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# EDITED TRANSCRIPT

ADP.OQ - Q2 2021 Automatic Data Processing Inc Earnings Call

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**OVERVIEW:**

Co. reported 2Q21 revenue of $3.7b and adjusted diluted EPS of $1.52. Expects FY21 total ADP revenues to be up 1-3% and adjusted diluted EPS to be down 2% to up 2%.



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

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## PRESENTATION

**Operator**

Good morning. My name is Michelle, and I'll be your conference operator. At this time, I would like to welcome everyone to ADP's Second Quarter Fiscal 2021 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions)

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

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

Thank you, Michelle. Good morning, everyone, and thank you for joining ADP's Second Quarter Fiscal 2021 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 quarter. Our 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 of these items along with the reconciliation of non-GAAP measures to the most comparable GAAP measures can be found in our earnings release.

Today's call will also contain forward-looking statements that refer to future events and involve some risk. We encourage you to review our filings with the SEC for additional information on factors that could cause actual results to differ materially from our current expectations.

As always, please do not hesitate to reach out should you have any questions.

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



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

Thank you, Danny, and thank you, everyone, for joining our call. This morning, we reported results reflecting our continued strong business performance and momentum with our second quarter revenue and margins both outperforming our expectations as our business continued to demonstrate resilience in the face of ongoing economic headwinds. We reported revenue of $3.7 billion, up 1% on a reported basis and flat on an organic constant currency basis, with adjusted EBIT margin down 30 basis points. Coupled with a slight increase in the effective tax rate versus last year, a share count reduction, our adjusted diluted EPS was flat versus last year, much better than the decrease we were expecting.

During the second quarter, we continue to see signs of improvement in the overall operating environment with positive implications for pays per control, new business bookings and retention. Our pays per control metric performed slightly better than expected as it improved sequentially to a decline of 6% versus the larger declines we experienced in Q1 and in the latter part of fiscal 2020. Underlying employment trends in Q2 were consistent with what we experienced in Q1, with larger enterprises somewhat slower to show improvement, but with small and midsized businesses demonstrating a healthy level of hiring.

We performed well on Employer Services new business bookings. Even though bookings declined 7% this quarter, this was well ahead of our initial expectations earlier this year and in line with the revised expectations we communicated last quarter. And it's important to point out that our new business bookings for the first half nearly matched last year's half despite the very difficult environment.

As we had anticipated, more modest sales contributions from items we noted last quarter, such as new business formations and multinational deals, coupled with a resurgence in virus case levels, contributed to lower growth rate compared to Q1. But underlying trends have remained strong, including improving demand in our mid-market and HRO solutions as well as continued acceleration in leading indicators and a solid sales pipeline more broadly. Moreover, with the change in U.S. administration and the continuing dynamic regulatory environment, we expect momentum for our solutions to improve as companies continue to recognize the value of partnering with ADP given our deep compliance expertise and reliability. And as a final point, with what we believe to be the most challenging 6 months of the fiscal year behind us, we are now even more confident in our expectation for bookings performance to improve further. As a result of all these factors, we are raising our new business bookings guidance range by another 5% to 15% to 25%.

Pays per control and bookings trends were both positive, but retention was the main highlight for us the second quarter, with ES and PEO retention both reaching record levels. We saw strong performance across the board with the biggest improvement for the ES segment coming out of the U.S. downmarket and mid-market businesses as our client satisfaction scores remained at record levels across the board. Following this incredibly strong performance in an early read of Q3, we are very pleased to be able to raise our retention guidance significantly, a sign of our improving competitive position. And the retention we are now expecting would represent a record-high ES retention for a full year.

Now on to another critical topic and one that remains a key focus for us. Our product teams continue to execute well, and we reached a number of milestones this quarter. I'll start with RUN and Workforce Now, our 2 highest-revenue platforms.

For RUN, we continue to make a range of enhancements to make client onboarding seamless, and in some cases, digitally automated, improving the implementation process for tens of thousands of RUN clients we bring on every year. We also made further enhancements this quarter to our Accountant Connect platform, already a big differentiator for us, and we now provide even more insights to our critical accountant partners.

For Workforce Now, we continue to build momentum by leveraging our Next Gen Payroll engine. And as we discussed earlier this year, we are live with hundreds of clients who have been very pleased with the solution and continue to rate their experience very highly. In addition, we launched a new workforce management solution that, along with our Next Gen Payroll engine, enables real-time punch to net payroll calculations, all delivered from the public cloud. And based on feedback from our clients and sales associates, we believe a significant portion of the hundreds of sold Next Gen Payroll clients were incremental to what we would have sold without Next Gen, which of course has positive implications for market share and competitiveness in the mid-market as long as we continue to execute.



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Also, we continue to scale up our Next Gen HCM. In this quarter, we went live with our first client in Mexico. Importantly, we did this with enhanced speed to market as we partnered with a third party to localize and implement, which speaks to the power of our federated architecture and the native global capability of our Next Gen HCM and Next Gen Payroll platforms.

For our DataCloud platform, we had a number of exciting new launches. To support our clients around ESG objectives, we launched a pay equity storyboard that allows clients to identify equal pay gaps and calculate effective distribution models to close these differentials across their organization. We also continue to leverage the power of DataCloud outside our core HCM base, and earlier this month, launched a partnership with New York Stock Exchange owner, ICE, which will pair ICE Data Services' market expertise with ADP's HR and compensation data. We are very excited about continuing to explore opportunities related to our differentiated and robust data set, which is the most expansive in the industry, to drive both -- to drive insight both within and beyond traditional HCM use cases.

This quarter, we also continued to receive industry accolades and won a number of awards for our solutions, including G2 and Capterra awards, for the #1 user rated workforce management solution. We continue to reach all-time high client counts on all of our key platforms, including RUN, Workforce Now, Vantage, GlobalView and of course Next Gen HCM. And within our HCM platforms, we continue to reach new client count milestones for individual solutions such as retirement services.

Moving on, I'd like to once again acknowledge our associates for their ability to stay focused on finding innovative solutions and driving higher NPS in what has been an incredibly challenging and dynamic environment. It's because of this execution that we were able to demonstrate such resilience -- such resilient performance year-to-date with revenue flat, adjusted earnings per share up and retention at record levels.

