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ADP.OQ - Q3 2021 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Co. reported 3Q21 YoverY revenue growth of 1% on a reported basis and adjusted diluted EPS of $1.89. Expects FY21 revenue to grow 2-3%.

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PRESENTATION

Operator

Good morning. My name is Crystal, and I'll be your conference operator. At this time, I would like to welcome everyone to ADP's Third Quarter Fiscal 2021 Earnings Call. (Operator Instructions)

I 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, Crystal. Good morning, everyone, and thank you for joining ADP's Third 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.

During our call, 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 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.

And with that, let me turn it 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 another strong set of quarterly results that were ahead of our expectations, with revenue growth of 1% and adjusted EBIT margin down 90 basis points, combining for a modest adjusted diluted EPS decline of 2%.

This, of course, was the final quarter before we begin to lap the impact of the pandemic. And I'm very proud of our organization's ability to have delivered positive revenue and earnings growth for the first 9 months of the fiscal year despite unprecedented challenges in the economy and the labor markets.

I'll start with a review of some of our key performance drivers and an update on the operating environment we've been experiencing. This quarter, our Employer Services New Business Bookings reaccelerated, and we delivered 7% growth, a strong result for the team. The improved year-over-year growth compared to the second quarter was driven by every business unit. Importantly, we ended the quarter on a particularly strong note, with record March sales performance that was well above pre-pandemic fiscal 2019 levels, which we see as a positive signal for client engagement in the quarters ahead.

The selling environment will likely continue to evolve month-to-month and with differences on a regional basis, as COVID cases and the reopening trajectories stabilize. We are optimistic that with vaccine deployment progressing steadily, our clients are in the best position since the pandemic started to begin making buying decisions again. Also encouraging is that we started to hold more in-person sales meetings, with over 1/3 of our field sales force having conducted at least 1 in-person meeting this quarter. We expect in-person engagement to pick up over the coming quarters as well.

With our Q3 performance and the trajectory we see in Q4, we're pleased to narrow our bookings range around a higher midpoint. We now expect growth of 20% to 25% for the year versus 15% to 25% prior. Achieving this growth rate would put us at full year sales productivity close to 90% of pre-pandemic levels, which would be an incredible achievement for our sales associates.

Our retention, which has been a key driver for our strong results this year, was a positive development once again and performed slightly ahead of even our revised and elevated expectations. Retention remains at record levels.

Many of you have been asking about how sustainable this improved retention performance is for ADP. It's a great question and hard to answer with precision given the unpredictable environment we're all in. But our belief is that during the pandemic, there have been some temporary benefits from client hesitancy to make major decisions, plus lower out-of-business losses given government support in North America and Europe. But we also believe there will be enduring benefit resulting from the record client satisfaction we've seen as our product and service both have continued to improve.

Next quarter, we expect to be in a better position to talk about retention expectations for fiscal 2022. But clearly, we feel very good about what we've achieved this year. On the back of our record Q3 performance, we're pleased to raise our guidance and now expect full year retention to be up at least 125 basis points from 2020 versus our prior guidance of up 100 basis points. As a reminder, this guidance would put us in record territory for the year.

Moving to the overall employment picture. Our pays per control metric performance was softer than expected as it improved only modestly from Q2 and rounded again to a decline of 6% for Q3. But that said, we are encouraged by the recent trends in employment data, particularly in the U.S., as more of the economy reopens. As of April, we've now started to lap the pandemic-affected pays per control figures and have been pleased with the positive year-over-year growth we've seen so far in Q4. So we're making no change to our full year pays per control outlook of down 3% to 4%.

I'd like to now provide an update on some of our key product and strategic initiatives. In February, we announced the launch of Roll, a new payroll and tax filing product for small businesses. Roll combines the simplicity of an AI-driven, chat-based interface with the power and scale of our payroll and tax filing expertise, sold digitally and delivered through an app-only interface.

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With this offering, we believe we can expand our reach into the U.S. small business market beyond the businesses we've historically targeted with RUN, as the target clients for Roll users have simpler needs who prioritize a mobile-first, fully chat-based interface. This is a different set of users compared with the target clients for a more comprehensive RUN solution. We look forward to sharing Roll's progress with you in the quarters ahead.

Parallel to this, we're also making great progress in increasing the amount of digital onboarding we're conducting with RUN. And we've continued to scale up this capability since we discussed it with you during our Innovation Day in early 2020. This quarter alone, 15,000 or over 1/3 of our new RUN clients onboarded themselves digitally, enabling a better experience for the clients as well as cost savings for ADP.

This initiative is just one of many digitally enabled efforts we are making to drive improved efficiency at ADP. And as we've mentioned in the past, we have more to look forward to as our digital transformation continues.

Our Next Gen Payroll engine also continues to scale up and demonstrate success in the mid-market. In this quarter, we sold hundreds more clients and continued to expand our capability set to accommodate more complex payroll needs. We now have over 400 clients live on Workforce Now with our Next Gen Payroll engine, and we expect to accelerate this further in the coming quarters.

In addition to its improving position in the mid-market, Workforce Now continues to scale nicely into the enterprise market. In this quarter, ADP was recognized as a customer's choice leader in Gartner's Voice of the Customer for cloud HCM suites from North American companies with 1000-or-more employees. This is a great milestone for the team and strong validation of the flexibility of Workforce Now, as we've continued to sell it to larger clients in recent years while, of course, concurrently scaling implementation and service of our Next Gen HCM platform.

Ultimately, these product enhancements are all designed to drive growth. And I'm happy to report that this quarter, our client count reached 900,000, a remarkable achievement, particularly during the pandemic. This is a testament to both the strong retention we've experienced this year as well as better-than-expected year-to-date sales performance.

We're very proud of our execution so far this year. And we look forward to putting the impact of the pandemic behind us. On that front, we recognize there's a lot of interest in our potential growth and earnings profile for next year. As you can appreciate, it's still early to discuss fiscal 2022 with any precision given the dynamic environment and the fact that we're still going through our operating plan process for next year. But Kathleen will share some additional perspective on fiscal 2022 in a moment.

