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# EDITED TRANSCRIPT

ADP.OQ - Q3 2022 Automatic Data Processing Inc Earnings Call

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**OVERVIEW:**

Co. reported 3Q22 YoverY reported revenue growth of 10%. Expects 2022 revenue growth to be 9-10%.



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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 Third Quarter Fiscal 2022 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions) Thank you.

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

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

Thank you, Michelle, and welcome everyone to ADP's Third Quarter Fiscal 2022 Earnings Call. Participating today are Carlos Rodriguez, our CEO; Maria Black, our President; and Don McGuire, our CFO. 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. And with that, let me turn it to Carlos.

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

Thank you, Danny, and thank you, everyone, for joining our call. We delivered exceptionally strong third quarter results, including revenue that accelerated to 10% growth on a reported basis and 11% growth on an organic constant currency basis, coupled with solid adjusted EBIT margin expansion. The strong outcome on both revenue and margin drove 17% growth in adjusted diluted EPS, well ahead of our expectations.

Our clients have had new shortage of challenges in navigating the last 12 months, but through it all, not only have they persevered but they have invested in their workforce to better support their employees and continue to grow their businesses. We're proud to support them in these efforts through our leading HCM technology and unrivaled expertise.

This quarter, I'll provide high-level commentary on key business drivers, and then Maria will take us through some product and other updates. And as usual, Don will discuss the financials and our updated outlook.

Let me start with Employer Services new business bookings. We are very pleased to have delivered another strong quarter of double-digit growth. This was a record level for the third quarter. And as we had hoped when we updated you last quarter, the Omicron variant was not a meaningful factor in our bookings performance, as third quarter growth accelerated from our first half levels towards the high end of our guidance range this quarter.

Our clients continue to find tremendous value across our suite of offerings, with our PEO and HR outsourcing, international and downmarket businesses, again, leading the way. We're pleased to narrow our ES bookings guidance higher, and we look forward to delivering this double-digit growth for the full year, which should position us well for fiscal 2023.

Our Employer Services retention was also very strong this quarter. As you know, our third quarter is especially important for retention since we typically experience elevated switching with the start of the new calendar year. Accordingly, we were very pleased that rather than decreasing the quarter towards pre-pandemic levels like we anticipated, our retention actually increased further into record territory driven by incredible performance from our mid-market and international businesses, among others.

As we've discussed for several quarters, the strong employee and client growth we've experienced have increased the demands on our implementation and service organization. We added to our headcount to keep up with this demand ahead of our busy year-end period. And as a result, we were able to maintain strong overall client satisfaction scores despite ongoing pressure from this elevated demand.

With retention having outperformed our expectations so far this year, we believe we are now on pace to hold on to most of last year's retention gains and expect to remain at 92% retention for the year, down very slightly versus last year's record retention level.

Moving on to Employer Services pays per control. Our clients continue to steadily hire as workers enter or reenter the labor force, and our pays per control growth of 7% for the quarter came in better than expected. Clearly, there are a number of factors at play when considering employment growth trends, but strong overall economic activity continues to keep demand for labor high, and we've been pleased to see labor force participation gradually recover over the course of the year.

And one last highlight before I turn it over to Maria. Our PEO had another strong quarter, with 16% average worksite employee growth and 14% revenue growth. As we've seen all year, growth in our PEO bookings was exceptionally strong as small and midsized businesses increasingly find value in turning over a meaningful portion of their HR function to ADP. And that strong bookings performance, coupled with robust employment growth within the PEO base, has driven this very healthy double-digit revenue growth.

And now let me turn it over to Maria.



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

Thank you, Carlos. It's great to be joining everyone for the call. Also, some updates on a few key initiatives we have underway. One key product initiative is the rollout of our new unified user experience, and we made some great progress on this front. Earlier this year, we moved the RUN iHCM and NextGen HCM client bases over to the new UX. Feedback has been strong, with clients especially upbeat about how easy we've made key HCM workflows.

In January, we shared we started the pilot of the new UX to Workforce Now. And since then, we've expanded from a handful of clients to over 1,000. Early feedback has also been overwhelmingly positive. In this quarter, we began the rollout of the new UX to the ADP Mobile App.

The ADP Mobile App is an incredibly important part of the ADP suite, with over 10 million active users. It is one of the top 5 most downloaded business apps in the Apple App Store and is available in over 20 languages. And we're excited to take our 4.7-star average user experience and make it even more insightful, intuitive and proactive for our users as we complete the new UX rollout over the coming months.