Now with the worst of the pandemic-related headwinds hopefully behind us and vaccine programs positioning us for continued recovery, we are increasingly focused on reaccelerating growth in the quarters and years ahead. To that end, we have already reinvested some of our Q2 outperformance into product development acceleration, a digital transformation push and selective sales and marketing expansion ahead of our key selling quarters.

While it's too early to talk about fiscal 2022 in any detail, we expect our fourth quarter revenue growth to accelerate significantly, and our goal will be to sustain that momentum. We are very pleased with our performance year-to-date and the fundamental strength of our business, and we are very optimistic about the quarters ahead.

And with that, I'll turn it over to Kathleen.

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

Thank you, Carlos, and good morning, everyone. Q2 was another strong quarter across every major business metric. While we will still face some pandemic-related headwinds for the balance of the year, we are more confident in our outlook given, we believe, the toughest part is behind us. Our performance thus far into the year reaffirms the resilience of our business model, the strength of our product and the ability of our sales and service teams to perform even in the toughest of environments. We remain confident in our ability to execute as we move forward.

In the second quarter, our revenues grew 1% on a reported basis, flat on an organic constant currency basis, which is significantly better than our expectations coming into the year and better than even the revised expectations we had as of last quarter. Once again, ES retention rates represented favorability and did very -- as did very strong performance from our PEO. We managed expenses prudently while making important incremental growth and productivity investments and delivered margins that were better than our expectations.

Our adjusted EBIT was down just 1% despite pressure from a decline in client funds interest. Our adjusted effective tax rate increased 20 basis points compared to the second quarter of fiscal 2020. Our share count was lower year-over-year, driven by share repurchases. And as a result, our adjusted diluted earnings per share of $1.52 was flat versus last year's second quarter.

Moving on to the segments. For ES, our revenues declined 1% on a reported basis and 2% on an organic constant currency basis, representing continued sequential improvement driven by record-level retention and a more modest 6% decline in pays per control versus 9% last quarter.



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Client funds interest declined 23% as average yield declined 50 basis points versus last year. Our balance growth, however, improved significantly to be flat this quarter, supported by better retention, better pays per control and the lapping of our Netherlands money movement operation closure in October of 2019. Employer Services margin was flat for the quarter, significantly ahead of our expectations, supported by stronger revenue and prudent cost control.

Our PEO also had another very strong quarter. Total PEO revenues increased 5% to $1.2 billion with average worksite employees improving sequentially to 571,000, down 2% year-over-year. The strong results were also driven by better retention, which was at record levels, as well as slight sequential improvement in pays per control, though it remains down mid-single digits versus last year. Revenues, excluding 0 margin benefit pass-throughs, improved to up 2%, well ahead of our expectations. This outperformance was driven partly by better WSE performance, but also due to favorability in wages paid for WSEs during the quarter. PEO margin increased 100 basis points in the quarter, driven by better revenue as well as continued expense discipline.

Given our overperformance in the first half of the year, we have taken the opportunity to ramp up certain investments to supplement growth and productivity coming out of the pandemic. Relative to our expectations heading into the year, we are investing to accelerate certain R&D initiatives. We are also increasing investment in digital transformation as we continue to apply technology to enhance self-service and take work out of the system. Additionally, we are investing further in sales headcount and in certain marketing programs ahead of our key selling season in the back half of the year.

Let me turn now to our updated guidance for fiscal 2021. As we've said, with 2 quarters now behind us, we feel more optimistic about the full year. Although we still anticipate certain pandemic-related headwinds to persist for the rest of the year, we do expect some of these headwinds to moderate.

For pays per control, we continue to expect a decline of 3% to 4% for the year. For the first half of the year, pays per control performed slightly better than our expectations. But with the improvement seeming to moderate into the calendar year-end, we are making no change to our full year outlook at this point.

Out-of-business losses have been better than expected throughout the first half. And at this point, we see minimal risk for a significant deterioration during the year given what we've seen early in Q3 and with stimulus potentially providing additional support to small businesses.

On client funds interest, while the U.S. treasury yield curve has recently steepened, there is no material change to our expectation for our realized average yield for the current fiscal year. However, we are again revising our balance growth higher, primarily on stronger client growth.

Let's now look at our revised fiscal 2021 guidance. For ES, we now expect revenue to be flat to up 2% for the full year versus our previous expectation for flat to down 2%. That's driven by a few factors. Having had strong bookings performance 6 months into the year and seeing continued improvement in leading indicators, we now expect our new business bookings to be up 15% to 25% compared to our prior forecast of up 10% to 20%. This additional 5% raise reflects the incremental investments we've made in sales and marketing as well as an overall increased confidence for the next 2 quarters, particularly as our clients and prospects continue to deal with changes in legislation governing the workplace, making the payroll and HCM solutions we offer and the compliance expertise we provide even more compelling.

We now expect our ES retention to be up about 100 basis points versus flat to down 50 basis points. This improvement is driven by both the strong Q2 performance as well as reduced concern about Q3 losses as early signs indicate continued strong performance. This full year outlook would represent a new record ES retention level, and we are very focused on achieving that goal.

And for our client funds interest, which primarily impacts the results of our ES segment, we are again raising our outlook on a higher average balances expectation following the strong Q2 retention performance as well as continued recovery in wages paid. There is no change to our expectation of an average yield of 1.6%.

We now expect our margin in the Employer Services segment to decline 50 to 100 basis points for the year, representing a 50 basis point improvement versus our prior forecast.



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For our PEO, we now expect revenue up 3% to 5% versus our prior forecast of flat to up 3%. And we expect average worksite employees flat to up 2% versus our prior forecast of down 1% to up 1%. We continue to expect our average worksite employee metric to be negative in Q3 and then turn positive in Q4. Our revenues, excluding 0 margin pass-throughs, are now expected to be up 3% to 5% compared to our prior forecast of down 1% to up 1%. This significant increase is due to factors consistent with what we described for the second quarter, higher WSE count but also higher wages and therefore more revenue on a per WSE basis. For PEO margin, we now expect to be up 50 to 100 basis points in fiscal 2021 versus our prior forecast for down 50 basis points to flat. This raise is driven primarily by stronger revenue performance.