I'd also like to share that we plan to host a virtual Investor Day later this calendar year, where we plan to update you on our strategy and discuss our post-pandemic aspirations. We are tentatively aiming for November, and we'll share a date shortly. For now, we remain focused on maintaining our very positive momentum as we close out this fiscal year.

And with that, I'll now turn the call over to Kathleen for more detail on the quarter and the outlook.

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

Thank you, Carlos, and good morning, everyone. Q3 represented another strong quarter for us, with our performance on both revenues and margins driven by excellent execution across the organization. Our revenues grew 1% on both a reported and organic constant currency basis. which represented a slight acceleration versus Q2. We delivered this growth despite incremental drag from client funds interest versus Q2 as well as some incremental pressure related to our usual seasonal Q3 revenue drivers, such as annual W-2 forms. I'll share more on these in a moment.

As anticipated, we also experienced a margin decline as we continued to make additional growth and productivity investments and as we experienced a more significant client funds interest revenue decline compared to prior quarters. But the 90 basis points of margin decline was better than our expectations.

Combining this revenue and margin performance, our adjusted EBIT was down 2% to $1.1 billion. Our adjusted effective tax rate increased slightly compared to the third quarter of fiscal 2020, as we had less contribution from excess tax benefit on stock comp. But our share count was lower

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year-over-year driven by share repurchases. And as a result, our adjusted diluted earnings per share of $1.89 was down a modest 2% versus last year.

For our Employer Services segment, revenues declined 1% on a reported basis and 2% on an organic constant currency basis, demonstrating steady growth rates compared to last quarter despite additional pressure from 2 sources, as I just mentioned, both of which were fully anticipated.

First with greater pressure from client funds interest. Our Q3 has a seasonally larger client funds balance than other quarters of the year. And as a result, it skews more to cash and cash equivalent investments, where interest rates have been pushed down to near 0. As a result, our client funds interest declined 32% versus last year, with average yield down 70 basis points, more than offsetting our strong balance growth, which improved to 6%.

Second, with a headwind related to seasonal Q3 revenues, like the annual Form W-2, which effectively makes our Q3 slightly more sensitive to pays per control and employment turnover trends than other quarters.

Looking past these 2 headwinds, underlying ES performance showed sequential improvement driven in part by continued record level retention that was partially offset by slightly lower-than-expected pays per control.

Employer Services Q3 margin was down 120 basis points compared to last year, ahead of our expectations. We continue to invest in headcount to support our growing client base. We also started lapping lower incentive costs from last year. And we experienced greater pressure from the lower client funds interest revenue compared to the first half of this year. But at the same time, we kept our focus on prudent cost control and continue to execute on our transformation initiatives.

Our PEO also had another very strong quarter. Average worksite employees increased sequentially to 594,000 . This was flat on a year-over-year basis. And this strong result was supported by retention outperformance and a slight sequential improvement in pays per control, which was more impactful than what we experienced in our ES segment. Although PEO sales growth still lags that of our ES segment, we did see an improvement in sales performance in Q3 and are encouraged that unit sales growth for the PEO was positive.

Our PEO revenue growth, meanwhile, was very strong at 7%. And revenues, excluding zero-margin benefits pass-throughs, grew 10%, both ahead of our expectations. Once again, this strong performance benefited from higher payroll per WSE supported by employee mix.

Additionally, this quarter, our revenue per WSE was further supported by a more favorable SUI rate environment as some states have started to increase SUI rates. Workers' comp rates remained a headwind in the quarter. PEO margin increased 100 basis points in the quarter driven by revenue growth and continued expense discipline as well as roughly 50 basis points of contribution from workers' compensation reserve true-ups.

I'll turn now to our updated guidance for fiscal 2021. With only 1 quarter remaining, we're pleased to raise our guidance midpoints for several key metrics and narrow our guidance ranges for others.

Beginning with the ES segment. We now expect revenue to be up about 1% for the full year versus our previous expectation for flat to up 2%. There's no real change in our revenue expectations. And this revised outlook includes the impact from the following drivers.

We now expect our ES new business bookings to be up 20% to 25% compared to our prior forecast of up 15% to 25%. This reflects Q3 sales performance that came in slightly ahead of our expectations and our better line of sight into Q4. We're very happy to raise our bookings guidance again. And although this doesn't materially change our revenue expectations for this fiscal year, it does add to our optimism about next year.

We now expect our ES retention to be up at least 125 basis points versus up 100 basis points prior. Similar to our updated bookings guidance, this improvement is driven by our Q3 performance and encouraging visibility into Q4 retention.

We are raising our client funds interest expectations slightly and now expect $415 million for the full year. We have seen the interest rate environment improve compared to what we had contemplated last quarter. However, those improvements only apply to our new fixed income purchases over

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the last few months of the year. There is no material change to our expectation for 1.6% average yield in our client funds portfolio for fiscal year 2021.

We are encouraged by the signs of improvement in the U.S. labor markets. But as we mentioned, over this last quarter, pays per control did underperform our Q3 expectations modestly. We have tempered our Q4 expectations slightly as a result, but our full year fiscal 2021 outlook remains a decline of 3% to 4%.

For our expected Employer Services margin for the year, we are narrowing to a decline of 50 to 75 basis points. While we experienced stronger-than-expected margin performance in Q3, we will reinvest some of this on discrete projects in Q4 to further accelerate our growth, investing, for example, in our Next Gen rollout, Wisely card program and additional marketing and advertising.

For our PEO segment, we now expect revenue up 5% to 6% versus our prior forecast of up 3% to 5%. And we expect average worksite employees to be up 1% to 2% versus our prior forecast of flat to up 2%. We also expect our revenues, excluding zero-margin pass-throughs, to be up 5% to 6% compared to our prior forecast of up 3% to 5%. Our top line raised for the PEO is driven primarily by the strong Q3 performance we experienced and slightly higher payroll per WSE assumptions for Q4.