Moving on, data continues to be one of our key differentiators. In this quarter, we expanded our data offerings even further as we launched pilot clients on our new Global Insights Dashboard, powered by DataCloud. This dashboard provides our GlobalView and Celergo clients with advanced analytics for their employee populations around the globe, leveraging the same award-winning analytics platform we have scaled across our U.S. mid- and upmarket client bases.

Last quarter, we mentioned you would hear a bit more about our marketing efforts here at ADP. At our Investor Day in November, I spoke about how, for decades, ADP has reached prospects through our powerful direct sales force and how, in more recent years, we have enhanced this direct channel with modern selling tools, a growing partner network and with increased digital advertising.

This quarter, we continued to advance our great momentum and expanded our overall brand investment with additional initiatives, including our first major athletic sponsorships, a group of 8 impressive professional golfers featured across the LPGA, the PGA and the European Tour, who, together, constitute Team ADP.

The ADP brand is a powerful asset and has come to be associated with professionalism, insightful and trustworthy data and the premier technology and service we pride ourselves on. And we believe there's opportunity to continue investing in our brand while also pushing the frontier in digital marketing efforts to support our world-class sales force.

And as a final call out, this quarter, we were pleased to host one of our marquee client events, ADP Meeting of the Minds, in California, which was back in person for the first time since 2019. This was our 37th Meeting of the Minds conference, and we took the opportunity to engage deeply with our enterprise clients on the changing world of work.

What I love most about this event is, as much as we enjoy sharing our perspective with our clients and showing them our latest HCM innovations, we also make the most of this opportunity by listening to and learning from them. And having the event back in person really makes a big difference.

The third quarter was a terrific quarter overall, which you can see in our results and in the progress we made on key initiatives. We were recently named one of Fortune's Most Admired Companies for the 16th year in a row, and we are proud of this honor because it highlights our culture of continuous improvement, our consistency and our focus on being a true partner to our clients. A big thank you to our associates who make this all happen.

Now over to Don.



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

Thank you, Maria, and good morning, everyone. For our third quarter, we delivered 10% revenue growth on a reported basis and 11% on an organic constant currency basis. This revenue growth, in turn, supported adjusted EBIT margin expansion of 50 basis points, which was much better than the decline we expected.

We achieved that margin expansion despite incremental investments in headcount and compensation we discussed last quarter. Through the combination of this strong adjusted EBIT growth, a slightly lower tax rate and a lower share count, we were able to deliver a 17% increase in adjusted diluted earnings per share.

Looking more closely at the segment results. Our Employer Services revenue increased 8% on a reported basis and 9% on an organic currency basis. ES revenue has been supported all year long by strong retention and pays per control trends, and our double-digit bookings performance has been contributing nicely as well.

In Q3, we also started to get a more meaningful contribution from client funds interest, through the combination of our 15% client funds balance growth and an average yield that was nearly flat with the prior year. This year-over-year increase in client funds interest contributed about 0.5% to our revenue growth, which is a very nice outcome compared to the last several quarters. ES margin increased 120 basis points, well ahead of our expectations for the quarter and supported primarily by revenue growth.

Moving on to the PEO segment. PEO revenue remains very strong and grew 14% in the quarter. Average worksite employee growth is the primary driver to PEO revenue and remained at a very robust 16%, reaching 688,000 average worksite employees for the quarter. We continue to benefit from the strong bookings growth we've seen all year long as well as healthy retention and pays per control growth within the PEO client base.

PEO revenue growth was a bit lower than worksite employee growth this quarter, which is fairly atypical. Impacting revenue for worksite employee was a mix shift towards WSEs with a slightly lower average wage and lower benefits participation, representing continued normalization back towards a pre-pandemic mix. That said, it's good to see a recovery in all parts of the workforce in our PEO. PEO margin was flat in the quarter and included higher selling expenses, driven by our strong sales momentum.

Moving on to our updated outlook for the year. For ES revenues, we are raising our guidance and now expect growth of about 7%, up from our previous guidance of about 6%. There are a few drivers behind that increase. We are narrowing our ES bookings guidance higher to a range of 13% to 16%, up from 12% to 16% prior.

So far this year, we have realized and delivered solid double-digit growth. Clearly, there is geopolitical uncertainty in Europe as well as more general macro uncertainty. But notwithstanding those uncertainties, our outlook contemplates a strong Q4, with growth in the teens, and we look forward to delivering a strong finish to the year.

We are raising our employer services retention guidance and now expect it to be down only 20 basis points for the year versus our prior expectation of down 40 basis points. Our retention has held up extremely well so far this year. But out of prudence, we are assuming a modest decline in Q4 for the same reasons we've outlined all year long.

