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ADP.OQ - Q4 2021 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Co. reported FY21 revenues of $15b. 4Q21 YoverY reported revenue growth was 11%.
Expects FY22 consolidated revenue to grow 6-7%.

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PRESENTATION

Operator

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

I would now like to 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, Sarah. And welcome, everyone, to ADP's Fourth Quarter Fiscal 2021 Earnings Call. Participating today are Carlos Rodriguez, our President and CEO; and Kathleen Winters, our CFO. Earlier this morning, we released our results for the fourth quarter and full year. 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 a reconciliation of non-GAAP measures to their most comparable GAAP measures, can be found in our earnings release.

Today's call will also contain forward-looking statements that refer to future events and involve some 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.

I'd also like to share that we intend to host our Investor Day on November 15. At this time, we're planning to keep it virtual for most of our attendees. But given positive reopening trends, we do have capacity here in our Roseland, New Jersey headquarters to host our sell-side analysts live, and we look forward to seeing our analyst community in person soon.

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. We reported very strong fourth quarter results, including 11% revenue growth and 5% adjusted diluted EPS growth, capping a year in which revenue and margin outperformed our expectations in every quarter. For the full year, we delivered 3% revenue growth, the high end of our guidance range. And I'm happy to say we reached $15 billion in revenue, a big milestone for the company.

As we've discussed all year, we took a consistent approach to investing this year while also prudently managing expenses. As a result, our adjusted EBIT margin was down only slightly, and we were able to deliver 2% adjusted diluted EPS growth for the year, ahead of our guidance and well ahead of our expectations at the start of the year.

I'll first cover some highlights from the quarter. Our new business bookings results were very strong, and our momentum in the market continues to build. Compared to last year's fourth quarter, we grew our Employer Services new business bookings by 174%, which was slightly ahead of our expectations. And for the full year, we delivered 23% growth in ES bookings, towards the higher end of our guidance. We are very pleased with this outcome from our sales team, which booked $1.5 billion in new business in a year with a high degree of economic uncertainty. This full year ES bookings performance represented an average quota carrier productivity level of roughly 90% of our fiscal 2019 pre-pandemic levels when we delivered $1.6 billion in ES bookings.

And our sales productivity continued to trend favorably in Q4. At this point, most of our U.S. field quota carriers have conducted some in-person meetings, and we expect that to keep trending positively as our clients and prospects show increasing preference for doing so. We also reopened additional sales offices in this quarter, and our current plan is to have most of our major U.S. sales offices back open by the end of September.

Our retention was likewise an area of very strong performance with better-than-expected fourth quarter results. Our ES segment experienced a full year increase of 170 basis points to a record 92.2% retention. Our PEO segment also experienced record retention for the year. And as we've seen all year long, client satisfaction remained incredibly high. Kathleen will share how we have approached our assumptions for next year's retention, but in Q4, the trends remained strong.

In addition to impressive retention performance, our PEO continued to benefit from the overall resilience of our client base. And in the quarter, we had 12% revenue growth, driving us to 7% full year growth, which was ahead of our expectations and guidance. This was a result of record retention as well as stronger hiring and payroll trends within our PEO, which we believe reflects the very high quality of our client base.

And our ES pays-per-control turned positive in the quarter with 8% growth. This was in line with our expectations, and we continue to see some gradual rehiring amid what seems like a supply-constrained labor market. For the full year, we ended up rounding to negative 3% pays-per-control growth, right in the middle of our guidance range and the assumption that we held all year long.

During the quarter, we also continued to advance our market-leading solutions and achieved some new milestones I'd like to highlight. I'm excited to announce that this quarter, we launched and began rolling out a new user experience for RUN, representing the most comprehensive refresh we've done since its launch. RUN is already the leading solution in the market with 750,000 clients that use it to help with payroll, time, HR, insurance, retirement and other means. It's a powerful HCM product, and we look forward to maintaining its positive momentum. We're also looking forward to rolling out similar UX refreshes on our other major platforms in the near future.

This year, we also made a number of enhancements to our workforce management solutions. Workforce management, which includes time, attendance and scheduling offerings, represents one of the most critical parts of our HCM suite. This year, we launched Timekeeping Plus Scheduling, an entirely new native solution for the RUN platform. And for our Workforce Now platform, we rolled out Advanced Scheduling, enabling clients to perform more complex workforce management tasks such as skills-based scheduling. I'm also proud to share that this quarter, we reached 100,000 workforce management clients for the first time as the pandemic reinforced the need for robust workforce management solutions for our clients while they navigate the new norm of increasingly flexible schedules and work arrangements.

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Our suite of HRO solutions also continued to deliver steady growth for us this year. I already mentioned the strength in our PEO business, which had its average worksite employee count grow to 616,000, up 12% from last year's count and which now serves 14,500 businesses. And in addition to these employees covered by our PEO, we have over 2 million client employees on our other HRO solutions within our Employer Services segment where we've seen robust demand all year long as clients look for ways to outsource parts of their HR function to a best-in-class provider like ADP.

Also, this quarter, we enhanced our Return o Workplace suite by adding a vaccination status tracker, allowing our clients to easily assess and track vaccinations within their workforces to facilitate planning decisions. Our clients continue to appreciate the efforts we've made to help them navigate the pandemic.

And our Next Gen agenda continued to progress nicely. Our Next Gen HCM platform continues to deliver competitive takeaways in the market. During the quarter, we also expanded our global footprint by going live in Ireland. And in the U.S., we are quickly adding to our implementation capacity for our pipeline of sold clients.

For Next Gen Payroll, we've now sold over 1,000 Next Gen Payroll clients on Workforce Now. And Roll by ADP, which also utilizes our Next Gen Payroll engine, is off to a great start where we are running ahead of our expectations so far as we drive micro businesses to this mobile-first solution.

And as a final highlight, we ended the year with over 920,000 clients, up 7% from the 860,000 we had a year ago and no doubt supported by these continuous improvements we've been making to our product portfolio.

I have to say that fiscal 2021 stood out as one of the most challenging years in ADP's history, and I'm very proud of how we executed. It's hard to overstate the amount of effort took across the organization to quickly adopt and manage through the pandemic while providing excellent service to our clients. And in the end, our organization and financial results both demonstrated the extraordinary resilience that is expected from us.