Last, for PEO margin, we now expect to be up about 75 basis points in fiscal 2021 versus our prior forecast range for up 50 to 100 basis points. Our visibility into Q4 has improved. And year-to-date, we've seen stronger revenue performance and better-than-expected contribution from workers' compensation true-ups, offset by greater pass-through revenue.

For our consolidated outlook, we now anticipate total ADP revenue to be up 2% to 3% in fiscal 2021 versus up 1% to 3% prior. And we anticipate our adjusted EBIT margin to be down 50 to 75 basis points, an improvement of our prior guidance of down 50 to 100 basis points. There is no change to our expected effective tax rate of 23% for the year. And we continue to assume a net share count reduction in our guidance. Net of all these changes, we are updating our adjusted diluted EPS guidance to be flat to up 1% versus our prior guidance of down 2% to up 2%.

As you know, with Q4, we will begin to lap the impact of the pandemic. And we recognize there is a lot of interest in what our growth rate will look like as conditions continue to normalize. With that said, we're still going through our planning process. As usual, we will provide fiscal '22 guidance when we report our fourth quarter results, but I'd like to share some preliminary considerations.

The most important factor for us in accelerating growth is driving strong new business bookings. And we expect our sales productivity to improve further next year as in-person visits increase and clients and prospects continue to reengage more fully. As that productivity continues to progress toward pre-pandemic levels and beyond, the contribution it makes to our revenue growth will likewise continue to build.

Pays per control should provide a tailwind. And the magnitude of contribution will depend on the pace of global employment recovery. We've provided sensitivities to pays per control in the past and will share a pays per control assumption next quarter.

Client funds interest will likely remain a headwind if the current rate environment holds, though it should be much less of a headwind than we are experiencing in fiscal 2021.

And on retention, improving economic activity could mean greater client switching levels compared to this year. But we're not seeing pressure yet and will remain focused on holding on to the gains we've achieved. We'll share our assumption about it next quarter.

Clearly, there are a number of moving pieces, but the net effect should be favorable. The 2% to 3% revenue growth we expect to deliver this year demonstrates the resilience of our business model. And we look forward to building from this higher revenue base and accelerating our growth back to pre-pandemic levels as quickly as we can.

We are going into next year from a position of strength. And our aim is to deliver an improved market position, stronger top line growth and margin expansion while maintaining the steady cash flows that have allowed us to increase our shareholder distributions consistently for more than 7 decades. More on all this will come next quarter, and we look forward to updating you then.

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I'll now turn it back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Ramsey El-Assal from Barclays.

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

I wanted to ask about the increase in, in-person engagement with the sales force. Can you kind of contrast for us the productivity you're seeing from those in-person meetings relative to the remote meetings? Is that something that we should consider to be an incremental sort of driver of productivity, maybe beyond what we were expecting as we go forward?

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

Yes. I think that that's right. I think you would look at it really as incremental because if you recall, like our first quarter, we had pretty robust sales results really with almost 100% of our sales force working virtually at that point. So we expect that the increased activity, if you're listening to the tone of our comments, that it's really incremental and hopefully gets us quickly back to the same productivity levels we were pre-pandemic, which we were approaching in the third and fourth quarter here and then hopefully beyond that because, obviously, part of our model before was that we expected some incremental improvement in productivity each year in addition to increases in headcount.

And when you combine those factors, in addition to kind of new products and other things, that's what kind of drove our new business bookings growth, the combination of increases in headcount and increases in productivity. So you're right, that's the path, this will help us get quickly back to our previous productivity and hopefully allow us to get above that, which is, I think, important for us in terms of our long-term growth expectations.

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

Okay. And I wonder if you could comment, too, on the environment around potential tax reforms? As I recall, when the corporate tax rate fell, that was translated into lower client interest balances for you or client funds balances for you. I know it's early days and everything needs to move through Congress, but can you comment on the degree to which some of these changes may or may not be factored in your budgeting process or what you're expecting here in terms of tax changes going forward and the impact on your business?

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

I think -- for corporate, I think, what you're referring to, really -- what's currently on the table. We do know there's a lot of discussion about a lot of different things, including an increase in the kind of tax rate for the higher-income individuals. But right now, from what I -- and there's obviously discussion about capital gains taxes as well.

But right now, the thing that is probably most prevalent in discussions is corporate income tax rate. And I'm trying to think through -- I don't believe that, that has really any direct impact on our balances. They obviously have an impact on ADP corporate itself, but I don't know, Danny, if you have...

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

Yes. Ramsey, you're definitely right about the individual tax brackets having an impact on our float balance. So back when we had the previous corporate tax reform and the individual bracket changes, it was a headwind of, I think, about a percentage point or in that ballpark.

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So in theory, what will drive a tailwind to our growth will depend on the actual change in rates here and what that means for overall individual income taxes. So it would be a contribution. It's not factored into our outlook at this time, but obviously, it's something we would benefit from.

Operator

Our next question comes from Dan Dolev from Mizuho.

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

I got just a quick housekeeping and then a longer-term strategic question. You're guiding, I think, to 4Q EPS slightly below the Street. Is there any margin pressure to call out in the fourth quarter?

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

Well, I think if you -- from our prepared comments, you would probably see that the pressures are what I would call self-inflicted in the sense that we believe there's an opportunity for us to make some investments that improve our long-term growth prospects, both for '22 and beyond. And I think Kathleen, in particular, mentioned the 2 or 3 things that we're investing in.

So the answer is no, there's no kind of mysterious margin pressure. In other words, the business continues to move in the right trajectory, like almost every metric we have has improved. In fact, I'd say every metric we have has improved sequentially, even the pays per control. Even though it was modest, it's still rounded to 6% down. We know now, after watching the data at the beginning of Q4, that that's heading in the right direction. And we can all tell from what's happening in unemployment that that's going to also continue to improve fairly quickly here.