For U.S. pays per control, we're once again raising our outlook and now expect 6% to 7% growth versus our prior expectation of 5% to 6% growth, driven by the ongoing recovery in the labor force participation, combined with steady demand for labor from our clients. We are also raising our client funds interest outlook slightly to a range of $450 million to $455 million, up from our prior expectation of $440 million to $450 million.

There's no change to our 18% to 20% balance growth outlook. With just a few months remaining in fiscal '22, the benefit from higher new purchase rates for the recent yield curve shifts is modest, and therefore, we still expect yield to round to 1.4% for the year.

Moving on to ES margin, we are raising our outlook to now expect margins to be up 100 to 125 basis points versus up 75 to 100 basis points prior. This increase is mainly driven by the stronger revenue outlook and margin performance in Q3 versus our expectations.



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Moving on to the PEO. We are narrowing our average worksite employee growth to 14% to 15% versus 13% to 15% prior, driven by continued momentum in new business bookings. We are likewise narrowing total PEO revenue to 14% to 15% growth, up from 13% to 15% growth prior. And we are raising PEO revenues, excluding 0 margin pass-throughs, to 15% to 17% growth from 14% to 16% growth prior.

For PEO margin, we are raising our guidance to now expect margins to be up 25 to 50 basis points rather than flat to down 50 basis points for the year. That's driven by an improvement in pass-through expenses, including more favorability from workers' compensation compared to our prior outlook.

Putting it together for our consolidated outlook, we now expect revenue to grow 9% to 10%, up from 8% to 9% prior. For adjusted EBIT margin, we now expect an increase of 75 to 100 basis points, up from 50 to 75 basis points prior. We are making no change to our tax rate assumption. And we now expect growth in adjusted diluted earnings per share of 15% to 17%, up from 12% to 14% prior.

Before we move on to Q&A, I wanted to quickly touch on fiscal '23. We're still going through our planning process, and so we won't be providing any specifics at this time. Clearly, there are going to be some unique puts and takes for fiscal '23. But overall, we feel very good about the momentum in the business, and we will remain focused on our medium-term growth objectives that we laid out at our November Investors Day. We look forward to providing our outlook next quarter.

Thank you, and I will now turn it back to the operator for Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We will take our first question from Peter Christiansen with Citi.

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

Congrats on the solid execution this quarter, guys.

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

Thank you.

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

Carlos, I have one -- I had a question about -- for a number of quarters, we talked about ASO, HRO becoming a larger contributor to ES. Just wondering if you had any thoughts on how that's contributing to the stickiness of retention at this point?

And then as a follow-up, given all the UI upgrades you've given across the platform, how does that translate to growth to add-on services? I'm thinking even things like a Wisely, those sorts of ancillary value-added products.

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

Sure. I'll take the first part, and I'll let Maria take the second part. On kind of the HRO business within ES, which, as you know, is kind of our full outsourcing solution or without the co-employment, the growth there has been quite robust on bookings, which obviously then is driving really robust growth in revenues.



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The interesting thing about that business, I mean, you have to -- you almost have to call out, it's nice to be able to do it publicly, is unbelievable execution. Because in our business, when you get that kind of growth that quickly, it's very, very hard to manage. But somehow, they've managed to stay ahead in terms of headcount hiring for both implementation and service.

And the business is just really performing incredibly well. Retention rates are holding up. Not just holding up, I think they are up versus the prior year, which was already a strong year, and I would say, contributing to the overall improvement in retention and stickiness.

So I would say that, that is probably -- I would get in trouble for saying this, [because I find] from all the other businesses, but that's got to be one of the star performers now. The PEO, obviously, is doing incredibly well also, and you can see that as a separate segment.

It's a little harder to see the HRO business. It's also getting big. I think, if I'm not mistaken, it's probably never publicly disclosed, but it's getting close to $1 billion in revenue. So that's a pretty solid business with -- again, without -- I'm probably not right to give you too much detail, but revenue growth is strong double digits, very strong double digits, with the 2 in front of it, say, and bookings growth is incredibly robust as well. Retention is strong. It's just really performing very well.

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

With respect to the new user experience, so I mentioned a bit about it during my prepared remarks, very excited, obviously, about the impact of the user experience across the entire portfolio. In terms of what it's going to do with respect to attach, I think you mentioned Wisely and other attach. It's hard to tease out specifically the impact of the new user experience at this point in the quarter or even for the year as it relates to any material impact to bookings or to attach.

However, we definitely believe in what we've developed and the impact it's going to make. So just to give a tiny bit more color. The new user experience is really based on a research-driven design. That research-driven design included our clients as well as our prospects to create a user experience that's very action-oriented in its navigation.

