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ADP.OQ - Q2 2022 Automatic Data Processing Inc Earnings Call

EVENT DATE/TIME: JANUARY 26, 2022 / 1:30PM GMT

OVERVIEW:

Co. reported 2Q22 YoverY revenue growth on both reported and organic constant-currency basis of 9%. Expects 2022 revenue growth to be 8-9%.

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PRESENTATION

Operator

Good morning. My name is Michelle, and I'll be your conference operator. At this time, I would like to welcome everyone to ADP's Second Quarter Fiscal 2022 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions)

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

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

Thank you, Michelle, and welcome everyone to ADP's Second Quarter Fiscal 2022 Earnings Call. Participating today are Carlos Rodriguez, our CEO; and Don McGuire, our CFO. Also joining us for Q&A is Maria Black, President of ADP.

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 a reconciliation of non-GAAP measures to the most comparable GAAP measures, can be found in our earnings release.

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

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And with that, let me turn it over to Carlos.

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

Thank you, Danny, and thank you, everyone, for joining our call.

We're pleased to have delivered strong second quarter results, including 9% revenue growth, 20 basis points of adjusted EBIT margin expansion and a 9% increase in adjusted diluted EPS, all ahead of our expectations. This remains a very dynamic and challenging business environment for our clients and prospects, but we believe the value of working with a trusted HCM partner with more than 70 years of expertise is more compelling than ever. And we see evidence of this reflected in our continued sales momentum as well as our very high levels of client satisfaction and retention, which continue to drive upside to our results.

As usual, let me start with some highlights from the quarter. Our Employer Services new business bookings results were strong despite the onset of Omicron variant at the end of the quarter. We experienced a record Q2 bookings level, and like Q1, we were pleased to be ahead of pre-pandemic sales productivity levels. We experienced robust double-digit growth in nearly every one of our ES businesses. And as we saw earlier in the year, we experienced even stronger performance in our PEO segment, where demand is especially robust.

As we outlined at our November Investor Day, the pandemic and the dynamic macroeconomic environment have made running HR more challenging for our clients. Today, our clients must navigate a tight labor market across their organizations; higher-than-usual worker turnover; new legislative requirements; and, in many cases, stocking challenges, specifically within their payroll and HR departments.

The strong broad-based demand across our ES and PEO segments reflects the fact the clients of all sizes are increasingly looking for greater levels of assistance and expertise to help address their needs, in some cases, seeking our intuitive yet comprehensive software offerings, while in other cases, seeking a more fully outsourced solution. We believe we provide extraordinary value through all business environments and today's environment supports a continuation of a positive decades-long secular trend in global HCM.

Moving on to Employer Services retention. We are pleased to have experienced continued strength. Although our retention in the quarter did decline very slightly versus last year's elevated level, it declined by less than we had anticipated and would have represented a record Q2 if you were to exclude last year's pandemic-impacted retention levels.

With overall client satisfaction once again reaching a record level this quarter, the strong retention is not surprising to us. Moreover, early January results look strong, giving us greater confidence for the rest of the year, and we are pleased to be raising our retention guidance once again.

Our ES pays per control metric came in slightly better than expected at 6% growth in the quarter. We are very pleased to see the U.S. unemployment rate back below 4%, which reflects the U.S. economy's ongoing improvement and resulting strong demand for workers. Meanwhile, labor force participation is gradually recovering, and as it does, we should continue to benefit from higher-than-usual pays per control growth.

Over the first half of the fiscal year, we've tracked ahead of our expectations and are now raising our pays per control outlook for the full year. In the second quarter, our PEO had stellar performance once again and was well ahead of our expectations with 15% revenue growth and 16% average worksite employee growth, representing acceleration from last quarter despite a slightly harder growth comparison.

The across-the-board strength in our PEO continues to be driven by several factors, including better-than-expected retention and bookings contributing to client growth; better-than-expected hiring within the PEO client base, further adding to worksite employee growth; and better-than-expected wage levels further adding to revenue growth. While some of these tailwinds will normalize over time, we remain very confident in the outlook of our PEO business over the coming years.

During our November Investor Day, we also outlined key aspects of our growth strategy by product and by business unit. And we are confident about sustaining healthy growth in our fast-growing businesses and optimistic about accelerating our growth in our businesses that continue to transition to our most modern offerings.

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One aspect of our growth strategy that we discussed is an overall greater focus on marketing, which we believe will allow us to better activate our existing scale distribution. We believe at ADP, we can deliver a lot of incremental value from tactical investments, and we look forward to sharing more in the very near future.

One key product initiative we talked about during Investor Day that cuts across our businesses is the development of a new unified user experience. And in the second quarter, we were pleased to have made further progress on this effort. As a reminder, we shared last quarter that we moved our RUN client base over to the new ADP U.S. And now, only a quarter in, early indicators suggest that clients are, in fact, finding it more intuitive, resulting in fewer client service contacts.

In Europe, we have been gradually transitioning our client base over to our award-winning IHCM platform. And in Q2, we seamlessly moved those clients over to the new ADP UX. And we're now very excited that just this month, we began our pilot of the new ADP user experience for Workforce Now, which, when coupled with our Next Gen Payroll engine, makes for an even more differentiated offering for what is already the market-leading HCM solution in its target markets.

And in terms of a few other highlights, I'm pleased to share that we reached a new milestone by running 1 million payslips for a single client on a single day for the first time. And at the other end of the spectrum, our Roll mobile app, which serves the micro segment, continues to outperform our initial expectations.

In another milestone, in calendar 2021, the ADP mobile app had over 1 billion logins, highlighting the growing amount of direct engagement we have with employees and managers around the world. To that point, this month, our Return to Workplace mobile solution, part of the ADP Mobile app, was awarded the Business Intelligence Group's 2022 Big Innovation Award.

And as a final highlight, just this week, we launched our Bill Pay feature in the Wisely app. Bill Pay is free to Wisely the users and fully integrated into the app and has been a top-requested feature from our user base. We believe this addition will further drive engagement and retention, and we look forward to continuing to expand the Wisely ecosystem.