So when you really kind of add it all together, like we're in a very strong position to have very strong momentum. And people who've known us for a long time know that when we experience that, we try to reinvest some of that. And I think that's exactly what you're seeing in the fourth quarter. So I would say that those are conscious decisions that we are making.

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

Yes, that's exactly right. And I'll just add in, in addition to what I think is smartly doing those investments in the fourth quarter and accelerating some of that, we've also got some year-over-year comping going on, right, as you would expect, with selling having been down Q4 last year versus Q4 this year. We'd see incremental year-over-year selling expense in Q4 as well.

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

Got it. And just my follow-up is it was very impressive to see bookings kind of back to fiscal '19 levels, really strong. Can you maybe talk a little bit about how Next Gen Payroll engine is helping bookings?

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

It's a relatively modest contribution because despite our level of excitement about, really, all of our Next Gen platforms and even Roll, which you could argue that that's a Next Gen solution as well, again, it's just because of the size and scale of our company, like right now, from a dollar impact standpoint, it's really not -- that's not what's moving the needle. It's really across the board. Really, in every business unit, in every channel, in every category, our bookings have been improving, again, sequentially every quarter. And they continue to do that this quarter.

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So we believe that medium to long term, that's the key to us sustaining kind of our multi-decade growth rates is these Next Gen platforms. But I just continue to caution everyone too because we want to give you the updates and we want to continue to focus on Next Gen. And I like -- I appreciate the question because it's important to kind of separate what's driving the quarters and what's driving the next fiscal year versus what's driving the next 3 to 5 years.

And I would say that Next Gen Payroll is going to be increasingly important in the next year or two from a bookings standpoint and will start to probably make a difference. And we'll then give you that color in terms of what difference it's making. But we should be cautious about revenue impact just because of the recurring revenue model. It just takes a while for that to get into the revenue growth numbers. But it was positive but really not what really moved the needle.

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

And I would just add that we shared that we sold hundreds of clients on our Next Gen Payroll engine with Workforce Now. Just for context, that compares to typically a few thousand clients that we sell in the mid-market.

So It's still a piece of the overall puzzle. But as that scales to become the majority and then ultimately all of our mid-market sales, then you would truly feel the incremental benefit.

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

That is yet to come is really the message there.

Operator

Our next question comes from Eugene Simuni from MoffettNathanson.

Eugene Simuni

So I wanted to ask about downmarket. Great to see the introduction of Roll to target the micro customers. I was hoping you can speak a little bit more broadly about evolution of competitive landscape through the pandemic, downmarket, how RUN has done and, kind of coming out of the pandemic, what opportunities exist for ADP to continue gaining share in this segment as I believe it has done prior to pandemic?

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

Well, I mean I think there's a number of moving parts. And I think it probably depends on people's kind of business model. So as you know, our business model is really more about providing not just the software (inaudible) the support, right? You can call it support. You can call it service. You can call it compliance. And I think what we saw this year with all of the activity that the government had around the various stimulus programs to help companies and individuals and so on, that created a lot of complexity for employers.

It appears that we're entering into an environment where, despite the pandemic hopefully fading, there will be increased levels of government activity around employment and incentives and that kind of thing. I think that's a good environment for ADP and for our downmarket business because most small businesses don't have the time or the inclination to really focus on these things and to take care of these things.

So it works for some clients, and we believe that. That's why we're rolling out Roll, no pun intended. But once you get to even a little bit slightly larger, you do end up running into issues that you need help with and you need support and need advice. And much of that can be automated, but you still need it.

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So for example, a lot of our PPP support reports were automated. So it doesn't mean that somebody has to get on the phone and have a discussion about your PPP report. But you have to be focused on providing the support and the compliance in addition to just the software. So I think that helped us this year.

And again, so to answer your question, how do we believe we're set up competitively right now, I think we're set up excellently, competitively, because we now have very simple solutions for the micro market where people want to self-buy, self-install and don't have complexity and maybe don't have issues with taxes or compliance or don't want to ask questions because it's not priced or built to ask questions. But we also have the ability to provide this assistance that is important for even small clients.

For sure, it's important for midsize clients and for larger clients. But I think what really got highlighted this year is that small clients need a lot of help and need a lot of assistance. And you can see in our growth rates, in our retention, in our client satisfaction, like in all of our metrics in our small business division, that we happen to be in the right place at the right time, I think, to be able to help our clients and then hopefully now benefit from the tailwind of the demand that that's going to create on a go-forward basis. So anyway, long-winded way of saying I think we're in a great position because of our business model.

Eugene Simuni

Got it. Excellent. And then a quick follow-up from me on the global business. So just thinking about what we're seeing now, I think, is a strong kind of bifurcation of the recoveries in the U.S. and abroad, strong expectations for U.S. recovery in your business. In global, is it growing -- is it going slower? And is the implication that global might be kind of a headwind to growth over the next couple of quarters?

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

As usual, for us, things are a little more -- when you peel the onion back, there's a little bit more complexity because you -- the image you have is correct, but it hasn't really translated into the results. Our results have actually been quite good internationally, both in terms of bookings as well as just the performance of the business overall, in terms of revenue, pays per control, et cetera.

Some of that is that a large portion of our business is in Europe. And there were a lot of government programs there as well to help companies and to prevent high levels of unemployment. And so for example, our pays per control metric never got to the negative levels that we saw in the U.S. and Europe. So that was a benefit.

At the same time, our bookings have been quite strong. And I have to admit that I've been looking for kind of the explanation for that other than really good execution on the part of our sales force as they moved into a virtual environment because they had to sell virtually there as well. But I would say it's strong differentiation of our products. Again, the service aspect to our solutions, the ability to provide support and to provide compliance and help, all of those things probably helped our bookings performance internationally as well.

So I would say that our global business actually is probably one of the bright spots, I would say, despite what is obviously a very difficult environment. And we obviously feel for our businesses in not just Europe, which now happens to be improving again, particularly in the U.K., but we're having challenges now in Toronto. We're having -- in Canada, in Brazil. We're having challenges obviously, as you know, in India as well. But it has not translated into negative results.