What that means specifically is the ability to move through the process payroll, if you will, or to your question, the ability to buy and attach in a very action-oriented navigation, which means you don't really need to know what's next in order to move through it. It also leverages artificial intelligence as well as machine learning to create a very personalized experience for the buyer or the user, if you will, so that it remembers how the specific individual likes to navigate through the system and serves it up that way in following subsequent sequences of usage.

So the other part that we're very excited, I mentioned rolling out the new user experience across the ADP Mobile App. The mobile experience, one of the things that will really become a competitive advantage for us, is the fact that the mobile experience will be not just for the end user, such as that person that would actually purchase Wisely, but also the practitioner.

And so it's a fully web-enabled user experience using the new user interface will certainly lend itself to a better competitive advantage for us in the future. And so as you can tell by my commentary, very excited what this is going to do for us, both as it relates to our sellers being able to demo and gain volume there as well as our buyers and clients being able to engage in something a lot more user-friendly, so that we can attach more business.

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**Operator**

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

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

Great results, for sure. It looks like you're taking some share again on the PEO side. I just want to make sure I understood, the PEO revenue growth coming in beneath WSE growth, I know you said it was unusual. Some of it was benefits participation and salary driven. But just trying to understand,



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is that more of a mean reversion change that you're talking about? Or is there a quality sort of a focus that maybe we should be honing in on? I'm just trying to better understand that trend and if it might persist for some time.

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

Listen, I'm glad for the question, and I'm also glad for the answer, right? Because mean reversion is my favorite term in business. Because when you get into large businesses and large economies, that is -- it's a powerful force in the universe, and that's exactly what it is.

If you remember, this happened with some of the data that was reported by the Fed and by us in terms of employment, that in the initial stages of the pandemic, the jobs that went away the most quickly in terms of quantity were kind of lower-wage jobs that, in general, don't have high benefits participation rates. And even though our PEO is generally white collar, the grey collar, we experienced the same thing there in the PEO. So ironically, at that time, it looked like our benefits per employee, worksite employee were rising, but it was really because of the averages and because of the mix shift.

And now we have this mean reversion, where, even though the white-collar jobs are growing and wages are growing, like everything is going exactly as you would want and expect in the PEO, you have this unusual thing because of the pandemic, with a lot more jobs coming back that are people who don't have benefits. So it makes the benefits revenue grow slower than the worksite employee number, but it has nothing to do with any kind of policy change or change in kind of our philosophy or what is really just a normalization back, in my opinion, to where we were before.

We're trying to assess kind of how long that takes, and it's probably another quarter or 2. There's a second factor that I think that's contributing to this, which is that state unemployment rates are coming in a little bit lower than we had expected because some states -- because of the strong employment market. Even though they initially raised unemployment rates because they thought that we're going to have big problems in terms of people filing for unemployment, obviously, now with what's happening, it's going in the other direction. And a few large states have actually lowered unemployment rate.

That's not -- it's a factor that's not a huge factor. I think that the mix shift issue is mathematically -- and this mean reversion is 95% of the explanation. By the way, we don't necessarily mind it one way or the other because, as you know, we treat benefits revenue as a pass-through, so there's really no profit and no margins. So it's really not relevant for us in terms of how we manage the business, other than we have to explain it to, obviously, our esteemed analyst community.

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**Operator**

Our next question comes from Bryan Bergin with Cowen.

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

Question on bookings. You cited an acceleration toward the high end of the range in 3Q, and you're tracking below that in the first half of the year. So I'm curious, what were the key drivers of that better performance you saw in 3Q? Was it larger deals that were converting or some improvements in sales force productivity trends? And then just on the outlook for the fiscal year, it sounds like you're confident that momentum here is carrying through as well as, I guess, the removal of potential Omicron conservatism? So I just wanted to clarify if that was fair.

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

Fair enough. We did see strength in the third quarter. As you mentioned, we saw strength that was in line with the higher end of our full year guidance in the third quarter, specifically, so an accelerated result. We expected that, and we delivered that. We did see strength in our downmarket businesses, so specifically the RUN platform sales as well as retirement services. We also saw strength in our international business.



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And then last but not least, I think Carlos mentioned during his prepared remarks the strength that we found PEO bookings, but the entire HRO portfolio, which is what's reported in Employer Services, did have specific strengths. So again, that's the downmarket: RUN, retirement, international and the Employer Services HRO. That's where we saw the strength in terms of how we feel stepping into the fourth quarter.

In terms of in quarter, the strength that we saw was actually delivered towards the end of the quarter, if you will, in March, and that really gave us the confidence to narrow our guidance heading into the fourth quarter and feel optimistic as we step into the fourth quarter with respect to the overall macro environment. And so you mentioned the -- the Omicron that we [nodded] to last quarter. We didn't see that materialize.