Overall, Q2 represented a solid outcome on both the financial front as well as with respect to key strategic initiatives. I'd like to thank our associates, who continue to deliver these exceptional products and outstanding service to our clients.

And I'll now turn the call over to Don.

Maria Black - *Automatic Data Processing, Inc. - President*

Thank you, Carlos, and good morning, everyone.

In the second quarter, we delivered 9% revenue growth on both a reported and organic constant currency basis. Our adjusted EBIT margin was up 20 basis points, better than planned, and supported by our better-than-expected revenue growth, offset partially by increased PEO pass-throughs and headcount growth in our implementation and service organizations. I'll share more on this last point when I discuss our outlook.

Our tax rate was up slightly in the quarter versus last year, driven by the lapping of a onetime international tax benefit we experienced last year. When including the benefit from share repurchases, we had a 9% increase in our adjusted diluted earnings per share.

Moving on to the segments. Our Employer Services revenues increased 6% on a reported basis and 7% on an organic constant currency basis. In addition to the strong bookings, retention trends and pays per control performance that Carlos outlined, our client funds interest grew for the first time since the pandemic started as lower average yield was offset by a tremendous 28% balance growth.

This growth included some benefit from the lapping of last year's deferred employer social security taxes and incremental benefit from the repayment of a portion of those employers' social security taxes, which, together, contributed several points of growth in addition to the already robust growth

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from higher client count, employment growth and higher wages. Our ES margin increased 40 basis points, ahead of our expectations for the quarter and supported by better-than-expected revenue performance.

Moving on, our PEO continued to deliver exceptional performance, with 15% revenue growth in the quarter. Average worksite employees accelerated to 16% year-over-year growth and reached 660,000 for the quarter. Key contributors were strong bookings and retention as well as very healthy pace for control growth within the PEO client base.

Revenues, excluding zero-margin pass-throughs, grew 18%, which was driven by worksite employee growth as well as higher average wages and higher SUI revenues per worksite employee. PEO margin was down 10 basis points in the quarter. Included in that figure was pressured from workers' comp and SUI expenses due primarily to worker mix and wages.

Moving on to our updated outlook for the year. For ES revenues, we are narrowing our guidance and now expect growth of about 6%, the upper end of our previous guidance range of 5% to 6%. The primary drivers for our higher outlook are the stronger Q2 performance, our higher client funds' interest outlook for the year and higher pays per control growth, partially offset by an expectation from incremental FX headwinds in the back half of this year on the recent strengthening of the U.S. dollar.

For our client funds interest revenue, we're raising our outlook by $20 million to a range of $440 million to $450 million. Like last quarter, we're raising our balance gross assumption meaningfully to now expect growth of 18% to 20%, whereas our client funds yield expectation is unchanged despite the improvement in the interest rates. This is primarily because of our stronger-than-previously-expected balance performance creates a temporary lag with greater short-term investments before we purchase higher-yielding fixed-rate securities.

For U.S. pays per control, we're raising our outlook by 1% to now expect 5% to 6% growth. We continue to expect that a gradual ongoing recovery in labor force participation will support job growth, and the first half of the year was a bit ahead of expectations.

In addition to client funds and pays book control, we are raising our retention guidance slightly and now expect it to be down 40 basis points for the year. Although we still anticipate some normalization in client switching activity, trends so far this year have been very positive, and January is looking like a continuation of that same strength.

One thing we're not changing at this time is our ES booking guidance. As Carlos outlined, our Q2 performance was strong, but bookings is one place where the evolving pandemic conditions and the Omicron variant has potential to create noise as we saw at the outset of the pandemic. Although we haven't seen a material impact at this time, we still think it's prudent to maintain a wide range of outcomes in our guidance.

For our ES margin, we are making no change to our outlook of up 75 to 100 basis points. Although we are raising our revenue guidance and although some of that is coming from high-margin revenues like clients fund interest and pays per control, at the same time, we are now more fully caught up on implementation and service headcount after running a bit behind earlier this year and late last year.

This investment in implementation and service teams is critical, both because the current year-end period is important to our clients and their employees, and also as we look to get ahead of the needs of our growing client base. With the continued outperformance in retention, we're now planning to grow our implementation and service teams slightly more than we had previously planned as we exit this fiscal year.

In addition to this growth in personnel, we also took onetime compensation actions across our organization in recognition of broader inflation trends in the market. The incremental expenses associated with those actions are now included in our outlook.

Although this tight labor market has created its own set of challenges for most companies, we are very pleased to have been able to grow our organization as much as we did these past few months. And the wage increases we layered in give us confidence regarding our staffing levels at a busy time of the year. We are also pleased to have been able to support those changes without detriment to our existing guidance ranges.

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Moving on to the PEO. Following the strong first half trends in both client growth and worksite employee growth, we are now expecting average worksite employees to grow 13% to 15%. And we are likewise raising our guidance for PEO revenues and revenues excluding zero-margin pass-throughs by 2 percentage points each.

Our outlook will continue to be sensitive to employment trends within our PEO client base as well as bookings and retention performance. So although we are currently contemplating growth to be a bit lower in the back half of the year, we could continue to see upside if the current robust trends persist. For PEO margin, we are making no change to our guidance of flat to down 50 basis points for the year.

Although we are raising our revenue guidance, we are, at the same time, expecting higher SUI and workers' comp expenses to create offsetting margin pressure. Putting it all together for our consolidated outlook, we now expect revenue to grow 8% to 9%. For adjusted EBIT margin, we continue to expect an increase of 50 to 75 basis points.

As we shared earlier this year, we expect our margin improvement to be concentrated in the fourth quarter and expect our margin to be down in Q3, particularly following the recent personnel growth and wage increases. We're making no change to our tax rate assumption. And with these changes, we now expect growth in adjusted diluted earnings per share of 12% to 14%.

Thank you, and I'll now turn it back to Michelle for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Bryan Keane with DB.

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

Congrats on the results. Just want to ask on the impact to of Omicron, especially in December and January. Is there any noticeable impact in sales or retention? Or anything that you'd call out, particularly from the rise that we've seen from the virus in Omicron?