So I think it's a testament to the resiliency and the strength of the business model. But I don't want to take anything away from the fact that it also obviously shows great execution by our international leaders as well.

Operator

Our next question comes from Bryan Bergin from Cowen.

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

Question for you on ES versus PEO performance. It seems like pays per control appear to be a key difference. So can you just dig in more on the mix aspects that seem to drive a pretty notable disparity of performance between those two? And should we expect that difference to persist in 4Q? Or do you expect more even performance?

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

I don't believe we've provided like that data. So I'm surprised you came to that conclusion, but we -- maybe it's part of our tone. So there isn't a huge difference between ES pays per control performance and PEO. They both have been improving every quarter sequentially.

And remember, the PEO doesn't -- we generally stay away from very, very small clients. So we don't have a lot of clients that are 1 to 2 employees or 5 employees. The average size client in the PEO, I think, is somewhere around 40. And so by definition, it tends to skew a little bit bigger than maybe our average client size, for sure, for small business.

So actually, I was looking at these figures last night. It makes perfect sense kind of where we are, which is that the PEO is performing a little bit better in terms of absolute level of pays per control and has been improving sequentially just as ES has as well.

So -- and again, I'm probably not allowed to say this because I'm going to get in trouble. But last night, I got a note from the PEO that we experienced the first positive pays per control week. Now the problem with pays per control is that it does vary based on payroll cycles. So if you have weekly payrolls or biweekly payrolls, so you and I can't read anything into that. But it's the first time we've had a positive pays per control in any week over the last 12 months. So that's a very positive sign.

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

Okay. And then just on margins, you showed outperformance here again in the quarter. But at the same time, you've called out incremental headcount investments, higher incentive comp and I think elevated implementation costs. Can you just talk about the drivers there? And then how do we connect the elevated implementation cost with more efficient digital onboarding commentary?

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

Well, the efficient digital onboarding, I think we were pretty clear, was in SBS. We would love to, at some point in the future, extend that into the mid-market and maybe someday into the upmarket. But as you know, like -- you know better than us because you talk to a lot of our competitors, there's not a lot of digital onboarding going on, for example, with large, complex ERP installations. Not to pick on any competitors, but it's pretty -- I know the image is that this stuff all kind of gets installed itself, but most of -- many of our competitors use third parties.

So there's still quite a lot of implementation activity and expense, whether it's done by the seller of the solutions or if it's done by a third party. We happen to have a model where we do a lot of it ourselves. And so as bookings pick up and demand picks up, we need to add to our capacity for implementation, in particular, in the mid-market, the upmarket and also global, which as I mentioned, has been strong.

So that doesn't mean that we're not adding in the downmarket also. But in our small business segment, as we alluded to and as I think you pointed out, the digital onboarding capabilities obviously reduce the need to grow headcount as much as we otherwise would have. But even in small business, we have a lot of growth in bookings. And so it's a matter of the trade-off of how much can we onboard digitally versus how much we still need some help with in terms of people being involved in.

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In terms of some of the other items that we alluded to, I mean some of this is just kind of natural to the business model. As we bring on more clients, we obviously expect productivity improvements every year, whether it's in sales or implementation or everywhere. But we are seeing a recovery of our business and very strong GDP forecast.

And so we're anticipating improved prospects for bookings and for revenue and for growth. And we need to make sure that we have the right staffing levels based on the productivity metrics that -- and the productivity goals that we have to be able to handle that business so we can maintain our high clients of -- level of client satisfaction that we've experienced.

And then we have some natural growth in expenses like -- I think Kathleen alluded to sales expense is clearly something that grows as you have sales success and as grows -- sales grow year-over-year. So I wouldn't read too much into it, other than that we made some conscious decisions to reinvest in some specific things in the fourth quarter to really position us well for '22 and beyond. But most of this is just kind of natural stuff where, again, as our revenue growth picks up over time, we still have a great incremental margin business, where we would expect to have good operating leverage as we grow those revenues.

Operator

Our next question comes from Mark Marcon from Baird.

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

Wondering if you can talk a little bit about the investments in Q4 just in terms of Next Gen, Wisely, marketing and advertising. Just how much incremental spend will there be? And are you seeing signs with regards to Wisely that the interest is picking up and, therefore, that's a great place to invest?

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

I don't -- it doesn't feel like it's appropriate to give you -- I think you asked for the numbers. I don't know how -- you can probably do the math yourself, like in terms of -- when you look at the trajectory that we're on, you could probably back into some rough -- this is not in the hundreds of millions of dollars, again, but again, I respect the short-term orientation that we have here and that you guys are trying to -- but I would not read as much as you may be reading into these fourth quarter investments because we've done this all the way back to my -- Gary taught me everything I know. And you knew Gary, I think, as well, Mark.

And we are a long-term-oriented company. And we -- when we see opportunities to improve and to invest in things that are either going to drive our bookings or drive our client satisfaction or drive our efficiency, that's what we're going to do. And we've been doing that all along.

So this is -- it's not like we hadn't invested. We've been telling you that we've been investing for the last 3 quarters, and that was a conscious decision. We took a little bit of a beating for that at the beginning of the year. Fortunately, we had positive surprises on the revenue side and on pays per control and other things. But we committed that we were going to invest through the downturn, and that's what we've done.

And now we feel like there are a few things that we can do that I would call -- I don't want to call them housekeeping items. But they're not -- these are not in the hundreds of millions of dollars, but they put some pressure on our fourth quarter margin. And we knew that it would create some questions even though it really has nothing to do with '22 or kind of our future expectations of either revenue growth or operating leverage.

But again, I understand the question, but I don't think that -- maybe Danny can give you a little bit more color. But I'm not sure giving you an exact number is probably the right approach.

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

I mean you could tell...

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

Sorry, Danny. I would just say think about it as kind of -- these are tweaks to the amounts we're spending in Q4 versus kind of wholesale changes to the program here. So it's somewhat modest. And as Carlos said, it's not in the hundreds of millions of dollars here.

