



# ADP Earnings Call & Webcast Q1 Fiscal 2021

October 28, 2020



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# Forward Looking Statements

This document 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; the adequacy, effectiveness and success of our business transformation initiatives; and the impact of and uncertainties related to major natural disasters or catastrophic events, including the COVID-19 pandemic. 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 2021 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 2021 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

- Strong Q1 FY21 results driven by revenue and margin outperformance versus expectations
  - Revenue decline of 1%, adjusted EBIT<sup>(a)</sup> margin increase of 120 basis points, and adjusted diluted EPS<sup>(a)</sup> growth of 5%
- Employment gradually improved with US pays per control decline of (9)% in Q1 FY21, compared to decline of (11)% in Q4 FY20
- Record Q1 Employer Services New Business Bookings
  - Continued recovery in client purchase activity and sales productivity driving broad-based outperformance
- Record Q1 Employer Services client retention
  - Client service and product innovation remain differentiators, with client satisfaction levels at or near record levels across portfolio

(a) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q1 fiscal 2021 earnings release available at [investors.adp.com](https://investors.adp.com).



# Q1 Fiscal 2021 Financial Highlights

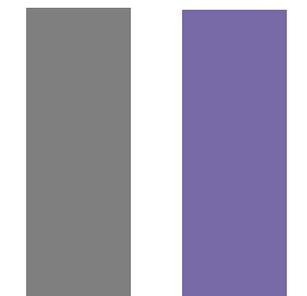
(unaudited)

## Total Revenues

↓ 1%

↓ 1% Organic Constant Currency (a)

\$3,496M    \$3,471M



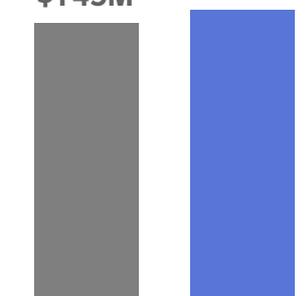
Q1 FY20    Q1 FY21

## Adjusted EBIT (a)

↑ 5%

Adjusted EBIT (a) Margin ↑ 120 bps

\$745M    \$781M

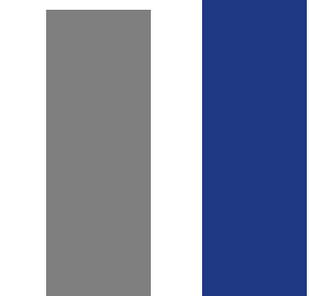


Q1 FY20    Q1 FY21

## Adjusted Diluted EPS (a)

↑ 5%

\$1.34    \$1.41



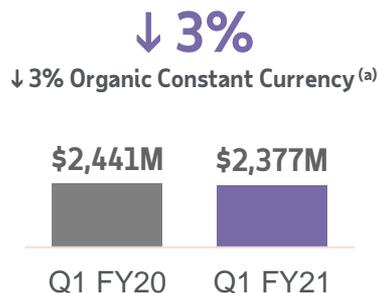
Q1 FY20    Q1 FY21

(a) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q1 fiscal 2021 earnings release available at [investors.adp.com](https://investors.adp.com).

# Q1 Fiscal 2021 Employer Services Segment Results

(unaudited)

## ES Revenues



- ES New Business Bookings ↑ 2%
- U.S. Pays Per Control ↓ 9%
- Average client funds balances ↓ 7%
- Average client funds yield ↓ 30 bps

## ES Margin



- Resilient revenue performance
- Continued cost containment
- Execution of transformation initiatives

## Q1 Highlights

- Record Q1 ES bookings and retention driving significant revenue upside to expectations
- PPC in line with expectations
- Client funds balances stronger than expectations but interest income remains significant drag
- Intense focus on operational execution
- Continued cost containment and headcount control

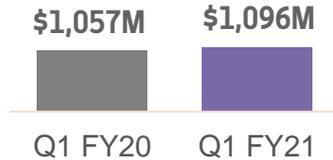
(a) For a reconciliation of this non-GAAP financial metric to its closest comparable GAAP metric see our Q1 fiscal 2021 earnings release available at [investors.adp.com](https://investors.adp.com).