For our consolidated outlook, we now anticipate total ADP revenue to be up 1% to 3% in fiscal 2021 versus down 1% to up 1% prior. And we anticipate our adjusted EBIT margin to be down 50 to 100 basis points versus our prior guidance of down 100 to 150 basis points. We now expect our effective tax rate to be slightly lower at 23% for the year, and we continue to assume a net share count reduction in our guidance. Net of all these changes, we are raising our adjusted diluted EPS guidance to be down 2% to up 2% versus our prior guidance of down 3% to 7%.

We are very pleased to have been able to raise our guidance again given the combination of better-than-expected macro conditions and our strong execution 6 months into the fiscal year. We remain confident in our strategy, growth prospects and ability to execute. Coming into the fiscal year, we had braced for a number of economic headwinds, but stayed focused on our strategy and growth. And we maintained our investment in our product, our sales force and our associates in order to support our key goals of delivering excellent client solutions and growing market share. As we have done since the pandemic started, we plan to continue to support investment in product and sales. We look forward to keeping you updated on our progress.

And with that, I will turn it over to the operator for Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We'll take our first question from the line of Bryan Bergin with Cowen.

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

I'll ask 2 up front here. First, on bookings, can you talk about composition of bookings in 2Q versus 1Q, and give us a sense if you can dissect the strongest and weakest demand across client size?

And then just looking at the SG&A level this quarter, can you comment on the drivers of the sequential dollar growth there? I heard the comments on accelerated investment. Is that primarily sales force headcount addition, or other areas of spend?

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

Sure. Let me take the -- I'll take the bookings maybe, and I'll let Kathleen talk about the SG&A. On the bookings, I think some of this is just the lumpiness, if you will, of the results because there was no -- there are a couple of things that happened, but it's hard to call it a trend, right, because we only have really 2 quarters, if you will, of kind of post-pandemic results.

But in essence, our mid-market business performed a lot better. So Workforce Now in the mid-market business did much better in this quarter than in the last quarter. And then if you remember, last quarter, we talked about that we got some help from our international business, and in particular we called out multinational deals. And that was -- I'm not sure if we gave any color around that, but that was strong double digits, is the way I would put it, last quarter, help to last quarter's growth. And this quarter, it was kind of slightly negative.



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Now in the context of what's happening in Europe, which really started to shut down and starting to have challenges before the U.S. in terms of the resurgence of the virus, we're pretty happy with that. Like, we're pretty proud of our sales teams over there that they were able to accomplish what they did in the second quarter. But sequentially, it was not as strong as the help we got in the first quarter.

We also had really strong bookings in the first quarter in our downmarket business. We had some, what I would call, modest help from some, what we call, client conversions or we call client-based acquisitions, which we do on a regular basis, but they don't come in every single quarter. So we got a little bit of help from that.

And I think I also mentioned last quarter, I think I've been doing this for 9 years, mentioning that whenever we have a strong finish to a year, we typically get off to a slower start. And the opposite is also true. When we have a really bad year, we tend to get off to a stronger start.

A lot of our business is counted at the time of sale and start, but some of our business, as you know, like in the upmarket, we -- there is some flexibility, if you will, in the sales force. We don't necessarily endorse that, but there is some flexibility for salespeople to book something in, call it, July versus in May. And because of the way the incentives work and so forth, sometimes, we get a little bit of movement from sales into the next fiscal year if we have a bad fiscal year. And the opposite is also true. When we have a strong fiscal year, and we tend to have a hard time getting started in July.

But I think we've been -- so this is nothing new. We've been, I think, transparent in giving you all the kind of the color that we can around bookings. I would tell you that when we cut through all that, so we're trying to look at, no different than you would do with, for example, earnings, where we're trying to see what's the core business doing, excluding client funds interest? What's happening with the core business, excluding pressure from pays per control? We do the same thing in bookings, like what's happening in the core underlying bookings? And we see very positive momentum there in terms of lead generation, digital leads coming in, activity by the sales force.

So we're optimistic that the momentum will continue into the third and fourth quarter. Of course, the caveat being the virus has to cooperate in terms of -- and the vaccine rollout has to continue to stay on track. But I think overall, if you cut through all the -- it's not fair to call them onetime items, but if you cut through all the noise, our momentum in the second quarter in terms of bookings was stronger than it was in the first quarter, even though it might not be what the reported number shows.

And I'll let Kathleen talk about the SG&A.

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

Sure. So on the SG&A side, I mean, you do have a lot of things within that SG&A. But I would think about it this way. The overall view or picture is that, from a selling standpoint -- I'll talk about kind of full year, and then we can talk about linearity. But from an overall standpoint, we continue to invest in sales, as we've mentioned. And that is both headcount investment as well as continuing to look at marketing investment and doing some of that.

So you've got that investment in sales, but you've also got the work we're doing around transformation, which would be offsetting that investment, as well as just discretionary cost control that we're very focused on doing as well.

So kind of overall, you've got investment, headcount and marketing, you've got transformation work that we continue to do and discretionary cost control. That does change if you look at -- or not change, but the skew, first half to second half, is a little bit different as we do have significant bookings growth in Q4, our expectation. And so of course, that's going to result in higher Q4 selling expense for us.

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**Operator**

Our next question comes from Bryan Keane with Deutsche Bank.



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**Bryan Connell Keane** - *Deutsche Bank AG, Research Division - Research Analyst*

I just want to make sure I understood. The Employer Services bookings for the quarter came in line with expectations, but you guys did decide to raise the full year. So just want to make sure I understand the pipeline, the visibility there that's causing that raise.

And then on retention to record levels, are you seeing anything in particular on the competition front that is having less of an impact in years past that's driving the higher retention?

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

Sure. On the pipeline question, we do have some visibility, but some of this is really about extrapolating momentum. Because in the downmarket, it's really more about headcount and productivity than it is about pipeline. Whereas in the MNC and the upmarket -- I mean, I'm not telling you anything you wouldn't be able to figure out yourself. So there -- we have a fair amount of visibility in some part of our business. But in other parts of our business, we, based on our experience about productivity metrics and headcount and so forth, we have confidence, obviously, in the guidance that we're giving in the raise. Otherwise, we wouldn't be giving it.