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

And in terms of your Wisely question, Mark, the one thing we did see was the stimulus drove some uptick in the card, spend per card. Other than that, during the pandemic, there haven't been any real notable changes in the Wisely growth trends. So really, it's the per card economics that has -- seems like to tick up recently.

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

Yes. And I think it's something that we've been excited about. But again, it was hard to get excited about. There was a lot of natural tailwind because people wanted more digitally-oriented payment methods in the last 3 quarters.

But from a focus standpoint, like for the first couple of quarters of the year, we were focused on a lot of things. And this may not have made it all the way to the top of the list, but it was on the top of the list kind of pre-pandemic, if you recall.

And so I think I would see this as more of a reemergence of some of the themes and some of the things that we had been talking about that excite us because I think the Wisely opportunity is a big one. So I'm glad that the team brought this forward in terms of as an investment opportunity because we were excited about it, call it, 12 to 18 months ago. We should be just as excited about it today. But admittedly, it wasn't our #1 focus in the middle of the pandemic, if you will, or at the beginning of the pandemic.

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

Yes. And then just one last comment is we always look very hard at the timing and amount that we spend on marketing and advertising. But with economic activity continuing to have momentum and pick up and client engagement picking up, we felt this was the right time to increase that a little bit as well.

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

I really appreciate that color, and it is completely consistent with the long-term track record, going back to Art, even before Gary. Can you talk a little bit about just -- Danny, can you just remind us what the sensitivity on the pays per control to revenue is?

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

It's a 25 basis points of revenue impact for every 1 percentage point change in pays per control.

Operator

Our next question comes from Kevin McVeigh from Crédit Suisse.

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

Great. Carlos, I think you alluded to kind of a record high client count, 900,000 or so. Can you give us a sense of where that splits across enterprise, mid-, downmarket? And how that fits relative to historical trends in the business?

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

Yes. I can give you some color. We don't -- I don't think that's something that we've disclosed in terms of the actual breakdown by business, but I can give you general ideas. So we had -- that 6% growth, the 900,000 -- and we had, call it, growth of somewhere around that for RUN. Our WFN growth was around that as well. And GlobalView was around that as well. So from a client -- pure client growth standpoint, if you look at our strategic platforms, they grew in kind of that neighborhood from a client growth standpoint, which we see as really great news given the very difficult environment that we're in.

Obviously, when you look at, mathematically, the overall growth rate and the overall number, it's driven in large part by our small business division because that's where we have the bulk of the absolute number of clients. But I wanted to give you a little bit of color around -- if you look at Workforce Now across our multiple channels because, remember, we sell Workforce Now just in the -- not just in the mid-market but we sell it in the upmarket, and we sell it in the PEO platform as well. We also have that platform in Canada. And so that gives you some sense of kind of how well that platform is growing, which is really satisfying to us. So hopefully, that helps a little bit.

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

No, that's helpful. And then just on the retention real quick, I think you took it up to 125 basis points from 100. Can you just refine that a little bit? Is that kind of a Q4 run rate? Or is that the full year number? Does that mean the fourth quarter is even higher than that? Or was that a TTM number? And then just any thoughts, if you could just maybe frame out a little bit more because it's obviously a big development?

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

You've stumped us.

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

No. I think we said in the opening remarks, Kevin, that it's on the Q3 performance being stronger than expected.

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

Yes. I think it's generally -- it's been consistent, like it's really, frankly, remarkable, which is why we keep emphasizing some caution because we hope -- there's no plan -- we're not going to give it back, and we're not hoping for a give-back. But in this business, like people who have been following us for a long time, like when we have a 10 to 20 basis point move in retention, it's a big deal.

So to have this kind of retention on top of the retention that we had last year is pretty remarkable. And so we're pretty excited about it. And I think the key for us is trying to determine -- like when I look at the retention figures, there's a lot of improvement in what's called the controllable losses, so the ones that are related to kind of service issues and so forth.

So we're excited that we might be able to hold on to some of this gain. But at the same time, we're realistic enough to acknowledge that some of the stuff that was related to kind of out of business and government stimulus, there might be a little bit of give-back there.

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But it's been pretty consistent, like every -- it seems like every quarter, the improvement has been in that same neighborhood year-over-year. Hence, why we kind of tweaked the full year -- because we're probably going to end up in the range that we gave you, which is a little higher than what we had before. But it wasn't -- we weren't trying to like send any kind of message about the fourth quarter in particular.

Operator

Our next question comes from Tien-Tsin Huang from JPMorgan.

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

A lot of good questions already. Just thinking about the retention. It feels like it's industry-wide to some degree. So just trying to better understand your new sales, the reacceleration. Is it driven more from upselling and new business formation? And any surprises in the net switching or the balance of trade from a head-to-head standpoint?

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

I don't have a lot to report on. We obviously watch all that stuff, like you're referring to the balance of trade. And as you said, it's hard for me to tell about retention in terms of the rest of the industry. You guys would be the experts on that because my casual review of some 10-Ks makes it kind of hard to compare, like some people would say retention of their annual recurring revenue, cloud revenues, which is not the same as the retention for their company.

So it's kind of hard for me to say. I mean some of it, I would say, is probably more variable than you think based on what I'm seeing in terms of the variability of growth rates because it's clearly been a huge part of our ability to outperform.

I mean this is a pretty remarkable revenue performance given what we've been through and given the pays per control headcount. And by the way, nobody has brought it up yet, but we have a huge headwind on client funds interest, which is going to abate here in the fourth quarter and is going to abate next year as well. There may still be a little bit of headwind, but this was really the worst quarter that we had in these 9 months, where that -- there was a $130 million drag just from client funds interest.

So when you put everything into the pot, without really good strong retention, it's hard to outperform the way we have. And we've done some work on the relative performances of us versus some of our competitors. And we feel pretty good about that and about our potential for retention to be one of the needle movers there. There might be some other factors that I'm not -- that we're not -- we haven't thought about. But no, I don't think there's anything else really big out there, like we've done a little bit better against some of our -- the usual competitors that you know about in terms of balance of trade. But there's others that are still challenging for us.