As we look ahead to fiscal 2022 and beyond, our focus is on reaccelerating our growth through an intense focus on market-leading innovation, further simplification of our product portfolio, continued digital transformation and an unwavering commitment to best-in-class service.

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

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

Thank you, Carlos, and good morning, everyone. Our fourth quarter represented a strong close to the year with 11% revenue growth on a reported basis and 9% growth on an organic constant currency basis, solidly ahead of our expectations. Our adjusted EBIT margin was down 120 basis points, better than expected. And as a reminder, we did have some comparison pressure versus last year's lower selling and incentive compensation expenses that drove the comparative decline. Our 5% adjusted diluted EPS growth was strong and in addition to the revenue and margin performance, benefited from share repurchases.

For our Employer Services segment, revenues increased 10% on a reported basis and 8% on an organic constant currency basis as we lapped last year's pandemic-affected Q4. We continued to see contributions from excellent retention, strong new business bookings and growth in pays-per-control, offset by lower client funds interest. ES margin was down 90 basis points due primarily to higher selling and incentive compensation expenses versus the prior year.

Our PEO also had another very strong quarter. Average worksite employees increased to 616,000, up 12% on a year-over-year basis on both continued retention outperformance and contribution from solid employment growth. Our PEO revenue grew 12%, an impressive performance as we once again benefited from higher payroll per WSE as well as stronger workers' comp and SUI revenue per WSE compared to the prior year, partially offset by lower growth in 0 margin pass-throughs. PEO margin was up 340 basis points in the quarter due to an elevated workers' compensation reserve true-up last year.

We are very pleased with our strong finish to the year. For fiscal 2021, a year heavily impacted by a pandemic, we drove strong bookings growth, solid 3% revenue growth, delivered positive EPS growth and continued to invest for sustainable growth and digital transformation.

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I'll turn now to our outlook for fiscal '22. Beginning with ES segment revenues, we expect growth of 4% to 6%, and this outlook is a product of several underlying assumptions. We expect our ES new business bookings growth to be 10% to 15%. This strong growth would be driven by 2 factors: sales headcount growth, which we typically aim to do; and benefits from continuing recovery in sales productivity as we trend back to and surpass pre-pandemic levels by the back half of the year.

Please note, beginning this year, we will no longer be reporting our Employer Services new business bookings growth on a quarterly basis. Instead, we will focus on our full year bookings growth, which better normalizes for the inherent variability in this metric. This also aligns to how we focus internally on bookings trends over a full year period. We'll, of course, continue to update the full year bookings guidance quarterly. And as we do so, we'll continue to provide color on our quarterly ES bookings performance. We believe our annual bookings disclosure and guidance remains an industry best practice.

Moving on to ES retention. We are not yet seeing any specific indications from our clients that we should expect an increase in switching behavior. However, we believe it is prudent planning to expect that a portion of the retention gains we saw over fiscal 2021 will reverse as companies reopen and reengage in the marketplace.

For the purpose of our outlook, our initial assumption is that we'll experience a decline of about 75 basis points for the year, representing just under half of last year's improvement. If this proves out, our resulting fiscal '22 retention rate would still be a record compared to pre-pandemic levels. But as I think we all can appreciate, there is still uncertainty in this environment given the unusual year we just experienced, and we believe this to be a prudent middle-of-the-road assumption to make. We will update you in the quarters ahead as we gain further visibility, particularly during the calendar year-end period where we've historically seen the most switching.

Our pays-per-control outlook for fiscal '22 is for 4% to 5% growth and above normal growth rate that assumes a continued gradual recovery in the overall labor market. Labor markets appear to be tight at the moment, but we do expect overall employment to continue trending in a favorable direction from where we are today.

And then for our client funds interest revenue, most of which sits in the ES segment, we expect some modest pressure. The interest rate environment remains favorable to what we were experiencing earlier -- in the earlier part of the pandemic. But we are still expecting to reinvest at lower yields than what we are earning on securities that are maturing this coming year.

We are also providing for the first time an added disclosure for our expected average yield on new purchases for the remainder of the fiscal year, which we believe to be useful for you in understanding the direction our average portfolio yield is headed as the portfolio turns over. Currently, that expectation is for a 1% yield on new purchases.

All this said, we are expecting balanced growth of 8% to 10% and an average yield of 1.4% versus 1.5% last year. Together, this would net us $405 million to $415 million in client funds interest revenue for fiscal 2022.

For our ES margin, we expect an increase of 50 to 75 basis points, and there are a few factors considered in this outlook. As a starting point, we are benefiting more fully from operating leverage in fiscal '22 than we did last year while also recognizing higher sales expenses and continuing our steady investment in product, implementation and service. Additionally, we expect incremental margin benefit from the continuation of our digital and other transformation initiatives in fiscal '22 as we continue to increase the utilization of digital tools to improve efficiencies throughout the organization. However, the benefit from our transformation initiatives is expected to be largely offset by a year-over-year increase in facilities and other return-to-office expenses as well as higher T&E expenses.

Moving on to the PEO segment. We expect PEO revenues to grow 9% to 11% and PEO revenues excluding 0 margin pass-through to grow 10% to 12%. The primary driver for our PEO revenue growth is our outlook for average worksite employee growth of 9% to 11%. We expect PEO margin to be down 25 to 75 basis points in fiscal 2022 compared to the very strong margin results in fiscal 2021. This is driven partly by an assumption for stronger sales growth and associated selling expenses.

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Putting it together, our consolidated revenue outlook is for 6% to 7% growth in fiscal '22, and our adjusted EBIT margin outlook is for expansion of 25 to 50 basis points. At this time, because of some comparison differences in the prior year, we expect the first quarter to have revenue growth just above the guidance range with the remaining 3 quarters in the range.

We expect adjusted EBIT margin flat to down slightly in the first half, with most of the margin expansion coming in the later part of the year. We expect our effective tax rate for fiscal '22 to improve very slightly to about 22.5% next year, assuming no change in the corporate tax rate. Our outlook also reflects the impact of additional corporate interest expense.