But a couple of things that have changed since last quarter. Last quarter, we had what we thought was much better results than we had expected, and we thought we had positive momentum. And then on top of that, now we have the vaccine rollout. So that was not something that was talked about, but this is now a reality. We also had an election that was still in front of us, and that's been resolved. We also thought, and people speculated, there would be more stimulus, and now there is. Even though there's even more stimulus being debated, just as a reminder, there was a $900 billion stimulus package that was approved.

So I think if you look at -- which we try to do, we try to do a little bit of kind of correlation, regression or whatever you want to call it, between GDP and economic growth and our bookings because we do believe there is some connection there. Like there's other things, like the training of our sales force, the tools they have, the quality of the sales force, the turnover, but GDP is a powerful force.

And the GDP numbers are looking pretty strong here on a go-forward basis, with perhaps the exception by some of our -- some analysts out there of the third -- of our third quarter, the quarter we're in right now. But if you look at fourth quarter -- our fourth quarter or the first half of next fiscal year for us and then the next calendar year after that, I mean, even this full calendar year GDP expectation has been raised, I think, across the board by everyone.

So I think it's partly visibility and pipeline and partly our experience. Like we know, for example, what a reasonable expectation is for productivity per diem, per sales rep. We know how many sales reps we have. We know how many new ones we're hiring. We know what we're generating in terms of leads and digital marketing. And I think we put that all together, and that comes out to our guidance. And so I think we're confident in it, and we're actually very excited and positive that we were able to do that. And we're just glad that things are looking much better than they were last quarter and certainly better than they were looking in March and April.

On the...

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

And Bryan, the only other -- if I could just interject, the only other detail I'd add on all of that data that Carlos mentioned that we do look at on an ongoing basis, is that when we look at the leading indicators in terms of the data we have, so appointments, referrals, demos, opportunities created. As our sales team are inputting these into the system, all of those are trending better going into the second half than they were for sure going into the year. And so we're feeling really very optimistic, as you can tell, from the raised bookings guidance. We're feeling optimistic going into the second half of the year. In particular, the digital leads are up significantly. So again, just wanted to provide that transparency for you.



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

And then on the retention side, I would say there's probably 2 data points that I would look at. The retention, obviously, is incredibly strong, and it's going to be record retention for the year assuming we hit the guidance that we've just provided. We've never been at these retention levels. And I think there's a number of factors.

I mean, I think our product set is much stronger. And it's not just the products themselves, but it's our commitment to moving our clients onto our newer platform. So we have a lot more clients on newer platforms today than we had a year ago, 2 years ago. Whether a quarter ago or a year ago, it's just a continuing progression that we've talked about now for many, many years, but we've made a lot of progress. And we know that the retention on our new platforms is higher than on some of our older platforms, so that's helping. There's probably some tailwind from -- that's pandemic related, we just can't put our finger on it, that clients are maybe not moving as much.

But if you look at each business unit, like for example in our downmarket, the retention in our downmarket, as a result of better product and better execution, has been going up for probably 6 or 7 years and is up almost 500 basis points pre-pandemic, and now it's gone up even more. So the fact that we've had this positive momentum in the downmarket. And it's a similar story in Workforce Now. It's not 500 basis points. But in the mid-market, we've also had 3 years of improving retention pre-pandemic.

So I think those are signs that there's something happening in terms of our execution and our product, right? So execution is part of it as well. We have to deliver, I think, on the commitments we make to our clients to resolve issues for them and answer questions and so forth. So a combination of better service, excellent service, and really better products and migrating clients, I think, is helping.

And then secondly, the other data point that I would point to, which is really on the booking side, but -- combination of bookings and retention, that our balance of trade is improving with several of our major competitors for the first time in a while. And I think it's, again, related to this effort that we've made to improve product, continue to deliver great service, stay focused on execution. And I think it's showing up now in some of these balance of trade numbers where we're showing some improvement.

So the reason I bring that up is because balance of trade would be a combination of what we're bringing in, in terms of from some of our competitors, but also what we're losing to those same competitors. That's why we call it balance of trade. So there's a number of metrics that would tell me that our competitive position is getting better and then resulting obviously in higher retention and hopefully also growing bookings here in the future.

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**Operator**

Our next question comes from Jeff Silber of BMO.

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**Jeffrey Marc Silber** - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

Two-part question. First is on pricing. I believe it was last quarter or maybe the quarter before, you talked a little bit about some of your competitors offering some pricing concessions to clients. I'm just wondering if that's been continuing.

And as a follow-up, I'm just wondering if you're seeing any diverging trends by geography, especially in certain areas where we're seeing higher COVID cases.

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

So on the -- let me take the second one first. On divergence, yes, we would see what you would expect to see because we are -- I think we're big enough that we can't really escape, again, the gravitational pull of overall GDP but also of specific geographic challenges.



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So in Southern California, for example, we did see some challenges in terms of our bookings in the downmarket and into the mid-market there. It's still impressive that we were able to sell as much as we did. As a footnote, we sold a lot. To say that we're flat, almost flat, for us is -- at least we're impressed with ourselves, that our bookings are flat for the first half of the year versus last year.

But there clearly are pockets of challenge. Southern California would be a challenge. The Midwest was -- and the central part of the country was incredibly challenged for several months. But we've had other places that things were better as a result of maybe more economic activity or continuing opening regardless of the controversy around that. And then, again, Europe would be a place where I would call out where I think we started to encounter some real headwinds. So -- because geography for us is not just about the U.S., it's also global.

So the answer is yes and that you should assume that we would be impacted by whatever you're seeing in the news. And so when you have hard lockdowns in very large metropolitan markets, that would affect us. But fortunately, we're very diversified geographically and across segments. So remember, we operate all the way from small to upmarket to international. And so we -- obviously, we try to find a way to keep all of these things in balance and have something helping us when other things may be working against us. So we did see some of that volatility, as you described.

On the price side, so one of the things we did talk about last quarter, we did talk about competitors and what we heard anecdotally about competitor pricing action. But we did -- we also said last quarter that we didn't get any help from price last quarter. We did get a little bit of help. It was not significant, but call it, around -- I think it was around 30 basis points of help, which is about normally what we would be getting, in terms of revenue growth, help from price.