And so net-net, we're pretty comfortable with where we are and determined to continue to drive our growth. I think all of us are probably benefiting from kind of overall economic growth. And the fact that it seems like maybe there are some either in-house or regional providers that are -- because you can see our -- we're growing our units in Workforce Now and in RUN. And so we're -- it seems like we're all -- have some ability to grow in this environment, which is, I guess, good for everyone.

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

Yes. I'm glad you said all that. We shouldn't take it for granted.

Just quickly on client satisfaction, notably higher. Would you attribute it, Carlos, more to the -- of course, the support efforts you guys have invested in, but the Next Gen platforms and some of the digital initiatives? Or are you also seeing just clients maybe building more better goodwill, with

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ADP spending more time with them during these tough times, during the pandemic? Just trying to understand that because that seems like it could be -- if that carries over, we could see some compounding in the retention.

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

Yes. I think it's a great question. We obviously are trying to figure that out because it's very important to the long-term value creation of the company. And it's all the things you mentioned because you obviously know the business well enough that you hit on all. And the question is how much is each of those, right? Like the last one that you mentioned about the goodwill, there's no question that us being there -- like there were 2 or 3 months where people could not talk to anyone other than us about what to do, right? What to do about the PPP loans that the government was offering, around tax credits, because if you buy software from someone, you can't call them to ask them those questions. I just want to remind everyone, right?

You can call them to ask them about the software. And you can send in a ticket to get your software issue resolved. But you can't call to ask about tax deferrals or tax credits or PPP reports or any of that kind of stuff. So we clearly built a lot of goodwill. But on the other hand, business is business, and goodwill doesn't last forever. So we're not planning on living off of that for the next 5 or 10 years.

So that brings me back to kind of the basics of client satisfaction, which is we have to be there for our clients when they need us, not just during the pandemic but at all times. So I would say that the second major factor, besides the goodwill that I mentioned and some of the digital initiatives to like make things easier for our clients and improve our user experience, is that we did not panic at the onset of the pandemic.

And if you recall, we took some lumps for that because we really maintained our investments, both -- not just in R&D but we maintained our investments in headcount and implementation.

That doesn't mean that we didn't have some drift down as a result of some turnover, which we did. And our headcount did decline because we had temporarily a drop in volume, if you will. But that was really, really important, right, to be able to kind of get through this period and be able to deliver on our commitments to our clients.

And back to the comments I made about productivity before, that's one of those things that we watch very carefully because we want to improve productivity. But we won't -- we can't be naive and think that if our -- obviously, if our headcount was 10% lower, we'd have higher net income. The problem is what would your client satisfaction be and your retention.

And so that's the magic, right, of being able to figure out what's that right balance. And you have tools to figure that out. You have monitoring systems, right, to understand what the client satisfaction levels are in relation to how quickly you're getting back to people to resolve their problems, for example, and how well trained your people are.

So there's a number of different factors that we look at. But the key is to be committed to delivering high levels of client service, which we are. And I think we just proved it. If we can do it during a pandemic, we can do it anytime.

Operator

Thank our next question comes from Jason Kupferberg from Bank of America.

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

Pl just wanted to start with the bookings question, just to make sure you've got the expectations right here. Just trying to do the math on the Q4 implied guidance. I think it would be about 90% growth. So I wanted to see if that's accurate. Obviously, you've got the super easy comp there.

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And maybe as part of that, could you just talk about some of the activities you've seen through the first month of the quarter? I mean I assume you've got pretty high visibility here just given that you raised the low end of the full year guidance range for the bookings.

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

Jason, it's Danny. You don't have the weightings by quarter, but what's implied for the fourth quarter is over 100% bookings growth. And for April, we're tracking right in line with expectation.

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

Yes. And I would say that you should not read anything into that other than what we said, which is we're still really positive. We believe we're going to continue to get sequential productivity improvements. But the percentage growth rate is really related to the base effect is really when you get down to it, right? Whether it's 110 or 150 or 190, it's not that -- I know you know it's not that important because I think you're trying to get to a number. You're using the percentage to get to the number.

But you should probably -- if I were you, I would look at maybe call it the second quarter or maybe 2019 fourth quarter or something. There's got to be something else that would give you something good as a proxy, right, where -- we don't expect to be back to 100% productivity levels in the fourth quarter, but we should be getting close to like where we were in 2019. And there might be other small moving parts there from 2019. So I don't want to go out on a limb and say that's the right analog. But anyway, I think that's hopefully helpful.

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

Yes. No, it is. Your comp certainly would matter more. I just wanted to make sure people kind of have the right numbers in their models for the quarter.

And then just a quick follow-up on the pays per control. I think you mentioned it was a little worse than you anticipated in Q3. And you tempered your Q4 expectations a little bit. I'm just curious which part of the portfolio is driving that? It just seems maybe a little incongruous with the U.S. employment data that we're seeing at a high level, which obviously has continued to outperform expectations.

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

It's 100% timing related because we can see in the data -- we have other data sets like they show us, like, for example, job postings and background checks, screenings and so forth. So you shouldn't read anything into it.

And we did not temper our fourth quarter at all. In fact, we kind of tried to clarify that we kept the full year the same, despite the third quarter being a little bit softer, in part because we think we're on the same positive trajectory that I think -- that we thought we were on. So we're seeing the same thing you're seeing in terms of employment and unemployment. And we would fully expect these pays per control numbers to improve rapidly here.

And remember that we're talking today about numbers that were through the end of the third -- sorry, through the end of March, and those numbers are for 3 months, right? So if you look at the third month, in March, it's different than it was for January. And January, February, I know it's hard to remember, to think back that far in how bad things were. That was a completely different picture than the picture we had in early April and maybe in the last -- very last week of March. So I wouldn't read anything into it other than timing.

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

Just to clarify, it was just a slight tweak to the Q4 number and holding the full year at down 3% to 4%. So it's really kind of very minor tweaks.