And as we sit here today, the economic tailwinds that we see in the market, the challenges that businesses are facing with the increased complexity of new legislation and the tight labor market. There are a lot of things that are out there that are giving us the confidence that we will continue to execute in the fourth quarter. And as such, we felt it right to narrow the guidance range to the 13% to 16% for the full year outlook.

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

And just as a reminder, when we talk about bookings, and I think Maria mentioned it, and I'm sure all of you remember that we really talk about ES bookings. It was several years ago that we changed our approach to disclosures because we thought that disclosures in the PEO were -- we're better in a format where we really talked about growth of worksite employees. It's very easy to kind of do the math in the PEO when you talk in those terms. But to be crystal clear, if PEO bookings were included in overall bookings, they would have been meaningfully higher for ADP.

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

Okay. That's helpful. And I know you don't want to quantify fiscal '23 outlook yet, but I'll give this a shot. What are some of the puts and takes we should be thinking about for next year? Anything you want to call out as it may relate to comps or dynamics from this fiscal year that may not necessarily carry forward?

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

Yes. I think that, first of all, no specifics for '23. We're going to wait until the next earnings call we have before we give more color on '23. But as I said earlier, we we're very comfortable with the fundamentals, and we think we're in a good spot. We've overcome some of the challenges that we referenced last quarter in terms of making sure we're appropriately staffed for the bigger business we now have. We did that well going into the busiest quarter of the year. So that's all in good shape.

Certainly, you guys are probably better at the numbers than me on the -- what's the potential impact from flow balances, et cetera. Certainly, it's pretty clear that we will have higher client fund interest next year. However, how much, we were not quite sure yet. Even though we're seeing rates go up, certainly, there's lots of volatility in the rates.

There's certainly lots of things going on. So I'll come back to the way I ended my prepared remarks, and that was that we very much will be mindful of what we shared with everybody at the Investor Day in November, and we will make sure that we have those targets in mind as we prepare and we get ready to release more information on '23.

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

And it's a non-GAAP term, but it's safe to say that client funds interest will be up a lot.

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**Operator**

Our next question comes from Eugene Simuni with MoffettNathanson.



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**Eugene M. Simuni** - *MoffettNathanson LLC - Analyst*

I'll start with a macro level question. So ADP obviously has its finger on the pulse, with very large [slice] on the U.S. economy. So it's always very interesting to hear you guys' perspective on kind of a real-time read of what's going on across the different pockets of your client base, especially now that we're experiencing kind of volatile macro environment. Would you mind providing us with a little bit of that commentary, what are you seeing today across your client base markets of strength and weakness?

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

Sure. As you know, we obviously -- our commentary is generally focused on the labor markets. Like this morning, I was hearing reports about what's happening with consumer spending, which is quite robust. That obviously ends up having an impact on the labor markets because people who are in the service sector or people who are serving consumers end up hiring people in order to fulfill those -- that demand. But generally speaking, our comments are really around labor markets.

And as you can see from our pays per control growth, some of which is related to the previous question about comparisons, right? Like the comparisons are easier, and they will get harder next year in terms of percentages. But the percentages don't matter as much as the absolute numbers, right? And the absolute numbers are strong, I think, are robust. And I think as we alluded to, the labor market is almost fully recovered.

We obviously keep an eye also on things like GDP, GDP growth. I mean absolute GDP dollars have already surpassed pre-pandemic levels, and they're kind of in line to get back to trend growth or exceed trend growth on a real basis, right, which -- because you have to factor in, obviously, the fact that we have some higher inflation now. So I mean, our perspective, generally, is that the economy is very strong, like based on things that we're looking at in our business. But we obviously live in the real world that we have to think about the next quarter or 2, but also about 12 months from now and 24 months from now.

And Finance 101 would tell you that increase in interest rates that are expected from the Fed and they have already been priced in, which are helping our client funds interest on the 2-year, 5 years, 7 years and 10 years, I think will all slow, at some point, the economy, which is the intention, I think, of the Federal Reserve to get inflation under control. Having said all that, you have to make your own decisions on whether or not that will be navigated appropriately to a "soft landing."

But we had years from 2011 through or, call it, 2010 through 2020 before right before the pandemic of what I would call relatively -- historically speaking, reasonable growth in GDP, call it, 2%, 2.5% GDP growth, gradually recovering employment. So if we go from 3% or 5% GDP growth to 2.5% or 2%, we like that. And I think we've delivered some pretty outstanding results for all stakeholders during that kind of period of time. So we would not like a recession, just like no one else would like a recession.