During our fourth quarter, we enhanced our capital structure by issuing $1 billion in 7-year notes, the proceeds of which we're planning to use for additional accretive share repurchases over the coming quarters. This added about $3 million in interest expense in fiscal '21 with a full run rate of about $18 million in fiscal '22. At the same time, we're also contemplating further reduction in our share count beyond the typical level we would have expected to achieve driven by these incremental share repurchases. Net of this higher interest expense, lower tax rate and additional share repurchases, we expect growth in adjusted diluted EPS of 9% to 11%.

As we enter fiscal year '22, despite the continuing challenges around the pandemic, we are very encouraged by the signs of a continued recovery in the global economy as well as the ongoing secular growth trends in HCM. As the world of work evolves, we believe we are very well positioned to continue adding value for our clients and differentiating ourselves in the market. We look forward to updating you on our progress.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from the line of Eugene Simuni with MoffettNathanson.

Eugene M. Simuni - *MoffettNathanson LLC - Analyst*

Maybe to start with a little bit of a high-level macro question. So Kathleen, you just highlighted that there is significant amount of secular growth that's coming out in the HR services industry from the pandemic. Can you speak a little bit more about where you guys are seeing the indications that the secular growth is actually helping financial performance of ADP? And how much of that is incorporated in your fiscal year '22 guidance? And where can we see that effect in the numbers?

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

I think there are probably a couple of highlights. Kathleen probably has a couple of other she can mention. But like I think we mentioned in our prepared remarks, what we're seeing around workforce management in terms of time tracking and scheduling and so forth, we also mentioned some of the products we've developed for return to workplace. So there are a number of things that are probably related to what's likely to be a more hybrid work environment for white-collar employees at least on a go-forward basis, which probably requires people to think about their investments in HCM in terms of what they can do to maximize the recruiting and the retention and engagement of that hybrid workforce. So I think that is one.

The other one is there's always been a secular uptrend in terms of regulatory-related, and this is on a global basis, demand for HCM products. In other words, the more complexity there is around being an employer, the greater the demand for the wide array of services that we provide. That secular trend has probably gotten a bit of a boost based on, in the U.S., the change in administrations, right, which -- we've had that secular growth for 7 years that ADP has existed. But there are times where it's stronger in terms of a tailwind and sometimes where it's weaker. And I would say that we're heading into strong secular tailwinds here as a result of some of the increased attention on regulatory actions.

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And you probably all saw, I think it was yesterday or the day before, that the President signed a number of executive orders, most of which are aimed at employer-employee-related relationships that increase the amount of tracking and of reporting and of compliance necessary on the part of employers. So those are a couple that I would mention.

I think our retention rate also shows, in an indirect way, secular demand improving, right, in the sense that people have kind of rethought dropping or switching from their HCM vendors. But that one is a little difficult to be 100% sure about because we do expect some normalization in that retention rate.

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

Yes. I think that really covers a lot of it. I mean to kind of summarize and categorize what Carlos said, when you think about the complexity, number one, of being an employer, the ongoing and pretty significant changes that we see from a regulatory standpoint, so complexity, regulatory change, the dynamic environment as the way people work and employer-employer relationship -- employer-employee relationship changes, it's a very dynamic environment. All of that is -- you can just see in the bookings number that we have.

Our bookings, and I'm sure we'll get into the discussion on this, but the growth is pretty broad-based. I mean, certainly, we saw some channels stronger than others, but it's pretty broad-based. And I think that's because of all of the dynamic change and complexity that we see. And in particular, our comprehensive solution, our outsourcing solutions have seen quite significant growth. So we're really encouraged about the macro trends that we see in the space.

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

And again, I think that it's -- I've always never known what is defined as secular versus not secular, but there's huge demand now for talent. What's happening in the labor markets, obviously, that's a huge tailwind for all of us in the HCM space in terms of recruiting tools and engagement tools to try to hold on to people, but that could also be something that wanes in 6 months. That was a little harder to tell. But generally speaking, the war for talent has always been also a secular tailwind to our industry as well.

Eugene M. Simuni - *MoffettNathanson LLC - Analyst*

Got it. Got it. Great. And then for a follow-up, related and talking about the bookings growth and looking at your guidance, the 10% to 15% growth next year, can you just quickly speak to kind of 2 or 3 key swing factors that you see that will define whether we're going to end up on the lower end or higher end of that range as we kind of turn the corner and the recovery and go through this period?

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

Sure. So actually, I could probably give you 3 that would probably account for kind of the way we think about this. So number one, obviously, is what we just talked about is the secular and cyclical tailwinds or headwinds. So if the economy continues with the momentum it's got, we're feeling pretty good. Obviously, if we end up having more challenges because of the pandemic or otherwise, but right now, the amount of -- even the existing government stimulus, even if there's no additional stimulus, is pretty strong and also the pent-up demand and all these -- the reopening, that feels like a very good backdrop for us from a bookings growth standpoint.

And then as long as we have that background or that backdrop that's positive, it really comes down to really 2 things, is sales force productivity at the sales quota carrier level times number of sales quota carriers. And I hate to be so simplistic, but at our size, because we have new products and we're rolling out -- you heard how excited we are about all the new things that we're putting out there, but we sell a lot of business every year. So for a smaller company, when they end up having like a new product launch, that can cause all kinds of growth -- and by the way, likewise, if you don't have any new products, but for us, what I would consider to be a steady eddy. So we really grow through methodically improving and adding

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new products, making tuck-in acquisitions, et cetera, a lot of those. But the key formula for us is we cannot hit our sales plan unless we have the headcount and we are continually improving our sales force productivity, and that's exactly what our plan is.

And we had some good news over the last 4 quarters where our sales force productivity at the average quota carrier level steadily improved throughout the year to reach 90% for the full year, but we exited the fourth quarter in kind of the mid-90s, if you will, in comparison to pre-pandemic level.

So it feels like we're getting back to "trend" from an average sales productivity standpoint. And if we can get back to that trend and we deliver on our headcount additions, we should be able to hit our new business bookings number.

Operator

Our next question comes from the line of Pete Christiansen with Citi.

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

Carlos, you talked about a lot of new logo wins this year, which is pretty impressive. But I was curious to hear how you think about how this may have changed your -- or ADP's cross-sell, upsell opportunity set. I'd imagine the runway there has expanded quite a bit. And perhaps how are you thinking about the strategy, that land-and-expand strategy, to really take advantage of this opportunity?