And so I think what that tells you, this -- what we're trying to signal to you there is to tell you that it was appropriate for us to pause for, call it, 4 to 5 months, our normal price increases. By the way, our normal price increases would have been -- July 1 would have been one of the main times when we do pricing -- price increases. And remember, our price increases are much more modest than they were 5, 10 years ago. But at our scale, it does matter. But we delayed those price increases because it was not appropriate to do that given the circumstances that we were under.

But you fast forward to September, October, we felt that given the additional services that we were providing. So we're providing a number of incremental services at no additional cost to our clients that I believe our competitors are not providing. And so we thought that going back to our normal, modest price increases was a reasonable thing to do, and we did that. And you can see the impact on retention, which has been none. And so that would be, I think, a good sign for us.

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**Operator**

Our next question comes from Pete Christiansen of Citi.

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**Peter Corwin Christiansen** - *Citigroup Inc., Research Division - VP and Analyst*

Nice trends here. Carlos, given the lifted view on ES bookings and retention, how would you characterize some of the trends you're seeing in the attach rate for add-on modules, those sorts of things? And how should we think about the runway for the next 2 or 3 quarters on how you see that evolving, particularly with some of your new R&D developments, new products and all that?

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

It's a great question because there's still a lot of room for us there. Like we're very focused on market share and new unit growth, but we don't mind additional share of wallet and additional attach rate because that's helpful, too. And as you know, our bookings have generally been balanced for many, many years, about half of it coming from new logos and half of it coming from incremental attach. So we love that business.

I happened to be looking at those figures last night, and it obviously varies by business unit. But as an example, in the mid-market, we're kind of in the 60% to 70% range in terms of attach rate for things like workforce management, which we used to call time and labor management, and



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benefits administration. And we have things like DataCloud and other items that we can attach as well. But I think the best color to put on that is that there's still a lot of room.

I mentioned how we are doing well not just in our new strategic platforms, but we're also doing well on some of our products that we don't always talk about a lot on these calls, like retirement services, insurance services, where those attach rates are very low in comparison to what I think is the potential for our client base. Because when you have a tightly integrated solution, it really is a much better experience for our clients. So it's good for us, but it's also good for our clients, which is always an important thing. So I guess the color I would put there is we've got really good attach rates on some of the core HCM modules like workforce management, ben admin. So HR, payroll, ben admin, workforce management, those are kind of the core. Talent management is a place where we've been seeing growing attach rates, and there's a lot of room still there for people to adopt those solutions. So we're very optimistic.

And this is a key strategy for, I think, my predecessor, predecessor before that, which has been great for us, that we have a very broad industry. Part of our reason for concentrating on HCM and focusing the company away from some of the other businesses we have, like the brokerage business and dealer services and so forth, is this is a growing, robust space globally and there's plenty of room to grow. We definitely want to still focus on and not take our eye off of market share and logo growth, but there's an enormous opportunity for us in terms of incremental attach rate.

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**Operator**

Our next question comes from Samad Samana with Jefferies.

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

Maybe stepping back for a big picture question. A little bit in the time machine, but if I think back to the Analyst Day in 2018 and some of the company's key initiatives around the service alignment and taking costs out of the business and getting to, call it, mid-20s EBIT margin. I guess, aside from the world being very different with what happened with COVID. But I'm curious, Carlos, if you could just think, as far as those initiatives went and getting the margin structure of the business toward that, would you say that we're -- ex what happened with rates and with COVID, would we be in that shape today?

And I guess, maybe thinking forward, how should we think about the structural margins of this business post recovery? And can it be at those long-term levels that we talked about before? And then I have one follow-up.

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

Yes. So let me give you a little bit of color on that because, again, coincidentally, I was doing my homework last night. So I did go back and that's something that I actually have fresh on my mind. So -- and Danny will correct me if I'm wrong here. But I think our margin in '18, which you would have seen in that -- in our Analyst Day, was 20.7%. And we're now, I think, forecasting for fiscal year '21 -- I'm not sure that we're forecasting it, but I think you can extrapolate based on our guidance, I'll just throw out a number. So call it 22.3%, 22.5%, somewhere in that range for fiscal year '21. That's with a significant drag from client funds interest, as you mentioned, and some drag from COVID as a result of slower than we would have thought or would have expected revenue growth.

So I would say that on the margin side, we would be well ahead of what we talked about at Analyst Day, excluding these items. On the revenue side, clearly, we're not anywhere near that. It's why we had to withdraw that 3-year guidance that we had provided because, obviously, the COVID headwinds with what happened with pays per control and just the economy in general made it very difficult.

But again, it feels like this would -- this is a transitory event, as we've talked about now for 2 or 3 quarters. Painful, devastating for many people, for our country, for the economy and for the world, but it is transitory and not an existential threat. And so we expect to get right back on the track that we were on before. And I happen to think that the fact that we were a couple of hundred basis points higher in margin, even with everything that's happened, than we were in '18, I think, tells you something about the structural margin opportunity in the business.



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But clearly, a very important part of that picture is growth. We need to grow the business long term because growth does require investment. And so what you should be hearing from us is we care about margin, and we think there's opportunity in terms of structural margins here going forward. But the most important thing we can do to drive long-term shareholder value here is to also grow the top line, and we're focused on that.

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

Just to clarify, Samad. Our formal margin expectation is 22.0% to 22.5%.

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

Great. I appreciate it, and that's why I asked. It sounds -- to us, it sounds like the business is healthier, adjusting for noncontrollable factors.

And maybe just as a follow-up on that on the bookings in this quarter and just as you think about bookings for maybe the next couple of quarters. When you think about the performance, is there a way to think about it in terms of driven by field reps versus digital inbound through marketing? Are there channels -- so not by customer size. But are there channels that are doing better or worse in terms of bringing more customers into the top of the funnel and driving new bookings?

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

Yes. I mean, I think...

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

Yes. And so far -- maybe I'll just interject on -- before Carlos responds to that one, I want to interject and just follow-up a little bit on the margin story because Carlos gave a really good kind of recap and summary over the last couple of years, right, when you think about we're in the 20% margin, 20.7%; to pre-COVID, 23%, with the various big initiatives that we've pursued, and you've heard us talk about that over time.