But I think if you believe that the best is behind us, that doesn't necessarily mean that things are not going to be good going forward. Because we -- all the indicators we're seeing right now are really strong underlying labor markets. And we also have in the U.S. an administration that will be in the seat for another, call it, 3 years despite what happens in the midterm, that is generally more favorable towards employment regulation and -- and that, I think, is a favorable tailwind for our business as well in terms of just on a macro -- on a very macro level.

So I think we like the environment. If -- the best scenario for us, frankly, which would be a home run, is that growth gradually slows not to the point where there's a recession, but where interest rates stay at the rates that they're at, particularly like kind of the 3 to 5 and the 7 years, and that really is a pretty large tailwind for us from a bottom line standpoint.

**Eugene M. Simuni** - *MoffettNathanson LLC - Analyst*

Got it. Got it. Very, very helpful. And then quickly for my follow-up, staying with the macro theme, inflation is obviously running high. So maybe for Don, can you give us a quick overview of how inflation you think influenced -- impacted your results this quarter? What were the puts and takes in the P&L from inflation?



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

Yes. So we've done a couple of things over the last quarter. As we said, we were going to on the last call. And we did an off-cycle salary increase to make sure that -- we kept our associates happy in whole. So that was positive. We also had some bonus programs and some sales commissions-accrued programs that were certainly anticipated and booked in the quarter. So we are -- from a cost side, we were able to do those things and still delivered the improved margins. So we think that was very positive for us to do.

The other side of this, of course, is price increases, and 2 aspects for the price increases. Certainly, we haven't yet -- although planned, we haven't yet initiated large price increases with our installed base. We will make sure that we do those things, accordingly reflecting inflation, and most importantly, reflecting to make sure that our clients still get great value from us in a competitive environment.

And what we did do, though, and we signaled this in the last call as well, we have increased the pricing on some of our new offers, the offers we -- the sales we had in the last quarter. But that's having a very minimal impact on Q3 and certainly won't have an enormous impact on the full year either.

So we are making sure that we're focused on pricing, both in the base and with new opportunities and new prospects, and making sure that we're adjusting our wage levels to keep our employees and deliver the good service that we've delivered that is contributing to the high retention rate that we have.

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

And the only other thing that I would add that we may not always directly link to inflation is, with some beating the dead horse here, but the client funds interest, obviously, inflation is what's driving these higher interest rates. It also happens to also drive higher balances. A lot of our balances are driven by our tax business, but wages, some of those taxes capped. But for example, federal withholding taxes are not necessarily capped. So the more people get paid, the more taxes we collect and have to remit to various agencies.

And wages are a portion of our float balances. And clearly, there is an impact from there. The overall wage inflation, forget about our own inflation that Don is referring to, but the inflation in our client base in terms of their own wages of their employees, is really driving -- is helping our balance growth, for sure.

But more importantly, it's obviously driving a belief that interest rates need to rise rather rapidly, which is now being already factored in into -- even though the Fed controls obviously set funds rate, you can all see what's happening with the 1-year, 2-year, 3-year, 5-year and what the expectation is for -- that's all related obviously directly to inflationary expectations.

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**Operator**

Our next question comes from Kartik Mehta with Northcoast Research.

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

I was just hoping maybe to get a little bit more on the pricing comments you made. If you look at pricing and compared to what you anticipate getting and compared it to historical levels, what will be a good way to -- are you able to kind of quantify that or maybe just a good way to think about the opportunity ADP has going forward?

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

I think the safest thing for us to say right now because, as Don said, we really haven't finalized that yet as we have not finalized our '23 operating plan. So I think Don was giving you kind of directional color, which is 100% accurate.

We've been doing a lot of work, and Maria and the team have been doing a lot of work on what's the appropriate pricing policy, if you will. Don mentioned the fact that on new business, it's relatively easy because that's something that we control timing-wise, whereas price changes to the book of business, we have a cycle that we go through, and we decided not to do anything unnatural or out of cycle. So that decision is still kind of in front of us.

But I think Don used the word competitive. We do not live in a vacuum, and so we are going to do what's appropriate based on what's happening with inflation, but also with what's happening with competitors. So we're going to be watching very carefully what everyone is doing from the -- obviously, from the sidelines since we obviously don't have any direct insight into what our competitors are doing. But you get competitive signaling, and you get hearsay here and there.

So we're looking at all those things, but it's safe -- I guess, the best way to describe it is, whatever our price increase had been historically, and it was probably consistent for almost 10 years in terms of kind of what we were telling you in terms of what it represented and as a percent of revenue, it's safe to say that, that's going to be higher.

And you kind of have to draw your own conclusions that if inflation was 2%, and now it's 4% to 5%, you could infer because our costs, not just our wage cost, which Don alluded to, we've already had to kind of build in higher costs for our own associates, we have other costs. We have other services and other things that are being provided to us that are like every other company, and we got to cover those costs. I think our philosophy is we would like to be in line with what's happening in the market.