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

Yes. I think you've heard from our prepared comments that the answer was no. But when you think about the way the quarter works, the Omicron really started to pick up in, I would say, middle to late December in terms of my recollection. It's really incredible how fast things have changed, right, with this. Because now we're back on the down slope in the Northeast, it appears, at least, in the U.S. So it's pretty fast moving.

But I would say that our answer is no, we didn't see anything in the quarter that we just reported. Obviously, we're now in the next quarter. And it's kind of difficult to start talking about the next quarter, given we're only, I think, 3 weeks into it. But you've seen probably multiple reports. I saw one this morning in the journal about -- I think it was the IMF or someone, kind of lowering kind of global growth and so forth. And some of it is, obviously, a result of Omicron. There's probably other factors as well.

We do believe that we're not immune from these kind of things that ripple through the economy, including Omicron. But the truth is, we haven't really seen a big impact yet. But if GDP growth -- I think the GDP growth for the full year calendar year, most people have kind of kept it in the same range. So I'm guessing that people have lowered their first quarter, talking about calendar quarters now, GDP growth forecast slightly and probably increased.

Because I think it's just a matter of pushing activity forward because it does look like, in a few weeks, things will start to "normalize" in at least a portion of the country. And then I think, shortly thereafter, economic activity should be robust again, as was, I think, predicted by a bunch of

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economists. So anyway, it's a long-winded way of saying, not really, not yet, but we're always careful to not assume that we are somehow insulated completely from what happens in the overall economy.

If people are traveling a little bit less -- I mean our -- for example, our own associate population, we proactively asked. We were already back in the process of getting people back into our offices, and we kind of went back in the other direction for about a month or 2. That just lowers economic activity. People aren't driving as much. They're not going to lunch in the local area, et cetera. And those things have a ripple effect through the economy, but no signs of any kind of major decrease in demand or economic activity from our numbers yet.

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

Got it. That's helpful. And just as a follow-up, I wanted to ask about the strength in the balance growth. I think it was up 22% last quarter, up 28% this quarter. I don't know if you guys look at how much inflation is -- could be driving that number as well. And any other call-outs? I know you raised the guide there, but just surprised at the strength there.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Yes, we have had some growth. So certainly, wages are -- were a little bit of that. But also, as we said in the prepared remarks, the big driver was the grow-over from the lapping from last year with the deferrals. So certainly, the deferrals represented a few points in the growth of that -- of those balances in the quarter, although even the deferrals were only for a number of -- a few number of days towards the end of the month of December.

So certainly, we look at those. But as we said, we do expect the balance growth to continue. We expect it to be firm based on the pays per control and the increase in the number of people working for our clients. I think that's the biggest driver.

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

And just in terms of a refresher, by deferrals, I think Don said in his remarks, the social security tax deferrals. Now everyone lives this day to day like us, but it was a significant stimulus -- part of the stimulus package, if you will. And those security deferrals need to be repaid half just -- we just went through that, which is what helped us in terms of tailwind on balances, and the other half is next December 31. So that's something maybe to pencil in, which would provide some support to our balances next year as well.

Operator

Our next question comes from David Togut with Evercore ISI.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Could you unpack demand trends looking at RUN, Workforce Now and Vantage HCM in the quarter? And what's embedded in your 12% to 16% ES bookings growth outlook? And as a follow-up, if you could comment on your recent announcement that you're expanding Workforce Now with international functionality, what sort of traction do you expect to see there?

Maria Black - *Automatic Data Processing, Inc. - President*

Yes. This is Maria. Thank you for the questions, Dave. I'm happy to comment on both. With respect to the overall performance in the quarter, as was stated in the prepared remarks, we had strong double-digit growth that didn't really go across our scaled offerings, specifically in the downmarket.

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We saw the strength in our RUN platform. We saw the strength in our retirement solutions. Definitely experienced strength in the Workforce Now platform.

And I'll cover off on your second question as well as we get to the press release that we just issued. Additionally, in the second quarter, we also saw strength in GlobalView. So very happy with our international contribution to the quarter. So that was really the strength across the double-digit growth that we saw in Employer Services.

As it relates to the Workforce Now press release that I think we issued in the last couple of days regarding the offer that now is on a global basis, the ability for our U.S.-based and Canadian-based companies to process payrolls across -- on the Workforce Now platform across multiple countries, in partnership with our Celergo offering, very excited to have had this offer. As you can imagine, over the course of the last decade, but certainly in the last couple of years, the ability for mid-market customers to really be able to support international employees on their end is a growing demand. And we're pretty excited to be able to satisfy that demand with this new offer.

Operator

Our next question comes from Kevin McVeigh with Credit Suisse.

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

Carlos, I think you talked about the improvement in retention against a still challenging environment overall. Can you maybe reconcile those comments a little bit? Because all things equal, I would say a tougher environment, maybe a little bit more pressure from a client perspective, but just can you unpack that a little bit?

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

Yes. I think what we've been saying for probably a few quarters now, it's really not -- maybe the tougher environment isn't the right term, it's tougher comparisons, right? Because I think we -- our thesis was that we've gotten some tailwind from the pandemic. There were a lot of tailwinds in a lot of areas, but one of them was in retention. There's less client switching. And on top of that, there was also lower bankruptcy rates in downmarket. And where it's a significant portion of the turnover of our clients is "out of business". So all government stimulus and all the low switching, I think, really elevated our retention.

At the same time, our NPS scores and client satisfaction and all the feedback we're getting from clients is very, very strong. So frankly, it's difficult to separate the 2. So we planned for some moderation in our retention as a result of those tailwinds because those tailwinds are going to go away. I think they're economically driven. And we've seen a little bit of that in our downmarket.

I think we've also kind of alluded to that, that despite our continuing strong retention, it's kind of generally playing out the way we expected, which is our downmarket SBS is a little -- is down a little bit over the previous year, but other parts obviously are holding up well, if not improving. And the net of that is better than we expected and better than we had planned. And the question is, are we going to be able to hold on to all of it?