But I want to add that one of those really important initiatives that we are now working very hard is digital transformation, which has been helping us, right? As we look at our transformation initiatives, we've talked about digital and procurement really driving a lot of the benefits kind of today, if you will. A lot of that procurement does get harder as you go. But from a digital transformation perspective, that's an initiative that we believe is going to be with us for some period of time because these projects are not fast projects to execute. They do take time to execute. And so we're optimistic that we've got a pipeline of projects and that they will continue to yield benefits for us.

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

Yes. And I think that -- I'll pile on to that, that your comment, I think earlier, after you asked the question, and you summarized my comments, the business is definitely performing much better than it looks because we have -- this client funds interest headwind is not just a headwind on margins, it's a headwind on revenue growth as well. It's almost a full percentage point.

And as an example, on the margin impact, our margin I think in ES would have been up. And ADP overall, our margin would have been up 40 basis points instead of down 30 basis points for the quarter. So clearly, on the margin side, the picture is clouded, and that picture will -- I mean, interest rates go up and down, as we know. And everyone is always convinced that rates are going to stay low forever or they're going to stay high forever, depending on where they are. But we believe that at a minimum, that headwind will abate unless interest rates continue to go down and then turn negative for the next 10 years, which is very unlikely as we all -- I think, as we all know. At least in the U.S., that's unlikely.

On your question about bookings, one thing that's important to note is we do have record leads from -- through digital marketing coming in. So we have increased our investment in digital marketing, but we're very careful to do that to make sure that we're getting the proper ROI. But that



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is something that is certainly helping our sales force. But really, the message for our sales force is that we want them to meet our -- the clients and the prospects where they want to be met. And they have all the tools, all modern tools that any sales force uses.

I mean, the reality is, I've said this before, people steal our sales force. And so we have to understand, we have the best sales force in the industry, there's no question about it. And they have all the tools they need to compete effectively. And they had to obviously move to being mostly a virtual sales force over the last 6 months, and we made sure they have the tools to be able to do that, and that's where clients wanted to be met.

And if in 6 months, we anticipate that some of our upmarket and multinational clients will be okay having some digital meetings or virtual meetings, but they might want to have people visiting some of them again, we'll be ready for that as well, assuming that it's safe and that people are vaccinated. So there are a number of channels that we can pursue, but you should understand that our kind of -- our strategy is really to meet the clients where they want to be met.

As an example, in the downmarket, our clients rely on trusted advisers like accountants and brokers. We have very, very strong partner relationships with those channels, and that's how we drive results in that channel. So it really varies channel-by-channel. But you should understand that we are pursuing every channel, every avenue, including upping our digital marketing investments, to make sure that we're getting our fair share of that without throwing money away.

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**Operator**

Our next question comes from 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, you talked about net gains. I'm wondering if that's related strictly to ADP having a better set of products, or is that related to the competition doing something else?

And just my second question. We've talked -- you've talked a lot about the sales process. And I'm wondering if you believe, after we're through with this pandemic, get the vaccinations done, that fundamentally if the sales process will change and that you'll use more digital versus face to face?

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

I think that I'm in the same campus as I think many other CEOs of companies that -- and again, there's very -- there's not a lot of companies like ADP that operate all the way from the downmarket into the upmarket. So there has to be balance here in terms of it's not one clear-cut answer.

But I'm in the camp, for example, in the upmarket, with some of my other competitors and CEOs, who believe that there will be face-to-face meetings again and particularly sales meetings. But I'm also in the camp of believing, with lots of others, that we shouldn't assume that things are going to go back exactly the way they were before, right? Whether it's with the way people are working or the way people are selling, we're going to have to adapt to what inevitably is going to be some change.

Having said that, I believe I saw a statistic the other day that said that, prior to the pandemic, about 10% of the U.S. workforce was working from home, and it went up to 33% at the worst part of the pandemic and then came back down to 25%. And I kind of monitor this through other sources that show that it ticked up slightly again, the number of people working from home, as this virus continued to surge. But you would expect that 25% to probably go back to 15%, 20%, but not probably back to 10%. But remember that the other 70% never worked from home. And today, 75% of the people are not working from home.

And so -- but that doesn't mean that we haven't learned new techniques. So for example, an initial meeting or a follow-up meeting or maybe even an implementation meeting with a client, I think we've all learned that it's much more effective to do that for both parties virtually. But it's hard to



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believe that we're going to go back exactly to where we were before, and it's also very hard to believe that we're going to stay exactly the way we are today. And again, I hate to give you a wishy washy answer because I think we're going to have to let that play out. But we are -- like a lot of other things, we are maintaining optionality and equipping our sales force to be prepared for either of those eventualities.

And I think you had a first part of that question that...

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

Client growth and whether it's product.

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

Client -- so on the client growth side. Again, we are -- I think I mentioned in one of my -- in my script that all of our strategic platforms, so if you think about RUN, Workforce Now, GlobalView, I forgot what the other ones I mentioned. But the platforms that we are -- that are strategic, that we're investing in, not just the Next Gen ones, are all growing and they're growing very robustly, and I don't know that people understand that.

And part of the challenge is that we have a large company, and we have other things that maybe aren't growing as fast or we have a drag from a platform that we're trying to get off of. And we, unlike some others, try to report the facts as they are, right?

So -- but maybe we're taking a little bit of liberty like others are doing and giving you a little bit more color about just the things that are going well. So -- but if we did that, like if we'd only focused on the growth of, for example, Next Gen, it would be 800% growth. Or if we focused on the growth of Workforce Now across the board, not just in the mid-market because we also use Workforce Now in the upmarket and we use Workforce Now in our PEO, you would see robust growth, even in the middle of a pandemic, on our Workforce Now.

So I think we're making progress, but we are a large organization with large market share. And clearly, that exposes our flanks. And we have to be very good at making sure that we protect our flanks, which I think we're doing a good job of, as evidenced by retention. But when you look at the go-forward and the growth of our strategic platforms, there's a lot of reason for optimism that we will, I think, be able to compete effectively on a go-forward basis.

So I'm not sure I can give you a lot more detail on that because this is more detail than we normally give because we like to just be straight shooters. And the growth is what it is, whether it's on client counts or revenue. But if you want a little bit of additional color underneath the covers, the strategic platforms are doing very well against our competitors.