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Operator

And our next question comes from Pete Christiansen from Citi.

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

Carlos, I think the high customer SAT scores, the goodwill, clearly a testament to ADP's capabilities and certainly the service business model. But I guess clients' needs certainly change. And we've been hearing from some of our other companies that talent acquisition has been, I guess, even more challenging than in the past. And I recall at the last Analyst Day that ADP had really been making a lot of strides in improving its recruiting management tools, so on and so forth.

How would you think that you stack up competitively in that area, particularly in recruiting management tools? And do you think that could be another vehicle or vessel to maintain the high retention levels that you're currently experiencing?

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

Absolutely. I think that you're right. I mean some of this obviously is cyclical, right, in the sense that 12 to 18 months ago, people were looking for other tools other than client acquisition tools. So you have to be careful about not kind of shifting with the wind necessarily. You have to be consistently able to help people throughout the whole life cycle of HCM. And right now, that happens to be an important one.

And so I would say that there's 2 things. One is we build our own tools, as you said, around recruitment management. And we also have an RPO business, and we have other tools to help with the talent acquisition process. We also partner and we have some really strong partnerships. I'm not sure I should -- I don't know if I mentioned the names of the companies or not. But the names that you hear a lot of kind of advertising about, we have very strong integration and partnerships with some of those companies to really make it easy, in particular, in small business but also even in the mid-market for people to use those tools to really help with the recruiting needs that they have.

But we feel we've been making -- we have made significant investments in our recruitment management platform and our talent acquisition platforms, nothing to do with the pandemic. So that -- you could call it fortuitous that we had done that before the pandemic. And we would expect that those would be contributors to our overall value proposition, into our revenue -- sorry, into our bookings growth because those are generally tools that create incrementality around your bookings number.

In other words, what you can charge clients is typically there's a core set of solutions. And then recruitment management, things like time and attendance or workforce management, those tend to be more incremental around the basic package, if you will, of HCM.

So we're positive. We're bullish on it. And I think we're very -- just as a reminder, our app marketplace is -- creates a very easy and seamless way for people to use different solutions in HCM. And this would be a category that we would have a lot of partners in that app marketplace that allow you to get all the other benefits you mentioned about ADP's business model and still be able to fulfill your talent acquisition needs. If you don't believe that ADP has what you need, which we believe you do, but if you don't, you can always get it through one of our partners.

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

That's helpful. And apologies if this was addressed earlier. But given the change in the yield curve, have there been any thoughts on potentially extending duration of the portfolio or any other investment selection choices as you head into '22?

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

Probably not worth mentioning. As you know, the yield curve, like right now, kind of 5- and 7-year is a little bit better than 2 and 3 just because of the way the Fed is managing the curve, if you will. So I think there are always -- I would call them tactical opportunities but no. I mean I think our duration has been in the same range since I've been CEO. And I would anticipate that's not changing. And we're not changing our laddering strategy and we're not changing our client funds interest strategy.

The good news is that it appears the worst is behind us in terms of drag from client funds interest, which was painful. I think we had a $50 million drag just this quarter. So again, not to beat a dead horse, but it just shows the strength of the business that we didn't mention that to you. And we kind of overcame that drag and $130 million for the year. So we're looking forward to better times ahead.

And I did see an interesting chart. Again, I probably shouldn't say this, but we had $16 billion in balances in 2008. And we had $635 million in client funds interest -- I'm sorry, $685 million, not $35 million in client funds interest. So it just shows to you the magnitude. I mean you all know what's happened to interest rates, but that was 2008. That wasn't like a different century or in a different country, like that was here.

And so today, our balances are, call it, the mid-$20 billion number for the year. I think that's the expectation. So I think you could probably do the math yourself in terms of if we do believe that there's going to be some inflation here. And if you look at the inflation breakevens and you look at some other things that are going on, we're looking forward to better times ahead for client funds interest.

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

And the adjusted EBITDA margin was 19% back then, and you're already above that. That's great.

Operator

And we have time for one more question, and that comes from Jeff Silber from BMO Capital Markets.

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

My questions have already been asked.

Operator

Thank you. And this concludes our question-and-answer portion for today. I am pleased to hand the program over to Carlos Rodriguez for any closing remarks.

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

So as you can tell from our comments, we continue to, I think, have the same level of optimism as we had last quarter. And we're really, really thankful for the performance of our sales organization and also our frontline associates in terms of what they've been able to do for our clients.

And at the risk of ending on a negative note, though, all of this positive and all of this -- positivity and enthusiasm, we don't want to overlook the fact that we still have some challenges, and some people still have some challenges in other parts of the world. This is a U.S.-headquartered company with over 80% of our revenues in the U.S. So that's probably why you're hearing all of this optimism.

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But we're not only in the U.S. We have associates in India, in Brazil, in Canada and in Europe, and the situation is not the same there. Even though the businesses are performing well, we -- just as back in the spring of last year, there was enormous suffering and challenges here in the U.S. among our associates. The same thing is happening for some of our associates and some other parts of the world, in particular, in India.

And we are not going to forget them. We're doing everything we can to help them. We appreciate what the U.S. government is doing, along with the Indian government and local governments to help as well. And we look forward to helping them kind of get through the same difficult situation that we managed to get through.

And they too will have their vaccination rates pick up in all of those parts of the world. And they too will emerge from the pandemic, but it's clear that it's going to take a little bit longer. And we should all remember to be there, to help them and to support them in any way we can. And ADP will do exactly that.

But having said that, we are close to seeing the situation in the rearview mirror here. And we're really anxious to see our growth rates reaccelerate to kind of where we were pre-pandemic here at some point in the future and getting back to the business and to helping our clients with their challenges and helping our associates build careers and helping all of you and our other shareholders and stakeholders get a fair return for their investment.

So we -- I guess, as always, we appreciate your interest in ADP, and we appreciate you tuning in. And we will be back in a quarter with our outlook for fiscal year '22. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a great day.

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