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

Yes. So one of the -- in case somebody asked that we -- one of the questions we sometimes get is -- and it's related to what you're asking is the mix of how much is new logo sales versus how much is add-on sales. And it's really been very steady over many years. It was only during the ACA period where we had a little bit of a tilt more towards incremental add-on sales, but it's for a long time been around 50-50, and it's still kind of in that neighborhood. So that, I think, bodes well because the more clients we add, the more opportunities we have to pursue that land-and-expand, I think, approach that you just described.

So I would say that we're bullish on the opportunity to continue to go back to the new logos that we sold, which, in many cases, we sell with multiple modules, but there's always additional room for new products as well to go back to that existing client base. So I think that underlying logo growth, I think, is another kind of supportive factor, if you will, for our new business bookings because we do get about 50% of our bookings from our existing client base.

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

That's helpful. And as a follow-up, I was just -- I was hoping you could juxtapose the GlobalView business versus the rest of the ES. I know they haven't been totally in sync during this recovery. What are you seeing there of late trend-wise? And as you look towards the outlook, is that part of the business considered a laggard behind the remainder of the ES? Or is there some variability there that investors should be aware of?

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

It's actually a little bit of the opposite. Maybe we may have confused some people, I think, in prior calls, but I think GlobalView's probably -- could be at the top of our list in terms of performance this year. Like large multinational companies have been, I think, looking for ways -- I think this pandemic raised probably some issues and concerns around control, I think, for the HR leaders that probably raised some issues around engagement and making sure that you're connected to your global workforce and that you had global reporting, et cetera. There's a lot of factors that probably went into what was incredibly strong demand and very positive sales growth. So I would say -- again, we don't disclose individual product lines, but I would say that GlobalView sales were one of the stronger line items, I think, for us.

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And I'll add that to your question about differences between the businesses, I think all of our businesses really performed well. It's kind of hard. It really comes down to trying to point out which ones were spectacular versus just good. And I would say that GlobalView and even our international business really were standouts. And really, it's very impressive because some of the situations in Europe, for example, were very challenging in terms of dealing with the pandemic, but it didn't really stop people from looking for solutions and it didn't stop our sales force from finding them even though they had to do that from -- obviously, from a remote workplace. So I guess summary is GlobalView is a shining star for us.

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

Yes. They saw a good momentum as we closed out the year. In fact, it was a particularly strong close with a good number of multinational deals on GlobalView coming through at the end of the year. And we're looking at fiscal '22 for them to be a big contributor again.

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

And again, the only -- again, it doesn't make a huge difference in the overall ADP revenue numbers, but these strong bookings, remember, will really translate into revenue in, call it, 6 to 18 months because these are large -- typically large multinationals that take some time to implement. But that should be a positive thing for us kind of looking forward, if you will, in that 6- to 18-month horizon.

Operator

Our next question comes from the line of James Faucette with Morgan Stanley.

James Eugene Faucette - *Morgan Stanley, Research Division - MD*

Great. I wanted to ask quickly, and I think it's tied into some of the comments you made around your guidance. But specifically, how are you thinking about like the well-publicized difficulties employers are having attracting employees and that kind of thing? How is that factoring into your guidance and your formulation? And are you expecting a resolution of that as we go through the fiscal year? Just trying to get a little bit of color how you're putting the macro environment into forecast.

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

Well, I mean I would probably put that in the bucket of secular tailwinds or cyclical tailwinds depending on your view of whether it's short term or longer term. But it does seem like if this kind of resolves itself, there's a couple of scenarios. But if it's transitory in terms of the friction of getting people into the right jobs, and then 6 months from now, some of this has passed, by the time we get to that point, unemployment might be down in the kind of a 4% to 5% range, which then creates a whole another wave of needs for employers in terms of finding talent and kind of fighting for talent. So it feels to us like this is a multiyear cycle here where employers are going to be really scrambling to find people, and I think that generally creates conversation opportunities.

So we don't have a magic formula necessary -- necessarily, and we're not a staffing firm, but we do have tools and we have technology and we have people that can help our clients be more competitive as they look for solutions, as they look for the right employees in the right place at the right time at the right pay level. That's our sweet spot.

And so I'd say we're right in the middle of this, what I would call, super cycle of demand for labor that is probably short term related to kind of friction where people are just not in the right places and people are probably also -- there's some hesitations still. There's issues with child care and elder care. There's a number of factors. It is -- we assume like other economists that this will be -- that part will be transitory, but that the need for people will not be given just the, obviously, low unemployment rate, which we will be at by the end of, call it, calendar year '22.

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James Eugene Faucette - *Morgan Stanley, Research Division - MD*

That's really helpful, Carlos. And then just as it relates to sales productivity, you highlighted that you're expecting and seeing improvement there. At the same time, you indicated that there, you're being able to get your salespeople in front of more accounts and potential accounts. How closely tied do you expect those 2 things to be as we go through the rest of fiscal year?

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

Again, since we're in uncharted territory, it's a little hard to give a scientific answer because last year, we were not able to get in front of a lot of our -- or actually most of our process until recently, and yet we delivered, I would say, very solid and strong bookings results. So I think some of this is really about us being able to adapt, which is our job, to what the market wants, right, what the clients want and what the prospects want.

And the fact of the matter is that about half of our -- half of the workforce out there, which probably translates into half of our clients, they actually kept going to workplaces. They kept making things, delivering things and going to workplaces. The rest of the -- some of us white-collar employees didn't. So that segment of the prospects and clients, they expect us to be available if they want us to meet with them in person. We're not going to go force anyone to meet in person. We're happy to meet them where they want to be met, whether it's virtually online or in person. But we want to be ready for whatever the market wants and whatever the market demands, and that's exactly our plan.

But to answer your question, it's really hard to know which factor is the most important factor. We think that being able and willing and available to meet in person with prospects is an important element of our sales success for fiscal '22, but I can't really put a number on it because we were successful in '21 without doing that.