Our plan, of course, is to hold on to all of it. And that is why you saw in Don's comments that we're making sure we have the right levels of service, the right levels of implementation. Because if we can achieve the forecast we have for retention for the year, which will be ahead of what our plan and our expectations were, that has a meaningful impact on our long-term growth and value creation for the company.

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

That's very helpful. And then I don't know if this would be Carlos or Don, but can you remind us just the rate sensitivity, 25 basis points, what that means? And then, I guess, I was surprised to see the boost in the extended investment strategy, just given, I thought, there was a little bit more of

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a lagged effect on that. So maybe just -- because obviously, it's been so long, we've been in front of a rate cycle, but just the dynamics of client funds relative to extended investment.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Yes. Why don't I start with the second question first on the rates environment and what that means for us. So generally speaking, we -- as you know, when the fund balances increase rapidly, we have to invest in short-term items or short-term instruments until we have the opportunity to invest in longer-term instruments. And as a result, we don't see as much pickup as we would like to see.

But I can certainly give you some sensitivity with respect to, if we had a 25 basis point improvement in the rates in our short-term investments only, that would translate into about $9 million of EBIT on a 12-month basis. So not hugely significant. On the other hand, if we saw that, both in the short and in the intermediate term, that 25 basis points over a 12-month period would translate into about $23 million of impact before taxes. So certainly, that becomes meaningful.

So as we look to invest those funds longer term and as rates continue to go in what we'd say, I guess, we would say is a better direction, I think we have some opportunity in the future. But at this point in time, we think that we're not going to see a huge amount of improvement in the client fund interest over the balance of the second half. And what we have talked about is in the forecast today.

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

Kevin, could you clarify the question on the extended portion, where specifically your focus there?

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

Yes. Just the -- I guess, the dynamics of the client funds interest revenue versus the extended investment strategy, what the timing difference is on those 2 in terms of when you'd see it? Because obviously, you saw a little bit of benefit from extended investment in terms of the outlook, not as much on the client fund side. But just was there a timing element to the extended versus the client funds?

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

Well, if you're talking about balance growth, the extended strategy balance growth is actually tied more to the volatility of cash flows on a year-to-year basis. So it has to do with our forecast of what our low balance is going to be in the year versus our average balance, which is a little bit different from the client funds forecast. So long term, yes, the extended balance would grow kind of in line with the client funds balance growth. But on a short-term year-to-year basis, there's a whole lot more noise. So that is actually driving the difference more so than the lag effect.

The lag effect that Don was referring to has more to do with the growth in the client funds balances. When they are particularly -- when the growth is particularly high, it's often hard for us to reinvest quickly, just given the number of opportunities there are in the market and so forth for the type of credit quality that we're seeking. But we, within a couple of quarters, can catch up. So it's just a question of how quickly we can deploy those additional funds.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

But I think the short answer is the net impact from our strategy because there's also a reclassing issue in terms of how we do it in terms of accounting and so forth. So I think the right -- the right way to look at it is really what's happening with yields, what's happening with -- overall, what's happening with balance growth and then what's the net impact of our strategy for client funds strategy.

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And I think, on that front, the short answer is it's looking pretty good. Like just as an example, our Q1 reinvestments were at about a 1% yield, so new purchases. And in Q2, they were 1.5%. So it's been -- you see the same thing we've seen. The moves in the 2 years and the 5 years are even more significant than the 10 years and so forth. So for us, it's the -- when we talk long, like our version of long is 3, 5, 7, not beyond that just because of the way we invest our portfolio. And on that front, this -- you could not have a better environment in terms of wage inflation, balance growth and increases in interest rates.

So I would say, we're not ready to say anything yet about '23 and '24. But all this -- there's a lot of talk about mechanics in the short term or whatnot because I know a lot of people are focused on the short term. We're more long-term oriented, and we could be in here for a multiyear tailwind from -- finally from client funds interest in a meaningful way.

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

You're going to have a high-class margin problem, Carlos.

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

Yes. Listen, I've been waiting 20 years. I lost -- I had hair when I started as CEO. And I remember telling the Treasurer at the time, rates have to go up next year. And then next year, I said rates have to go up next year. And here we are, but this time, (expletive) it, I'm right.

Operator

Our next question comes from Tien-tsin Huang with JPMorgan.

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

Just really good results, better base control, looking at better retention, in-line bookings, raising balance growth and all the good stuff. Are these all -- I'll think of all these as positive forces for margin expansion, right? So you're keeping the margin the same as always. Is that just a function for the cost you discussed? Or is that some conservatism as well? Just trying to better understand that.

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

Well, if the question is about conservatism, I'll let Don handle it.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Yes. So I think the answer is that we're -- we have a pretty reasonable forecast in front of us. So I think we're not being terribly conservative. But I think what you should consider, though, is that we raised our revenue by $150 million from the prior forecast. And we've also raised our expenses by $115 million.

And if you start to break down those expenses, that $115 million of expense increase, [it covered quickly] the PEO pass-throughs being $48 million of that. So those $48 million of that expense increase is really having a bit of a drag on our margins. Otherwise, I think our margins currently would be better.

But that's really what's preventing that, and that's the reason we have been able to do more on the margins. But I do think that we -- all in, we've done a really good job of baking things into our guidance and firming up the expectations we set.

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

Yes. No, for sure. No, for sure, that's very -- go ahead.

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

And I think -- just one other thing. I think we should also add, I think just to your point in terms of tone, we want to make sure we're clear here that -- back to we're not insulated from the world, there's no question that there's pressure on costs, particularly around wages. And we are a technology services company, so we have costs around R&D and so forth. We also have costs around the service side of our business.

And you heard in the prepared comments that Don mentioned that we've taken some actions that are, what I would call, mid-cycle. So not the typical annual wage increases because we felt we needed to do something to make sure that we held on to our people and that we were attracting the right kinds of people.