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

And then just one last question. Just on the broad portfolio, any thoughts about changing how you manage it or going shorter or longer, just because of where rates are and the volatility, at least, in the near term?

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

We get this question often. And at the end of the day, we keep coming back to the same thing, and that's the safety, diversification and liquidity of what we invest in. So it's unlikely we're going to make any major changes to the way we invest funds.

I think we want to be -- we want to certainly do well with our portfolio, but we also want to be prudent, and so we'll continue to do that. So there's really no impeditive or imperative for us to make any changes to the way we've been managing those funds in the near, mid- to long term.

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

And I think it's also safe to say that our philosophy is that we run an HCM technology services company. And this is a really nice side benefit that for however long we've been in this business, we have this float income, and it goes up and down based on interest rates and the economy and so forth. And I think compared to 10 years ago, it's a much smaller portion of our bottom line. And so that is both good and bad, right? I would have enjoyed my life and my tenure a lot more had interest rates not been as low as they were for as long as they were.

But having said all that, it puts us in a much better position where it's much more clear now that ADP's core earnings are not driven by fluctuations in interest rates. And the reason we ladder our portfolio is primarily because, as Don said, about safety and security and liquidity, but it's also because philosophically, we're not trying to gain the market. We're not trying to time the market. We are running an HCM technology services business, and that's our focus.



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**Operator**

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

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

Nice results on margins in the quarter. You guys beat our number pretty handily despite, I think, a headcount increase. Could you help us think through the puts and takes with that performance in terms of sales productivity or other drivers? And also sort of how you're thinking about those primary levers for margin expansion as we move forward.

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

Yes so as I said a few minutes ago, we were very happy with the ability to hire quite a number of service implementation people going into this -- going into the third quarter because that's obviously the busiest time of our year. So we made sure that we got as many people in as we could, and we did quite well.

And I think the retention rates are suggesting that we've continued to do a good job on behalf of our clients because they're sticking around. So very, very positive. Going forward, I think as we -- once again, coming back to the plan a little bit that we're still putting together, but certainly, as we continue to grow, we'll continue to make sure that we staff accordingly.

And really not too much color to add there other than we've been successful at the hiring, as we said we would be. And it's not going to -- it's not going to change dramatically and have any different impact on our overall margin than what we anticipated. And I don't know -- the sales continue to go very well, doing very well. We've talked the last time about productivity and things reverting back to means. And I don't know, Maria, if you want to make a comment about sales productivity, we've had -- said good results.

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

Yes, happy to add there. the investments that we're making into the overall sales ecosystem continues to be very balanced. So it's really all about the seller enablement. So as mentioned many times, we have this world-class sales force that's out there directly distributing our products, and we enable them with an entire ecosystem of modern seller tools.

That's definitely where we spent the last couple of years investing, especially as clients continue to pivot between wanting in-person and virtual. So seeing great productivity there. Also seeing investments in brand and marketing and advertising. That's a big piece of the balanced approach that we take. And again, I don't see huge shifts in terms of the balanced approach that we're taking, but it is really an area that we continue to invest.

I should mention, too, in that laundry list, digital advertising. So that's an area that we continue to see significant performance year-on-year in our downmarket and our mid-market in terms of the execution there. So all of these things are really about continuing the approach that we've had to enable the strong sales execution that we've seen this year and going forward.

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

One last thing on margins that I would add because I think it's something that we've been for years talking about is -- just a reminder that the overall ADP margin does get impacted by the mix of PEO and the growth rate of PEO compared to employer services.



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So from a GAAP standpoint, we do include zero-margin pass-throughs, and we believe that's the right approach. And I think the SEC believes that's the right approach. But I think, clearly, if you took out zero-margin pass-throughs from the PEO, you'd have a very different margin profile of that business, and hence, you would have a very different margin overall for ADP.

I only raised that because it is important to look at those 2 separately because you do have a mix shift issue that happens that doesn't necessarily tell you what the underlying strength of those businesses are. And that sometimes helps us in terms of our story, sometimes it hurts us, but it's the appropriate thing to guide you to, to look at. Because in this case, for example, the underlying margin is much higher because of the pressure that we're getting from zero-margin pass-through as a result of that mix.

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

Okay. That's very helpful. And could you comment on or update us on your sort of M&A and/or capital allocation strategy? And just in the context of the current macro backdrop, are you seeing the opportunity -- M&A opportunities change? Or how are you framing that up internally in terms of your priority -- prioritizations?