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

Yes. I think the key is that we're just going to have to make sure we can continue to be nimble just as we were in fiscal '21, right? If there are certain regions or points in time where we finally have to scale back a little bit into face-to-face, I think we're nimble enough to do that. We've proven we could do that. But we're certainly ready and have been out there doing face-to-face and hope that, that continues.

Operator

Our next question comes from the line of Dan Dolev with Mizuho.

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

Great results. So can you discuss how the retention has varied by sort of the 3 -- in ES by the 3 subsegments, SMB, mid-market and upmarket? And what happens to the SMBs once the PPP rolls off? So how should we think about kind of your guidance for retention versus like those 3 vectors? And then I have a very short follow-up.

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

That's a good question. I think Kathleen may probably have a little bit of additional color, but I would tell you that this -- I think your insinuation that the PPP loans may have something to do with these elevated retention rates is something that we've heard kind of out there in terms of as a buzz. And again, that's very hard to like put our finger on in terms of how to quantify that and what's the impact. But for sure, one of the strongest areas we've had in retention is our downmarket business. And that is why I think we've prudently planned for some giveback on that next year.

Having said that, I would tell you that this year, fiscal '21, and the 2 months before that, were probably the greatest example of ADP's business model in terms of ability to deliver. We call it service, you can call it compliance, you can call it whatever you want. But when the chips were down

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and people needed help and needed to talk to someone about their PPP loan, they weren't calling their banker, they didn't have to apply for a loan and they didn't have to go through a bank, but you can go do your own channel checks to see how many banks were actually answering the phone or giving people advice because they were completely overwhelmed as we were, but we actually figured out a way to handle it. And we were there for our clients.

And so I think that what we just did over the last year -- and I get it, I'm a pragmatist, so memories are short, and we have to continue to impress and continue to deliver for our clients. But I think we just proved to hundreds of thousands of clients and, hopefully, to prospects from a reputation standpoint that if you want to have someone who's a partner at ADP, if you want software, you can buy software. But if you want great technology and great software, but you want someone who's going to be able to deliver on the service side, then you should be with ADP.

And so I think that, that is going to have some -- there's going to be some factor in hopefully allowing us to hold on to some of this retention on a more permanent basis because I think the -- when the chips were down, I think people saw the difference between not having someone that you could get help from and having someone that you can reach out to and get advice and get your problems solved. But the bottom line is we clearly are prudent and aware that some of this normalization could result in some lower retention rates, particularly in the down market as you are, I think, alluding to.

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

Yes. I mean that covers a lot of it. In fiscal '21, look, we saw strong retention across almost all of our channels, our businesses, particularly in small business and mid-market as well though, and even actually on the international side where the retention is very high. We saw it inch a little bit higher there as well, too. So pretty much strong across the board.

But look, we want to be prudent from a planning perspective. And while we haven't seen any change yet in terms of switching or -- along those lines, I do think it's prudent to plan that there's going to be, I'll call it, a little bit of giveback in fiscal '22. I think we are going to hold on to some of the gains. We're certainly attempting to do that. We want to do that. But I do think it's prudent to plan for a little bit of giveback, which we've done, and that would be primarily with regard to small business segment normalizing back to pre-pandemic levels.

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

But to be clear, there's no -- I'm not aware of a particular -- there's nothing that ties a client to us or anyone else because of the PPP loans. What I've heard the theory that some people have is somehow some kind of psychological thing that it will just make things more difficult if you switch. And I'm obviously not a small business owner. So we talk to small business owners, and we're just not hearing that. But it feels logical that could be a factor. But to be clear, there's no particular trigger that on November 15, we're going to lose 100,000 clients because their PPP loans have been repaid or expired. That's not the way the program works.

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

Understood. And then my quick follow-up, and I think it somewhat ties to this is the margin guidance. What I'm hearing this morning from investors is it might be -- it may be slightly light of expectations. I mean, is that somewhat tied to the mix shift next year? Or is there anything else that you could call out on the margin guidance?

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

Well, listen, after 10 years of doing this, I've never heard anyone say that your margin guidance was too aggressive and too high. So let me just start off with that comment. And part of that is that we're always trying to balance short-term and long-term investors. I'm not sure which ones you were hearing from. But our intent here is to continue the machine, right, and the momentum that has led to multiple decades here of

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compounded growth and creation of value over a very long period of time, and that requires delivering short-term results as well as long-term results. And those long-term results, I think, require some investment, including on the R&D side.

But in particular, this year, really, the biggest factor is selling expense and sales investment, which has happened to us in the past. So we've had other times in, call it, 2000, 2001 or '02 and then '08, '09, '10, because I was around for those, where as we reaccelerate and take advantage of demand back to the secular growth opportunity, the way our business model works is we incur a lot of upfront selling and implementation expense. Now there are some accounting rules that allow you to defer some of that. But generally speaking, you get elevated selling expenses and implementation expenses, and it's pretty significant. So I would say that, that is a significant part of what would have maybe otherwise been higher margins for '22. But when that business then is on the books, that's a high incremental margin business that then in '23, '24 and then for the next 12 to 13 years, that's how long we keep our clients on average, creates an annuity.

So as you can imagine, we never turn down the incremental opportunity to add business, never, because of just the way the value creation model works. And we're going to make hay while the sun is shining here. And with 6%, 7% GDP growth last quarter and what's likely to be incredibly strong GDP in the next year or 2, we're going to take every possible opportunity. And unfortunately, that requires some selling expense and some implementation expense in addition to the ongoing investments in technology and some of the other things that we do.

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

Yes. So just big picture, the way to think about margin for next year, and we're very happy that we're able to kind of guide to this 25 to 50 basis points of margin expansion, I mean, look, we always look to do better than the plan, but that's what we're comfortable with right now. The way to think about it is, look, we're going to have operating leverage to a greater extent in fiscal '22, obviously. But we've also got the investments that we want to continue to make, as Carlos just articulated, in product, in sales and in digital transformation importantly. And we do have some offsets. Carlos mentioned the sales expense. But we also have things like return to office and ramping up T&E versus what we were -- where we were in fiscal '21.

So kind of all that goes into the mix. Net-net, we've got this 25 to 50 basis points margin expansion. We're going to do our best to deliver on that and continue to work our digital transformation, and it's possible to do even more.