So we are doing some things that -- now the good news on the other side of that coin, which I'm assuming will come up later as a question, but may as well address it now, like some other industries, but not every other industry, we do have a fair amount of -- and the industry has shown, demonstrated historically, and I think there are some recent signs from competitors that pricing is more elastic than in many industries. So this is not a commodity business. And there's a fair amount of room.

The problem is you have to exercise that room very carefully because you want to remain competitive and on and on and on. And you've heard that story from us for many years, too, right, that we really want to win in the market. We want high retention rates. So we can't just go around willy-nilly passing through price increases. But the fact is we can, and we will, if it's driven by market forces and cost increases that are experienced across the board. And we're confident that our competitors will do the same thing, and some of them already are.

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

Yes. You answered my follow-up on pricing.

Operator

Our next question comes from Samad Samana with Jefferies.

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

So I wanted to maybe circle back to the PEO business and the strength there. It continues to perform really well. I was curious, can you remind us, when we think about the source of new bookings for PEO, how much of it is new to ADP for the first time versus conversions of potentially existing customers in the SMB side of the base that you're upselling over to PEO? Just how should we think about the source of new bookings?

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

I think it's been pretty consistent for a long time at around 50%, right?

Maria Black - *Automatic Data Processing, Inc. - President*

That's right.

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

Yes. It's about half that we've kind of mined our own. It's a combination of mining our own clients, but we also mine our own sales force. So our sales force is now able to kind of bring in, obviously, new clients straight on to the PEO, but we also have a very large installed base that we -- as you alluded to, we mine. I think it's 50-50, if I'm not mistaken. It hasn't really changed that much over the years.

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

Great. That's helpful. And then maybe just as I think about the consolidation of the base onto one UI, there's clear user benefits to that. But how should we think about maybe -- is there a tailwind to that on the gross margin side as more and more of the base is on a single UI from a -- I guess, a service or a maintenance standpoint in terms of spend going forward? And how should we think about that unfolding on the gross margin line?

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

I think that's a fair point. There's a lot of things that we do that are intended to really "standardize", right, and to be able to get leverage. And this is clearly one of those where ADP historically was a little bit more fragmented in terms of our R&D. And we've been, starting with my predecessor, I think trying to become more kind of unified, et cetera.

And the user experience is one of those places where there was an obvious opportunity that I think will make us better competitively and allow us to invest our money more efficiently. And there clearly is some back-end benefit to that from a margin standpoint.

But I would say we -- I'd be -- I don't think it would be true to say that, that was the primary driver. There's got to be some residual help from a margin standpoint and from an efficiency standpoint. But this is really about winning, about having the best products and having the best face to the market in terms of our -- the best skin, if you will, on each of our products.

It makes a difference, as you know, like we get it. We're a technology company now, and it matters a lot, like the experience that our -- and it's not just our clients. It used to be 20, 30 years ago, it was only the clients. Now the employees of our clients are obviously touching and interacting with our products, especially with the mobile app. And this user experience stuff matters a lot in terms of engagement.

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

Great. Helpful. Congrats on a [sound set] of results.

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

Thank you.

Operator

Our next question comes from Bryan Bergin with Cowen.

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

I have a -- first one, a follow-up on retention. Can you dig in a little bit more about the underlying drivers? So out of business closures versus competitive switching behaviors. And when you think about the 40 basis point year-over-year decline you forecasted, how much is due to a pickup in that closure rate versus competitive losses?

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

Almost all of it is in the downmarket and related to normalization of economic factors like closure rates. I don't know that closure rate is the right word, but that was one of the -- that's in that category, what we call -- we track uncontrollable losses and controllable losses. Controllable losses would be around service and product, et cetera. Uncontrollable is the obvious, like bankruptcies, out of business, et cetera.

And what happened during the pandemic, it wasn't just that bankruptcies went down, like just all the categories of uncontrollable losses went down. And there has been some normalization of that, not all the way back to pre pandemic, but I would say that there's really nothing that you can read into the numbers to tell you anything other than we have fantastic service, solid NPS scores. But there is some normalization in categories, specifically more downmarket. Everywhere else, I think our retention rates are good to improving and solid and, in many cases, better than prior years.

And we have less tolerance in those other businesses because they're not economically sensitive. So we have less tolerance for the excuse that there's going to be normalization there because we now have a taste of what's possible in retention in the mid-market and in international and in -- although international has been strong all along, and in the upmarket. And we just want to maintain those retention levels, but it would be foolish in the downmarket to assume that there won't be some economic factors and normalization. That's what you see reflected in our forecast.

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

Okay. Makes sense. And then just on the PEO strength. So the sequential increase in worksite employees is really notable here. Could you just dig in a little bit more? I heard the better units, so better retention, better bookings, but it does seem like there's been a release or a tipping point here around clients converting to this model. Can you just talk about that?

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

Yes. I mean, I think that we're thrilled, just to be clear, but let me just give you a few back to like these comparisons in the pandemic and noise. Part of our headwind in the PEO sales, which, by the way, were positive and were good, but not as good as the last year, I think we shared a little bit of color there that the average client size sold had come down a little bit. Wages weren't growing that much. So all those things have an impact more on the PEO than they do in ES, particularly in some of the ES units. Those things have all turned in the other direction now.

So the average size client is bigger in terms of clients sold. And that is meaningful. And then you have wage growth, which flows through the PEO. It doesn't flow through ES because the billing is not as a percent of wages, whereas in the PEO, it is. And so we do have a number of tailwinds that are also helping.

But the most important thing, which is maybe what you're alluding to, is the average worksite employee growth, which kind of cuts through the inflation and the wage growth and all that. And that's also robust, but that's getting assistance, like I just mentioned, from average size client being a little bit bigger in terms of new business bookings.

But again, that's great news, but it's a little bit of a normalization because it's actually back now. So it went down from where it pre pandemic, and now it's back up about to where it was pre pandemic. And hopefully, you get 1% to 2% growth going forward. But right now, it's more than just 1% to 2% growth.

Operator

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

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

I wanted to ask you about your HCM products and the cross-sell opportunity to -- into your base of payroll customers, sort of an update in terms of where you are there and whether you could potentially accelerate that process?

