does tend to be a -- kind of a more expensive, if you will, solution, if you will. But it also provides an enormously higher amount of value, right? And during these types of situations, like, for example, our

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PEO handles the questions not just of our clients, but of the employees of our clients. That's not what we generally do for our typical payroll requirements. That helps our clients a lot and release them of a big burden, provides those employees a lot of comforts. There's a lot of real positives and good reason why people want to stay on a PEO or why they want to be on a PEO, even in a recessionary environment. So I would say that in the prior recessions, the PEO was not immune, just like it's not this time, from pays per control decreases and from some short-term disruption to new bookings. But we've been impressed. I've been through now, I guess, this is my third recession at ADP. And at least prior to -- the PEO performed on a relative basis, as well, if not better, than the rest of our business. And we would expect no different on a go-forward basis.

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

And Lisa, this is Danny. Just to add, because it's fairly in the weeds, which I love, of course. But in addition to the impact from worksite employees in the PEO, we charge as a percent of payroll. And so wages themselves, to the extent we have some workers working fewer hours within the PEO base, that can have an impact. And then even further in the weeds is you can have a slight mix impact with respect to workers' comp to the extent that certain industries, you have greater impact from pays per control, and those had higher workers' comp rate. So these are very subtle impacts. But together, they kind of inform that guidance.

Lisa Ann Dejong Ellis ***MoffettNathanson LLC - Partner***

Wonderful. And then maybe my last one. And Carlos, if you want to end on -- just as you're watching and maybe help us a little bit, what are the top, like, literally, 1 or 2 things that you are watching that you think are really going to impact as you're looking at your client base, the shape of the swoosh or the checkmark or -- over these next couple of months?

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

I think the first one that we're keeping our eye on is really these kind of leading indicators, if you will. So this would be job postings and background checks. And so that, I think, is -- those are, I think -- the job postings is obvious in the sense that people aren't really going to post new positions if they think that things are not going to, at some point, improve. So to me, that's a sign that people are doing the same thing we're doing, which is we're conservative and we're cautious, but we have to be prepared for every eventuality, including the optimistic one. And so this increase in postings and job postings, to me, means that people are starting to think of, "Well, if in 2, 3, 4 weeks, this state or this industry has some kind of opening, I need to make sure that I have the people available to handle that work," because these are business owners that obviously have to run their businesses.

And then secondly, when they actually do that, then they actually have to put that person through the new hiring process, which is the screening and selection. So we're going to keep an eye on those 2 figures.

Then closely behind that, I think, is we have a very large workforce management business or what some people would call time and attendance. And so that is also data that is very helpful in terms of seeing number of hours worked. It doesn't always help you a lot with an exempt workforce. But for people who are paid hourly, it's a very good indicator that kind of cuts through the noise of furloughs and layoffs and so forth and so on, and just kind of gives you some sense of "hours worked" and whether that is increasing or not increasing. So that should show an upturn before we show -- we see upturns on other things because people will take the existing people they have now and just have them work longer hours rather than adding additional people. So the addition of people will probably be the final, I think, sign of recovery. But we have a number of other indicators that we can look at that gives us an earlier view of where we're headed.

Operator

This concludes our question-and-answer portion for today. I am pleased to hand the program over to Carlos Rodriguez for closing remarks.

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

So it's hard to kind of find the words to close the call and describe the situation that we're in, but I'm trying to end on an optimistic note here. I've been now with ADP 20 years, and I've been through, I just mentioned, 2 recessions. This is my third. Been through Y2K, which most of the people on the call don't even remember. Danny certainly doesn't remember Y2K. He was too young. Through 9/11, we've been through wars, we've been through multiple changes in technology. Nobody was even talking about SaaS when I joined ADP. And every time we had a challenge, it looked like that was the challenge that we couldn't overcome. But every time, ADP overcame that

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challenge. And it's no different, I think, for the rest of, in this case, humanity because this is affecting not just the U.S., but it's affecting the entire world. People and ADP find a way to evolve and to adapt. So I have to be optimistic. We have a propensity to overcome. If not, we wouldn't be here talking to you today, whether it's us as human beings or us as a company. By the way, as I've said multiple times in other calls, we're 70 years old, and I think, as a company, and I think that tells you something, that we're a part of a very long history of overcoming challenges, and this one is going to be no different.

And I'll leave you with something that I shared with our associates at the beginning of the crisis, which is something that our founder, Henry Taub, I think, established as a culture for the company that, I think, is appropriate. And he always told us, and he told me because I knew him personally, he told me, always take care of your associates and they will take care of your clients, and everything else will take care of itself. So I really appreciate the support of all of you for ADP. Thank you for calling in and asking your questions. And my best wishes to all of you for health and safety for you and your families. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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