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

And one -- just one other factor because if you have any doubts about ADP's ability to drive margin, just one small thing hasn't come up yet, but we had this like small little problem this year with interest rates where it created a $110 million headwind in net contribution and almost $125 million in top line and bottom line in terms of client funds interest revenue. So our revenue growth would have been almost 1 point higher, and our margin for this year in a pandemic would have been up 70 basis points instead of down 40 basis points had we not had that headwind.

Now we did have a headwind. So it's always hard to say if we didn't have this and we didn't have that. But that's a pretty easy thing to isolate that has no operational -- nothing to do with operations. We have no control over, and we have to just ride that cyclical wave, which hopefully that cyclical wave is heading in a very positive direction for us over the next 2 to 3 years. But I just want to make sure you understood that because I think that tells you just how much control we have over our expenses and over our business model and over our long-term value creation objectives.

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

And that -- to clarify, interest does continue to be headwind for us in fiscal '22, a very modest headwind compared to what we experienced in fiscal '21. But it doesn't help us, whereas in years past, it was a significant help to us.

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Operator

Our next question comes from the line of Ramsey El-Assal with Barclays.

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

I wanted to follow up on your comments on retention. And you're prudently planning for retention to increase as the market normalizes. Whether it does or not, we'll see. But can you describe your toolkit on the sales or technology side that you can use to prevent attrition? I mean I'm sure a lot depends on the underlying sort of reasons for the attrition. But can you be more proactive on that front and sort of stem the tide a bit if push comes to shove?

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

Absolutely. I think -- and again, I -- we probably have a couple of examples we could give of things that we've done over the last year, but it's usually a methodical multiyear approach to making our products -- like when we talk about innovation, innovation is partly about new business bookings, but it's also about making our solutions easier to use and more intuitive. And you heard in our comments, and we shouldn't gloss over it, like the UX experience investments we've made in both RUN but now in some of our other platforms is a significant factor in today's world of whether or not a client sticks with you or not.

So we get that. That's why however many years ago, we kind of got it and we said we need to become a technology company in addition to the services company that we are. And so I'd say, number one is you have to have great products. They have to be easy to use and they have to have no friction. That will help with retention.

I think the other thing that I think you can point to are really just around availability. So our business model and our promise is not just technology and software, but it's to help with compliance and it's to help with advice and it's to provide expertise. And that really means that we have to have well-trained associates who are there to answer questions, whether it's chat, whether it's by phone, it doesn't matter, however the client wants to reach us. But the stuff we do is complicated. And being an employer is complicated, and it requires help. And you can either get the help from us or you can call an attorney or you can call a consultant, but most people do not just do this stuff on their own. And we happen to package the 2 things together, great technology with great service. So I'd say if we have great technology and we have great service, we're going to be able to hold on to hopefully a lot of that improvement we've had in retention, even if we have a little bit of giveback in the downmarket.

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

I see. Just not a question of running analytics at the right time. It's really more of a longer-term kind of blocking and tackling and product innovation approach.

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

We run plenty of analytics, too. So we have -- for example, we have a lot of data around -- like we track individual clients how many times they call. We actually can monitor. We have voice recognition that tells us certain keywords that people use when they're -- because we record all phone calls, and that really gives us deep insight into clients that are at risk. And then we have special teams that can follow up with those clients to make sure that whatever problem they have has been resolved. But that's -- I would call that trench warfare, which -- but if you want to get into those details, I can go in the trenches with you. But we have very deep analytical tools that really give us a lot of insight.

For example, in our downmarket, I mean our clients don't call that often because, hopefully, they don't have problems very often because we do a nice job of preventing problems. But one of our small business clients has -- we detect has multiple calls in a month. That requires a reach-out to that client or a deeper investigation and a triage to make sure that we don't lose that client because that's usually a sign that there's something wrong with that client. And we have other techniques and other approaches and other tools to identify what we would call hotspots.

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We also monitor pricing very carefully. When we do our price changes, which I guess is code for price increases, we do that very carefully using a lot of analytical tools to make sure that we do that in the smartest possible way, if you will, to maximize retention.

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

Okay. And a quick follow-up for me. How would you characterize the demand environment for off-cycle or on-demand payroll? Is this something that you see getting quite a bit more popular? Or will it sort of remain kind of a niche service over time?

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

I mean it's clearly popular because I know a lot of people are talking about it, and so that always leads to popularity, right? As soon as someone talked about it, it becomes popular. I think that it's -- again, like a lot of things we've been saying over the last 2 or 3 years, some of these things are inevitable, are going to happen, and we're preparing for them. So things like real-time payroll, and this one that you're referring to is kind of one that we just heard over the last couple of days. That's something we've been thinking about for many, many years, and we have solutions where someone needs to get paid -- like, for example, in California, if someone is terminated from their job, you have to give them their final paycheck like immediately. And so that is difficult to do through the normal process. So we have solutions for that, that we've had for quite some time.

So I think the increasing popularity is probably more related to increasing discussion about it but also to technological advances that allow more options, right, in terms of instant payments and/or faster payments. So I would say the answer is yes, that is an important thing. And for certain sectors, like if you have a high turnover hourly workforce, your ability to provide that solution is crucial, but we have that ability to provide that solution. But you can't, for example, sell a client in California and not be able to provide instant pay upon termination. So it's -- you have to have that.

Operator

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

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

Can you talk about how you're thinking about the cadence of the pays-per-control projection you've assumed during fiscal '22? And what does the 4% to 5% build imply in the base relative to pre-pandemic levels?

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

We're digging for that. I think the quarterly -- I mean, again, it's probably -- when you look at the comps, the fourth quarter will have weaker-than-expected growth. But I don't know, Danny, if you have the...

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

Yes. Bryan, it's just a mirror image of what we saw effectively last year. And so there's a stronger Q1 performance in PPC that's baked into our assumptions and it gradually tails off. But we don't have an explicit guidance for you on what this means for reported unemployment rate, the same way that we gave you that guidance last year at the outset.

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

And the average for the year for pays-per-control, refresh my memory, is 4% to 5%.

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

4% to 5%.

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

Yes. So I would anticipate -- if I were you, I would probably assume that for the fourth quarter, it's going to be back to, I don't know, 2%, 3% or somewhere in the lower range because we're growing over the 8%. And in the first 3 quarters, particularly the first quarter, it will be higher.