Maria Black - *Automatic Data Processing, Inc. - President*

Yes. So happy to comment on our HCM products and how our sellers go to market to drive the combination of new business bookings between new logos as well as add-on business or same products from an attach perspective. So as you can imagine, a lot of the investments that we've spoken about for several years in existing products, a lot of the investments that we're making into our existing platforms.

We just talked about the new U.S. and the impact that's making in our downmarket and will continue to be, coupled with the investments that we're making into our Next Gen products, are all investments that are anchored in the belief that we can continue to expand the offerings to our existing clients as well as new clients. So excited about the execution on each one of these initiatives and the impact that will make to our bookings and mix of bookings between new logos and HCM product attach.

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

I mean, our attach rates in general are pretty good on some -- particularly in some categories like -- we said this before, like our workforce management. We used to call it time and labor, but those products tend to have high attach rates. And others have high attach rates, others have low attach rates. I think part of our opportunity for whatever the years to come is to not only sell new logos, which we're now obsessed about because we want to grow market share, but share of wallet is a huge opportunity for us. So the fact is like we have very low base penetration still in many of our categories in many of our products.

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

Interesting. Okay. And a follow-up for me is on M&A and balance sheet deployment here. Obviously, a lot of the valuation multiples in the sector are holding quite a bit. I don't know if the environment has created a situation where maybe you had a shopping list, a dream shopping list that maybe now you can go after that you couldn't before. But maybe an update on whether -- on your capital allocation and just specifically as it relates to M&A plans would be helpful.

Don Edward McGuire - *Automatic Data Processing, Inc. - Corporate VP, CFO & President of Employer Services International*

Yes. So I think that there's always things flowing across everybody's desk and evaluations being done of opportunities, et cetera. And while it's true that the last few weeks haven't been kind to some companies, I don't think we've really changed our objectives. And our objective is to make sure that anything that we seriously consider and we pursue has to fit the portfolio.

So whether it's -- it just has to be either a geography extension that we currently have or it has to be something that's filling a product niche. And so we're going to continue to work by those guidelines, if you will. And if things become more affordable and something falls into those categories, certainly, we'll take the opportunity to look more seriously or to look a bit harder than we might have, say, 3, 4 months ago. I don't know, Carlos, do you want to explain?

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

No, no. All I was thinking was that, in some cases, if people pay us, we'll buy their companies. And then we can clean them up.

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Operator

Our next question comes from Mark Marcon with Baird.

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

Congratulations on the quarter. I was wondering, could you give us a couple of updates with regards to some of the products? So in terms of Next Generation Pay, to what extent has that been further rolled out? What's the update there?

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

I mean, I would say we had a really good, I think, first -- I would call it, year-end. Because when you get to the mid-market, which is Next Gen Pay, as you know, right now, is really being sold in a portion of what we call the core part of the mid-market, so call it 50 to 150. And I think we're selling somewhere between 20%, 25% of our clients of our new business is coming in on the new platform. We expect to be GA, I think it's end of calendar?

Maria Black - *Automatic Data Processing, Inc. - President*

Calendar year.

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

End of calendar year. So that's kind of what we talked about at Investor Day. And I would say that, like call it, December, January sales season because a lot of those clients, they want to start clean, right, on January 1. So it's a fairly important point of the year in terms of judging kind of where you're doing -- where you are in terms of sales results and so forth. And we had a fairly good, I think, a number of starts. We were happy, I would say, with the early January, late December, what I would call, starts results.

In other words, those are clients that we sold previously that we then got -- now we got started, we have up and running. So we're not -- we're trying to avoid getting the specifics of how many clients in every quarter you guys are going to ask us. But I'd say that that's going really well and we're on track for this GA by the end of the calendar quarter, and that we had a good start season for end of December, beginning of January.

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

That's great. And then it sounds like one of the early comments that you gave, Carlos, was highlighting just the breadth, talking about how Roll is doing on the low end and then also mentioning that with 1 client, you had 1 million transactions in a single day, which is obviously impressive.

Can you just give us a sense for like in terms of Roll, how much is that -- now that you've had some experience with it, how much more excited are you about that possibility and penetrating that micro part of the market? And then on the flip side, with the capabilities of being able to service companies globally and at a huge scale, how does that expand the top end of the market?

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

Yes. I mean, as you know, we do -- we're a little bit different than most in the sense that we're 100% all-in on HCM, and we cut across multiple segments and also geographies, so that makes us a little bit unique. So you have to get excited within segment because -- like Roll is really exciting, and we're excited about that opportunity, but that is in that [marketing] segment.

Because if you take the other extreme example of the other client, like when we process 1 million -- like that client obviously has 1 million employees, and we process their payroll, and we process 1 million paychecks on 1 day, that's a lot of small Roll clients to make up for that. So they're excited

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about that, but Roll is excited about its role in the growth of ADP and in the marketplace in terms of our ability to compete and to create opportunities for us.

So it's a little hard to compare. I guess, it's like when you have multiple children, you have to love them all, and they're all good looking and smart and so forth. And I think that's the way I feel about Roll in the downmarket versus the upmarket versus global view. I mean they really are all, I think, performing quite well now. And I think we're excited about the opportunity in each of those markets separately.

I'm trying not to give you a nonanswer answer, but I think that's -- I'm trying my hardest to give you something concrete, but it's exciting because these are all -- I mean the growth rate, Danny won't allow me to say it because -- as we were preparing for the call, if we were a start-up, we would be quoting growth rates for Roll that would make your eyes roll. But Danny won't let me say it because it's really, frankly, insignificant to a $15 billion company today, but it won't be insignificant in 5 or 10 years.

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

I guess, that's what I was getting at was just on the -- for example, in terms of Roll, when you first introduced it, you talked about it in a more modest manner. But it sounds like it's getting really good traction. So I was just wondering if there was some way to capture how you're thinking about how big that could eventually be.

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

It's definitely getting good traction. We're definitely excited about it. But again, you shouldn't over -- I'm not trying to overplay it because we have a very large organization. And you guys need to think about like how all the pieces fit together so that it fits into our forecast.