# Q1 Fiscal 2021 PEO Services Segment Results

(unaudited)

## PEO Revenues

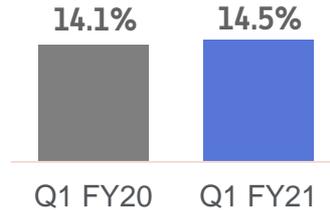
↑ 4%



- Revenues excluding zero-margin benefits pass-throughs ↓ 1%
- Average Worksite Employees paid ↓ 3% to 547,000

## PEO Margin

↑ 40 bps



- Includes 60 basis points of benefit from ADP Indemnity

## Q1 Highlights

- Better-than-expected revenue and WSE performance in the quarter
- WSE outperformance on stronger retention
- Same-store pays performance down mid-single digits, in line with expectations
- NPS continues upward trend
- Margin performance against expectations driven by cost containment and further supported by actuarial benefit at ADP Indemnity

# Updated Macroeconomic Assumptions for Fiscal 2021

Macro Driver	Prior	Current
<b>Pays Per Control</b>	Negative through Q3, positive in Q4; (4) to (3)% average for full year	Unchanged
<b>Out-of-Business</b>	Elevated losses Q1 through Q3	Elevated losses in Q2 and Q3
<b>Client Funds Balances and Interest</b>	Balance decline of (8) to (6)% Average yield of 1.6%	Balance decline of (3) to (1)% Average yield of 1.6%

# Fiscal 2021 Outlook

		Fiscal 2020 (unaudited)	July 29, 2020 Fiscal 2021 Outlook <sup>(a)</sup>	October 28, 2020 Fiscal 2021 Outlook <sup>(a)</sup>
Total ADP	Revenues	\$14,590M	(4) to (1)%	(1) to 1%
	Adj. EBIT Margin <sup>(b)</sup>	23.0%	~(300) bps	(150) to (100) bps
	Adj. Effective Tax Rate <sup>(b)</sup>	22.6%	23.1%	23.1%
	Adj. Diluted EPS <sup>(b)</sup>	\$5.92	(18) to (13)%	(7) to (3)%
Employer Services	Revenues	\$10,087M	(5) to (3)%	(2)% to flat
	Margin	30.3%	~(300) bps	(150) to (100) bps
	ES New Business Bookings	\$1.2B	Flat to 10%	10 to 20%
	Client Revenue Retention	90.5%	(100) to (50) bps	(50) bps to flat
	Pays Per Control	(1.0)%	(4) to (3)%	(4) to (3)%
PEO Services	Revenues	\$4,511M	(2) to 2%	Flat to 3%
	Revenues Ex Zero-Margin Pass-throughs	\$1,604M	(4) to (1)%	(1) to 1%
	Margin	13.5%	~(100) bps	(50) bps to flat
	Average WSEs	571,000	(3)% to flat	(1) to 1%
Client Funds Interest	Average Client Funds Balances	\$26.0B	(8) to (6)%	(3) to (1)%
	Yield on Client Funds Portfolio	2.1%	(50) bps to 1.6%	(50) bps to 1.6%
	Client Funds Interest Revenue	\$545M	\$390 to \$400M	\$400 to \$410M
	Extended Investment Strategy	\$561M	\$430 to \$440M	\$435 to \$445M

(a) Outlook contemplates the anticipated impact of foreign currency in revenue and operating results.

(b) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q1 fiscal 2021 earnings release available at [investors.adp.com](http://investors.adp.com).

# Appendix: Client Funds Investment Strategy Detail

	Fiscal 2021 Outlook		
	Average Balance (\$)	Average Yield	Interest (\$)
Client Short	5.9 – 6.0B	~0.1%	~10M
Client Extended	10.7 – 10.9B	1.7 – 1.8%	185 – 190M
Client Long	8.8 – 9.0B	2.3 – 2.4%	205 – 210M
<b>Total Client Funds (a)</b>	<b>25.4 – 25.9B</b>	<b>~1.6%</b>	<b>400 – 410M</b>
Corporate Extended Interest Income (b)	~2.3B	~1.7%	~40M
Borrowing Days Interest Expense	~2.3B	~0.1%	~(5)M
<b>Net Impact From Client Funds Extended Investment Strategy</b>			<b>435 – 445M</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.