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

Okay. Follow-up then on M&A. How are you thinking about areas of potential acquisitions for capabilities? And then also, can you comment on how the market has been for book of business acquisitions? Curious, COVID has changed that dynamic during fiscal '21 and into fiscal '22?

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

We've had actually pretty good success in terms of client-based acquisitions. You -- again, you're right that I myself was surprised that there was an opportunity to do that and that we were able to execute on it. But we had one that I think we mentioned last year in the fourth quarter and kind of spilled a little bit over into the first quarter, but it was mostly, I think, fourth quarter. We had one the year before that, that was significant also in the fourth quarter. And this year, we've had a number of, what I would call, smaller ones, but they add up. And so I would say that the news there is good and is ongoing, and we've created a nice ability to do these conversions and make it good for us in terms of growth.

And back to the question around cross-sell, we usually have a much broader set of solutions than other people that we are making these acquisitions from, which creates upside opportunity, right, in terms of value creation for us.

On the kind of overall M&A comment side, I would say that we've -- where we've been most active is looking in some of our international locations and markets where I think we have very little market share and we still have needs, for example, for add-on products, whereas in the U.S., we're not really looking to add additional platforms for either benefits or payroll and so forth. So it really has to be things that are adjacent, right, in the HCM space but not duplicative because, as you know, we've been on this kind of simplification push for many, many years and trying to build things organically and invest in technology organically. So that doesn't mean that we won't acquire because we have. In a couple of years -- we just haven't done anything for a couple of years, but we do welcome the opportunity to add additional ancillary as long as they fit into our technology road map and they're not disruptive or add-on, and we're not doing it just to get the "revenue pop". But on the international side, we typically don't have those factors at play as much, and that's a place where we're still excited and we still see a lot of greenfield opportunity to expand through M&A.

Operator

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

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

You talked about the PEO business. Obviously, it performed well in the fourth quarter, and it seems like trends are coming back. I'm wondering if you've seen any secular changes. I know that word maybe you don't like. But any secular changes in demand for the product or if you anticipate any changes because of what we've gone through with COVID?

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

I mean, again, my experience tells me that -- because I actually ran that business for many years at ADP, and now I've been watching it for -- I can't believe I'm going to say this, for 25 years. And when you head into this kind of economic environment, it's usually a positive secular tailwind for -- I guess back to like -- it's not that I don't like that word, but I would say that there have been positive secular trends for the PEO for 20 to 30 years. And then they can get enhanced, I think, by cyclical factors like a strong economy.

So people sometimes say that the PEO will do well or outsourcing will do well when there's a recession because people are looking to save money. And that -- there is some truth to that, but it's not what the data supports or shows, right? It's usually when you have very strong economic growth and strong GDP and people are scrambling for talent and they're competing for offering the right benefits. That's when PEOs and outsourcing tend to, I think, do better.

So I would say that based on experience, which you have to discount because we just went through a pandemic. So most of our experiences, we should park somewhere outside the door because we may end up being wrong. But all things being equal, this kind of economic environment is usually very strong for the PEO.

And as for the last 18 months, what we saw there is it's a long cycle sale and it's a high involvement decision. So I think we've been clear that we've had good, great results there from a booking standpoint and probably better than we would have thought was possible but definitely not as strong as ES in kind of the early stages of the recovery of our bookings.

We expect that to reverse, and that is our plan in '22. In other words, we expect very strong bookings and strong recovery on the PEO. And we're seeing some signs of that in the fourth quarter because what happened is in this kind of hunkering down mode, we saw very high retention in our PEO but not as much -- it was more difficult to sell new clients. But the existing clients, I mean, it was unbelievable value that we delivered to them because it was beyond just PPP loans. It was how do I downside my workforce or how do I put people on furlough and what are the rules in this state around benefits. I mean our people were busy. I mean all of our people, all of ADP were busy this year, while maybe other people were less busy, but our people were busy. And in the PEO, they were extra busy. So I think that, that bodes well. And those anecdotal stories and that reputation along with kind of some of these cyclical tailwinds, I think, bode well for the PEO here in the next year or 2.

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

And just as a follow-up on the ES business, have you had to do anything out of the ordinary in terms of price competition or just providing promotions?

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

Have we done anything, are you saying? Or is the market?

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

Yes. I guess have you had to do anything to -- because of what competition has done. So have you had to do anything out of the ordinary on the ES business?

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

No.

Operator

Our last question comes from the line of Mark Marcon with Baird.

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

I was wondering if you could talk a little bit about the strong bookings performance and just unpacking that in terms of where you -- I heard the 50-50 mix in terms of upsells versus new logos. But as it relates to new logos, where were you seeing the strongest success? Was that downmarket in terms of the new business formations? Was that across the board? And who do you think you were winning the most against?

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

By the way, we would always squeeze you in, Mark. There's no question about that. A couple of highlights. We think -- we mentioned in our prepared comments, but our non-PEO HRO solutions, so these would be kind of mid-market and upmarket outsourcing solutions that are, what I would call, more comprehensive, if you will, really, were probably one of the real highlights. And I think that was, again, related probably to people realizing probably within months after the pandemic that like this stuff is hard to do, especially if you have to pivot very quickly, right? You have to make sure your systems are still up. Like you can't have a server in a closet somewhere that you're using to run payroll because you still do this internally. And then people who go to the office to key in the payrolls like this stuff, there's just a lot of people all of a sudden woke up and realized from a business continuity standpoint and from a support standpoint, I need help, and it needs to be more than just a software, right, and basic service. So these HRO solutions really were an incredible bright spot.

And then I think Kathleen mentioned our upmarket and our ESI bookings results were also very, very strong. Yes, new business formation helped in the downmarket, and we're very -- like we're pleased with all of our results on the booking side. It was across the board very strong performance. But I would say that there were other places that had even stronger where I talked about GlobalView, our tax filing and compliance business, which does a lot of stand-alone business, where, again, companies realize that having a bunch of people subscale doing this stuff, you don't even know where they are and if they can get to the office or if they can do it from home, but it's mission-critical, are looking to outsource or did outsource a lot of that stuff to us.