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**Operator**

Our next question comes from Mark Marcon with Baird.

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

So questions basically about Next Gen Payroll and Next Gen HCM. The first part is this, can you talk a little bit more, give us a little bit more color with regards to Next Gen Payroll just in terms of the number of clients that have been sold? What percentage of the existing Workforce Now base has been converted? And how you're thinking about that going through? And the -- kind of what you're seeing in terms of the satisfaction once you have that in place. You made some initial comments that sounded really positive.

And then the follow-up is just basically on Next Gen HCM, just in terms of what the outlook is there in terms of new sales and new bookings.

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

Sure. Thanks for the question. Because if you thought I was optimistic before, prepare yourself, because the story on Next Gen Payroll and HCM is quite positive for us in terms of the future. If you look at Next Gen Payroll, we have, I think, I would say, a couple of hundred. So let's say over 200 live clients. So not just sold, but live clients. We have over 500 that are sold.

I think we said in our comments, but you may not have picked up on it, that we think that it's possible, even though this is not scientifically approvable, that up to 25% of the sales we've had so far of Next Gen payroll, we would not retain without Next Gen Payroll. So I think that bodes well for, I think, our competitiveness and our market share. And our plans are to have, call it, somewhere around a couple of thousand, I think, for this fiscal year. So it's positive momentum.

Again, the caveat there is, with Next Gen HCM, we are generally going after very large clients. And in the case of Next Gen Payroll, it is really a platform that solves our kind of Next Gen Payroll needs across the board. And we started in, call it, the core of our mid-market. So call it, between 50 and 150 employees really has been our focus. So -- but having said that, it's still pretty impressive, and we're pretty happy and pretty positive. Satisfaction levels are very high. And I think we've just got great momentum. And the sales force is obviously incredibly excited.

Even though, remember, this is still a back-end engine, right? So it's still a Workforce Now, and in the future, will be Lifion that are using Pi as an engine. But it does provide some additional benefits to the client and a lot of sizzle as well as we know that matters as well, given how some of our competitors, I think, have used sizzle in their sales process. And so we're able to use some sizzle now with Next Gen Payroll. So very excited about that rollout and about the progress there.

On Next Gen HCM, you heard about our rollout in Mexico, which is really Next Gen HCM with Pi. So we have, call it, a handful of clients now in 4 countries that are actually running on Next Gen HCM with Pi. Again, it's very early, like to talk about only a handful of clients isn't a lot. But what was most encouraging is that, in a couple of those situations, we were able to use what we're calling a federated development process, which is -- one of the intentions was that the investment in this platform was to be able to build rapidly. So the Mexico client was onboarded in -- from soup to nuts in terms of building platform, getting the client and getting them onboarded in, call it, 6 to 9 months. So very, very impressive for us to be able to do that. So we're optimistic that this will continue to hopefully help us, again, competitively.

And I think you also asked about how many clients we've migrated off of Workforce Now on to Pi. And remember that it's really -- and you're not migrating clients off of Workforce Now, you're just changing the underlying payroll engine. They're still on the Workforce Now. The answer to that is, I think, not many. Like this is mostly new logo sales in the case of Next Gen Payroll. Again, underneath Workforce Now. So as we go to market, it's still Workforce Now with the Pi payroll engine beneath it.

And just to, again, footnote. I think I said this last quarter, Workforce Now is a Next Gen platform. We don't talk about it that way because we haven't been talking about it that way, but Workforce Now with Pi is a Next Gen platform.

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**Operator**

Our next question comes from Kevin McVeigh with Crédit Suisse.

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

Kathleen, you talked about the digital transformation a couple of times. Where are you kind of in that process? And I think the last number you referenced was about $150 million benefit. Is that still the way to think about it, in the $150 million range? Or does that get accelerated based on some of the investments that you pulled forward as a result of the Q2 outperformance?

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

Yes. Kevin, thanks for that question. That $150 million still holds, that was our estimated benefits for the year, the current fiscal year, from digital and other transformation efforts.

Where are we in that journey? I'd say we're in the early days, early innings here. I mean, as I mentioned, these projects are not fast-to-implement projects. These are not 2-, 3-, 4-month projects that you roll out. These are how do we procure or build the right tools to take work out of the system? How do we -- while some of it can be a little faster, like continuing to build out chat bot functionality and how many inquiries [the chat bot is handling], some of those could go faster. But some of them could be longer projects, like supporting our implementation teams with tools that we're building.

So my view is we're in the early innings here. We've had some good success thus far. We continue to stay very focused on building pipeline of projects. And it's every single part of the company that we expect and that we go to, to say, "What are you doing to digitally transform what you do? How do you take work out of the system?" And it's front office and it's back office. So we've got a lot more work to do there, and I think that's a really good thing.

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

And then just one quick follow-up maybe for you, Carlos. As it relates to that, how does that impact the addressable market? Because I'd imagine it probably expands it in terms of average client size, things like that. Is there any way to frame what the transformation is going to mean in terms of the addressable market, longer term?

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

Listen, it's a good question and something that we think about a lot, right, is I think one of the things we want to try to get is we talked about share of wallet and new logos, but if we can expand our addressable market, that is very helpful. And it's really -- it varies business-by-business. But as an example, we are, I think, in the early stages. I would say still not ready -- I think I'm not supposed to say anything about it, but we think that in the down market, there is part of the addressable market that we could do better with if we had a more kind of end-to-end digital product, if you will, in terms of -- so this would be a complement to RUN that would compete in a segment of the market that we don't compete in today.

Likewise, if you go all the way to the upmarket and international, the acquisition of Celergo was intended to kind of bolster, I think, a market that is growing and I think is expanded by our acquisition of Celergo. And in the Next Gen platforms, if you will, are for sure, intended to expand the addressable market.

So for example, the Next Gen Payroll engine, again, with Workforce Now, would probably be -- have more appeal to an in-house user. Even though people don't think there's a lot of those left, there are still people who use kind of in-house software, if you will. And I think that this Next Gen payroll platform, combined with Workforce Now, provides more control, which is something that, for the last 20 years, when we survey the market, if you will, to assess what's addressable, there was always this kind of outsourcing versus in-house. And I think what's happened is that cloud technology has blurred that line, but there's still a line there. And the ability to have the payroll platform perform some of the things that people want from a control standpoint when they're in-house, I think, expands that addressable market.