And just from a dollar impact, I mean, I hate to go back to that, that product and that segment competes against certain competitors. We feel pretty good about what we're going to be able to do there in terms of market share and growth, et cetera. But you should not be thinking about this as something that's going to move ADP's growth rate by 1 to 2 percentage points on the top line in the next year or 2. It's just not -- that's not the way the math works. I wish it did.

All of these things have to work together. Next Gen Payroll, Next Gen HCM, Roll, GlobalView, Celergo, there are a lot of things, PEO, that have to come together for us to get to the numbers. And we like that. Where I think a portfolio that, as you've seen, we manage pretty effectively and the combination of all of those businesses having good success, some more than others at times, I think, leads to the results that we are reporting and forecasting.

Operator

Our next question comes from Eugene Simuni with MoffettNathanson.

Eugene M. Simuni - *MoffettNathanson LLC - Analyst*

Congrats on another strong quarter, guys. I wanted to ask about Wisely and your kind of general personal finance product strategy. So you highlighted the Bill Pay offering in your prepared remarks. Can you just remind us what are the next big milestones for this overall strategy?

And I know it's a small part of your portfolio, but will you, at some point, maybe start providing some metrics that can help us track the growth of this area like some businesses like that provides, such as number of cardholders, frequency of transactions, the amount spent and so on.

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Maria Black - *Automatic Data Processing, Inc. - President*

Yes. So happy to comment on the overall Wisely product strategy and where we're heading with the opportunity that's incredibly exciting for us. And then we can talk through what those metrics could be to have to give some solid basis of growth over time.

As it relates to the overall myWisely app and the strategy we have within the Wisely portfolio, it is really a strategy that is anchored in financial management. That financial management in the app happens through education, budgeting, savings tools, rewards.

What you heard today, which you just mentioned as well, which is the launch of our Bill Pay feature, we believe it's significant. This is exactly what we all probably use with respect to any type of an online bill pay, where you can scan the check and actually facilitate end-to-end bill processing through a mobile device. And so that is all part of the myWisely app and the overall financial management strategy, think financial wellness, et cetera, that we've employed.

In addition to that, the other thing that's worth coming is the launch of our Early Wage Access, or EWA, as we refer to, which is really that ability for our clients, employees, our employees to gain access to wages that they've earned as they earn them. So this is also a big piece to the overall equation with respect to the overall Wisely, things that we're monitoring actively right now back to kind of the question around how many cardholders, et cetera, certainly, we're looking at that.

We're looking at other types of -- what type of cardholders are using what feature functionality. There is some data that you could look at as it relates to how many reviews we have on the app, the quality of the app, certainly supersedes some of the competition in the space. I'm pretty proud of the impact that our financial wellness tool, myWisely app, is creating in the market. But I'll let Danny and Carlos kind of comment on cardholder tracking and when it will [flip back].

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

Yes. I think we'll -- I mean, it's a takeaway for us. We'll see if there's something else that we -- I mean, we're always open to suggestions and trying to be open-minded about disclosure. But again, this is not the same as the conversation about Roll. But as excited as we are about Wisely, we're equally excited about things like Roll. And Wisely is much bigger than Roll.

But again, relative -- I hate to be a broken record, but relative to the size of ADP, it wouldn't be at the top of the list of the things that are going to drive the overall results. Because, again, we're a portfolio of so many different things that have to go right and that we have to get right in order to get growth on $15 billion.

I mean, I think that business is probably -- I'm trying to do the math in my head. It's like 2%, 3% or smaller in terms of total -- actually, smaller than that even in terms of revenue. So by the way, we want that, and it is growing faster than the line average. All the things you're asking about are relevant, and those things would all help the overall growth rate of ADP. But it would be misleading because I think others might have done that where they make a bigger deal out of it than it really is.

And maybe relative to their companies, it is a big deal. Relative to us, we have lots of other things that we have to do and that have to go right. And us trying to pretend that if we tell you is how much we get per card and then we start giving you math, that if 100% of our clients got on the card, this is how much money we would have, I mean, we don't need to do that because that's just distracting and silly. Because, first of all, it's not going to happen. We're not going to get 100% overnight, and it could take some time anyway.

But we will take that away and think about what, if anything, we can do to give you a little more substance around the progress around Wisely because it's exciting. And we're happy about it. But it's not -- there are other parts of our disclosure that would give you more indication like the things we've been talking about, pays per control, new business bookings, overall. All those things, overall, are bigger drivers of our results.

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Operator

Our next question comes from James Faucette with Morgan Stanley.

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

Most of my questions have been answered, but I wanted to talk just a little bit about or ask about strategy. And in the past, you've mentioned customer service capabilities being a differentiator related to SaaS players. How should we think about the persistence of differentiated service levels as your own AI capability grows in importance?

And when we look at the future of self-service initiatives may cause your own services and service levels look more like a traditional SaaS players, I guess, I'm just wondering like how we should be thinking about that strategically and what the implications are in the business? I recognize it probably fits well within a few of your most recent comments just like it takes a while to move the needle, but would love to get a sense of where you think you're going in those areas.

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

It's a great question because we -- that's a topic that comes up not just among the management team, but also from the Board because we clearly see the opportunity there. And again, we have a couple of advantages coming out of the gate. Like we obviously have a lot of data. So we have a lot of information that can be used to provide, I think, more automated, if you will, whether it's AI, machine learning, you can -- whatever term you want to use for it, you have to have information, right, to be able to then monetize that or turn it into a value add for the clients, which then can be monetized.

So we spent a fair amount of time on that. We've actually recently appointed someone to be kind of our Chief Data officer, who's kind of what we're seeing and owning kind of all of our data and then how we can marshal those resources to create the kinds of advantages that you're talking about, which really advantages for our clients so that we can be able to hold on to them longer, sell them more things, et cetera, et cetera.

So we think everything from like the simplest things like chat box to real, true AI, I think, are things that we have already deployed and I think are in the process of kind of growing and scaling, if you will, to take advantage of. And I think some of those you've seen around press releases, and we talked about some of them on Investor Day, but clearly, there's a lot more opportunity in front of us than what we've already done in that area.