And then we did have a couple of what I would call, volume-based businesses like employment verification and screening and a couple of things that -- RPO also came back a little bit. But it was really across the board, honestly, like -- so those are a couple of just...

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

Yes. Strong across the board, Carlos hit all those right points. In particular, SBS really led the way, our downmarket really led the way in recovery during the course of the year. And in fact, Danny, you can correct me if I'm wrong on this, but I believe SBS had their biggest Q4 ever, including the retirement and insurance solutions.

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

Yes. And I wrote it down somewhere, but I can't find it. I think we had record Q4 bookings in a number of different categories, but that also probably happens other years, too, where we have so many things, we're so broad that there's always a few bright spots. But honestly, compared to what we would have expected at the beginning of this year, to be saying we had record bookings in any business line is really good news.

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

And just with regards to the new logos, in terms of if it wasn't moving to an outsourcing solution that was previously done in-house, was there any sort of commonality with regards to competitive takeaways and wins that you ended up seeing as a source?

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

I mean I'd say that when I look at the -- what we call the balance of trade data, I would say that we -- again, I like to think we're doing a little bit better. We don't provide a lot of color and disclosure around that because I don't think it's helpful, and I'm not looking to pick a fight with any specific competitor. But I'd say that we're pleased with our progress, like the combination of stronger retention, which means we lose less to some of those competitors that you're talking about, and our strong bookings performance means we won more against some of those competitors. I think if you probably paint the picture that there's probably a few competitors where our balance of trade improved, which it did, and admittedly, in some couple of competitors, it didn't, right? It stayed -- but I don't think there's really any place where we went backwards that I'm aware. I'm trying to think back. But I think the balance of trade situation, we're very focused on this. We're trying to become more focused on logos and units and more focused on our competitors because our competitors are focused on us, and we're sick and tired of it.

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

Understood. And then along those lines, you've made a number of product enhancements and you've highlighted a number of them, including in terms of workforce solutions, workforce planning, time and attendance and then, obviously, highlighting Next Gen Payroll. Just wondering, which ones do you think are going to have the greatest incremental contribution? I know it all leads to sales force productivity, but just which ones should we look for the greatest benefit from?

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

Well, that's a tough one because it's like picking your favorite child.

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

Yes. I mean I have a view. I think what we do from an investment perspective in ongoing kind of refresh and modernization and UX on all of our strategic platform is critical. And we're doing that all the time, and that's just critical to our ongoing satisfaction with our products, as we talked about earlier, and our NPS scores. So that constant refresh from a U.S. UX perspective is really, really important. But Carlos, you may have other things you want to...

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

No. I think that's well said because I'm excited about all of them. I think that the Next Gen Payroll is -- literally could be the biggest mover in the last multiple decades for ADP for us. But it really -- it's really Workforce Now and Roll and other things that are in front of it that are "visible", right, because that's really just an engine. It's a gross to net engine. But the added flexibility that it provides and the process improvement that it provides in the back office could be a step change, game changer for ADP in terms of our competitiveness and in terms of our efficiency. But the truth is, and I state client-focused, I think Kathleen is right, the most important thing the client sees is what they interact with, right? And I think that is mostly around the UX and our front-end solutions. So I think that's probably the right place to focus.

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

Great. Just Next Gen Payroll, what's the plan for this year in terms of percentage of Workforce Now that ends up getting converted or that should be on it?

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

We're not really -- we're probably dabbling in a few conversions. That's really not our #1 priority yet. We started kind of in the lower end of our mid-market to begin with, so -- and call it, the 50 to 150 is where we're really -- we call it core major accounts, kind of in the lower end of major accounts. And we're pretty happy, as you could tell from our tone and what we've talked about in the last couple of quarters, with our progress there.

And we have a plan. I don't think it's really great for us to share it because I think competitors listen to these calls, too. But we have a very methodical plan to eventually get to 100% of our core sales being on Next Gen Payroll, while at the same time then gradually moving into the other parts of major accounts, call it, the 150 to 1,000 and then selling 100% of those clients onto Next Gen Payroll.

And then as we're going along, we will start some conversions. But it's not a huge priority because, again, remember, Workforce Now is the front end on both of these. And this is all intended to be transparent. This is not one of those migrations that you heard about 5, 7 years ago at ADP where we disrupt everything. And the clients are going to see very little change other than some enhancements in terms of self-service capabilities and other things that, obviously, we think are going to be net positives from both a selling and a client retention standpoint. But generally speaking, their experience will not change in a significant way.

Operator

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

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

Well, thanks. I appreciate everybody joining the call today. I think in the prepared comments, we talked about what a year this has been. I'm sure every company has the same view in terms of the challenges that they faced. But I'm just incredibly grateful to our associates for what they did, first and foremost, for our clients. When the chips were down, we really delivered. It started obviously in the fourth quarter of last year with all the government regulation changes that needed to be put in place and the huge volume of inquiries we were getting about PPP loans, et cetera, but it really continued into this fiscal year as well. And it was just an incredibly challenging environment while people have personal challenges, right, including health challenges in their family.

And so, again, I'm just -- I just look back to we're a mission-driven company and you can see it in the culture. And I'm grateful for my predecessors and the culture that was built over all these decades that allowed us to -- it wasn't without incident and it wasn't easy, but we really got through it. I think we delivered for our clients. We delivered for the economy because we are a mission-critical service in the economy, and I just couldn't be prouder of our associates, including our back-office associates to support our frontline associates as well as our sales force who, as we talked about a lot today, continue to plow through and allow us to continue to grow our business despite where unprecedented headwinds.

So -- but first and foremost, I'm just so glad that despite, obviously, we have some short-term challenges here with the new Delta variant and so forth, but I mean, clearly, we're heading in the right direction and we're very optimistic both for ourselves, for our families and for our associates and for our clients, and we look forward to better times ahead here over the next couple of quarters where inevitably, we'll have some ups and downs and some challenges here and there, but it's great that everything is on the right track, at least in the United States. And we're hoping that other parts of the world follow closely behind given that we have a very significant business in Europe, Asia and Latin America as well. And we appreciate your interest in ADP and your support, and thank you for tuning in today.

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Operator

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

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