And then lastly, in terms of Next Gen HCM, I mean, clearly, the big play there and the big investment was to expand the addressable market in the upmarket for us, both the larger, more complex clients, but the clients who also had HR needs that we were not necessarily able to satisfy with some of our older platforms.

So definitely, I think a lot of opportunity and it's a focus -- a key focus of our strategy in terms of how we develop our products, is to expand the addressable market.

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

Yes. Kevin, you could think about it as our digital work, our digital transformation, is meant to improve and accelerate on both top line and from an efficiency, productivity standpoint. From a top line perspective, whether it's the addressable market and accessing that through Next Gen or other feature improvements that we're making. Sales cycle time, shortening that cycle time to get something through the sales process, we're working on that in our PEO business. Improving -- via digital work, improving service. So with improved service, therefore improved NPS, therefore improved retention. So it's meant to target both acceleration from a top line perspective, and as we've talked about, taking work out of the system and productivity.

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**Operator**

We have time for one more question. And our last question comes from Tien-Tsin Huang of JPMorgan.

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

Good results and appreciate the very clear guidance as well. Just a question and a follow-up -- or a clarification. Just on the KPIs here, Carlos, that you're most focused on in the second half, just hearing everything you talked about, positive revisions to retention, bookings. I'm curious if there are any underappreciated KPIs at this point of the cycle that we should be tracking to gauge the sustainability of the improvement that you're talking about as we get through the second half of the year.

And just a clarification, I think you touched upon it in the last comment here. Just the 25% of sales of Next Gen Payroll that would not have been attained without it. Are you -- are those clients on a cloud platform that are looking for a cloud, like the controls and whatnot that you're talking about, that, that was the condition for considering it? I'm just trying to understand how -- why they didn't consider it before, if that makes sense.

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

Yes. Listen, I think, unfortunately, I don't have that level of detail, I'm afraid to say. We could probably maybe follow-up to give you a little more color. That's why I tried to use the words not scientific. So our sales force, we're obviously very focused on the rollout of our Next Gen platforms. And so as we try to keep close communication and keep close tabs with our sales force on how it's going, and they came to us and said, "We think we got 25% more logos as a result of Next Gen Payroll than we would have gotten in the past."

I'm guessing there are going to be a number of different reasons for that, including there may be a little bit of a sizzle factor there, right, in terms of -- because we -- as you know, we run fully compliant payrolls. We help our clients with PPP loans. I mean, we were able to do everything. Like our existing platforms are the most robust, most comprehensive, most effective, I believe, of course, I'm biased, in the industry. But there are incremental improvements, right, that give people -- whether it's the control aspect that I mentioned or the sizzle that helps sales. And it's no different than you go buy a car, and there's 5 different models of the same car and people buy the 5 different cars. And -- but you have to have new cars every now and then, and I think it's every 5 years or whatever that cycle is. And I think that's maybe some of what's happening here.

But we'll try to get you a little bit of additional color if we can, but that wasn't intended to spark a kind of a new level of disclosure, if you will, about what percentage of our 25% came as a result of which feature. But we'll try to provide some color either in the interim or certainly on the next call when we're going to have many more clients on Next Gen Payroll, and we'll have a little bit more data for you.

On the question you had about KPIs, I would say you hit on all of them, like there's a lot of important ones that you just -- that you touched on that we watch and that we share with you. The other ones that I think are important are ones around productivity, both for sales but also for our service and implementation associates. And in particular on sales, that's part of why I was talking about the kind of the underlying trends improving and us being so optimistic about the future is we are -- there's no reason why our sales force can't get to the same productivity they were pre-pandemic and then continue to increase that productivity as they had been doing for many, many years.



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And so that's one of those KPIs that we watch very carefully, is what's happening to that sales force productivity number quarter-on-quarter, and what's it expected to do in the third quarter and in the fourth quarter. And luckily, it's on track. And it's something that we watch very carefully. Likewise, the productivity per service rep and productivity of implementation. So as an example, how many new clients can an implementation rep onboard?

And these were all impacted by the digital transformation that Kathleen was talking about because our goal is to make it easier and better for our clients, and as a byproduct, hopefully, reduce our operating expenses. Not reduce our operating expenses and then figure out what happens after that, because the most important driver of long-term value here is client retention. And I can tell you that if we maintain these client retentions, you guys should go do the math on how much faster our revenue will grow on a normal steady-state basis with the same bookings. It's pretty powerful, right? And obviously, that's incremental revenue growth that doesn't have incremental sales expense or implementation expense.

So the most important thing for us to do is to make good on our commitment to our client. But having said that, those productivity metrics are important, too, in determining kind of our ability to drive margin into the future because those are 2 big buckets of expense, our service and implementation cost. And again, that's another item where the KPI there would really be around, not just NPS and retention, but around productivity. And the good news there is that we've been showing really good productivity improvements while we've also been driving very good retention, which speaks to the success of our digital transformation efforts.

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**Operator**

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

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

Well, I think I mentioned already that it's hard to imagine where we were just a quarter ago, because I think on the same call a quarter ago, there was no vaccine, there was no stimulus approved and there was no new administration in Washington. We were still waiting for -- or looking forward to an election.

So besides all of the great things that our associates are doing in terms of execution, our sales force and all of our associates in terms of helping our clients through this and helping each other, I just thank God for where we are today versus where we were last quarter. Because we know now -- I think we knew, some of us knew, that we would be okay, eventually, but now we know for sure that we're going to be okay in terms of our friends, our families, but also our economy, and I think our companies and the things that we also value on the professional side.

So very excited about the prospects of getting through the next month or 2, which I know are going to be challenging for all of us. But also looking forward to much better times ahead, to plenty of pent-up demand, to growth and productivity, to strong GDP and all the great things that are going to happen once we finally defeat the virus and move on.

So I would just close by saying thank you to the scientists, the pharmaceutical companies and everyone else who got us to where we are today and that continue to move us forward as a country and as a globe. And I appreciate you all joining the call and listening to us today. Thank you.

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**Operator**

Ladies and gentlemen, this does conclude the program. You may now disconnect. Everyone, have a great day.

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