So I would say that, that's a great question and a substantial opportunity for us that, like to the previous point about disclosure, we have to find a better way of giving more guidance or more disclosure around how that's going and how it's being leveraged. Because it's going to be meaningful, I think, over the next 5 to 10 years for ADP.

Operator

We have time for 1 more question, and that question comes from Jason Kupferberg with Bank of America.

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

I just wanted to start with the EPS guidance for fiscal '22. I guess we're going up 1% at the midpoint, so call it, $0.06. And so just breaking that down, it looks like the raise in the float income expectations is about $0.04 of that and presumably the rest [of your] revenue outlook. I just wanted to see if that math is correct.

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

That sounds pretty good. I think that the theme -- I think, whether that's exactly right or not, the theme you should hear is -- I mean, it's maybe a bad thing to end the call with, but you should understand that the second -- we are investing, and this is not the first time you've heard this from ADP. The opportunity in front of us is big, like our bookings are growing, the economy is growing robustly. Despite the noise in terms of the stock market and so forth, this is a really good environment for us.

And so we are preparing ourselves, and you should expect that, that is going to lead to kind of long-term improvement in, hopefully, our growth rates and in our margins and so forth. So just don't get distracted by the short-term noise. Because I think that the implication is it doesn't seem like we raised the rest of our -- whatever profit by much.

The answer is you're probably right, but it's all the things we've been talking about during the call, which is -- we're making sure that we keep up with the market in terms of wage growth, but we have price levers that we haven't necessarily hit yet because we're not a panicky company. Like we're not going to like, tomorrow, do an unplanned price increase to our base.

But we have times that are natural and normal where we will do that. But we're not going to wait to take action on wages and hiring and so forth until we get there because that doesn't make sense. We're not some [shwacky] little company that needs to panic. So we're going to do the right things. And if there's a timing -- a missed timing by a quarter or 2, so be it. We think it's still pretty damn good.

Like when you think about the inflationary pressures we have and the fact that we're still able to kind of deliver the results that we are delivering and able to grow the way we're delivering, we're pretty damn proud of it. But admittedly, we're feeling more pressure on the expenses now than we definitely saw, call it, 18 months ago, right? It's the opposite. And this is what happens in "comparisons".

And when you "lap" things and all that stuff that you guys like to look at, like the pandemic hit, and our expenses went down because we were very careful and very frugal and very stingy in terms of hiring and so forth, and our revenues never came down as much as everyone thought and as we thought. And then we now have to go back up and make sure that we're staffed. And at the same time, wages started to increase, so we have to now factor that into the picture. But we're feeling pretty (expletive) good about our execution and how we're doing. But that is the way the numbers add up is the way you described it.

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

Okay. No, those are [good] points. Just last one for me. I wanted to see if you could elaborate a little bit on the competitive landscape, just what you're seeing downmarket, mid-market, enterprise-wide. Interested in just any changes in the mix or the aggressiveness of any competitors across the spectrum.

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

Again, because we compete in so many different segments, there's not -- I don't think it's a broad sweeping -- I mean some of our competitors only compete with us in 1 segment, so it's hard to make a sweeping statement other than I think it's business as usual. That may not be very exciting. But I don't see -- I don't know, Maria, if you see any -- there's been no -- I mean, I think we look at our balance of trade. We're pretty happy about a couple of people that we've been more focused on recently than maybe before, which we're now doing better than before on.

But as usual, then there's others that are now gaining ground on us. But I'd say that the general environment is stable and that the -- what is it, the rising tide is lifting all boats. It feels like the industry, overall, has a lot of, I don't know, growth opportunity, and we're all getting our fair share and trying to feel each other's share. But it's a good environment. I don't know if you have anything.

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Maria Black - *Automatic Data Processing, Inc. - President*

I would concur.I would echo the sentiment on the overall HCM space and the environment. And I don't think anything materially changed, but we certainly intend to continue to win our fair share and more.

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 & Director*

Thank you. I would just -- just back to like the general economic conditions and what's happening in the market and so forth, which is nothing that we focus on, on a day-to-day basis. But the one -- some of the things we did have a little bit of a discussion and some questions on capital allocation and structure and so forth that I would just -- I can't help, but I'm obsessed with the dividend. And I love how no one asked about the dividend. Nobody cares about the dividend.

But we may be entering an environment where it might matter again. So maybe someday, I'll get a question about the dividend because I think we're in our 47th year of consecutive increases in the dividend. And I think if you go back 10 years and you look at what our -- the cost basis of the stock was and what the dividend yield, given today's dividend, is on that cost basis 5, 10 years ago, 15 years ago, 20 years ago, this company is a money machine.

And so -- and clearly, capital gains are important, too, but the focus changes, obviously, as the market environment changes. And listen, I'm not wishing a downdraft in the market. It hurts us as much as it hurts anyone else. But I like where ADP is positioned competitively, and I like where we're positioned in terms of our balance sheet, our dividend and our -- and the way we allocate capital.

But the most important thing I'm proud of is our associates because every quarter now, as we get further away from -- despite Omicron and so forth, clearly, we're in a much better place than we were before. We would not be where we are today without our associates. And I mentioned how we were understaffed for sure in the early times of the pandemic because we felt like we had to be careful on the expense side. And as we were being careful, the workloads were increasing because of all the government regulation issues that were intended to help, and they did. All of the stimulus, and this is across the whole world, that created a ton of work for our people, of which we had fewer people. And I'm incredibly grateful and will forever be indebted for people stepping up and doing whatever it took to get our clients and get us through that difficult period.

I'm so glad that we're able to deliver on all of our commitments because we were, I think, one important factor besides the Amazon trucks still running and other parts of the economy still functioning. I think we played a role in helping the world economy, I think, get through the pandemic. And our associates deserve all our credit for the role they played.

So with that, I appreciate you listening to us, and we look forward to catching up with you again in the next quarter. Thank you.

Operator

This concludes today's conference. You may now disconnect. Everyone, have a great day.

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