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

Yes. So I'll just start with opportunities. Certainly, as always, there is no shortage of things floating around and things to assess and review, et cetera. So we continue to do that. But as Carlos has said, and we've said over a long period of time, if we're ever going to do anything other than a tuck-in here and there, which we had -- we did have one in Q2.

But other than tuck-in here and there, we're very disciplined in making sure that we're just not adding additional products, where we already have products, and making sure that we can keep our portfolio as clean as possible. So we continue to look at opportunities and evaluate things, and we'll make the right choices when the time -- should the time come.

On the -- just in terms of our overall philosophy, I don't think we've changed our philosophy. We continue to be committed to the share buybacks that we've committed to. We have committed to dividends in the 55% to 60% range. Although we were a little bit higher, I think we were 61% last year, but we're committed to that 55% to 60% range.

The -- even though the markets are off -- just back to opportunities for M& a little bit more. Even though the markets are off a little bit, and I think that the valuations that are out there are still quite high, the expectations at a number of people who are looking to do something with their current operations, their expectations really haven't adjusted to or reflected to what we're seeing in the market. So it's not any easier yet. But we will watch, we will evaluate. And if we see something or things that make sense, we'll do what's appropriate.

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**Operator**

Our next question comes from Mark Marcon with Baird.

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

I wanted to dig in a little bit on the bookings commentary. Can you talk a little bit about, with RUN, you saw strong growth there how much of that was new businesses versus competitive takeaways? And how would you characterize the competitive takeaways?

Are they from your biggest competitor in Rochester? Or are you seeing more from locals and regionals that haven't been able to keep up with the technology changes? Just any sort of depth there.



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And then can you also talk a little bit about the retirement service solutions that you have and what you're seeing there. And lastly, can you discuss a little bit what you're seeing with regards to Workforce Now and the mid-market?

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

So happy to be the one to start here in terms of the strength in bookings. So specifically to RUN, Mark, I think in terms of the commentary around the competitors in Rochester and others, what I would say there is, our continued focus on competitive takeaways has not waned. In terms of the strength of actual RUN sales and bookings performance, it's partially anchored in the amount of new business formations that we've continued to see. And so there is definitely strength there, but certainly not for a lack of interest in the competitive side of the house.

To touch on retirement services for a minute as well, since you asked about that, I would say there's definitely tailwinds there in terms of attach specific to our RUN portfolio. And so as you're aware, significant legislative changes that have happened in the retirement environment state by state, and that's yielded, say, a tailwind for us in terms of the offer that we have.

And certainly, that makes an impact in terms of our ability to sell new logos as well as competitive takeaways because the combination of RUN and retirement and that, in this type of an environment, is an incredibly compelling to compete out there in the market. So I don't know, Carlos, if you have anything else to add to that.

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

No, I mean, we try to stay away from, obviously, any kind of -- making comments about specific competitors, but I would say that, specifically in SBS, we do watch this kind of balance of trade very carefully. And I think -- I talk about it every quarter in terms of it's important to me, like one of the most important things for us in terms of long-term sustainability and durability of our business is market share, it's really being able to grow units. We also love share of wallet, and we love to sell additional business, et cetera, but that's -- that's important to us.

And at least the figures that we're seeing in terms of our large national competitors, our balance of trade remains positive and improved in the third quarter versus the second quarter. So that, that to me tells me that I think we're still, I think, in a good place competitively and that we're doing all the right things.

But having said that, it's a very competitive market. There's no question about that. And everyone, I think, has -- including some of our national competitors, have good products and good go-to-market strategies. And we are in the trenches every day competing in trench warfare with some of those competitors. We feel pretty good based on the data that we keep track of, that we are doing well in terms of balance of trade and also in terms of market share.

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

And Mark, you asked about Workforce Now bookings. So we shared color on some of this already. But in addition to the HRO business, which is doing really well and uses Workforce Now, and then the PEO business has also used Workforce Now, there's just the mid-market HCM solution. We didn't call it out, but that also did very well, double-digit growth.

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

And I think the other last one you asked about was retirement services, that business, as you probably know, has some significant tailwinds because of regulatory changes that are going to get -- they're going to become potentially gale-force winds in terms of with the new, I think it's called Secure 2.0 or -- because I think the first one was the Secure Act. It looks like it's going to make its way through Congress with bipartisan support.



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And the first wave and the first version of that has already created some strong demand, in addition to what was already happening at the state level, where several states were requiring small businesses to mandatorily require to provide a retirement plan. So all those things are tailwinds for that business. And that would be one of those businesses that I would describe as doing incredibly well, but trying to keep its head above water to meet demand.

It's a good problem to have. Trust me, like I've been around long enough to know, these are -- this is a good problem to have. But it's still a problem, and so we're busy adding resources and trying to be appropriately staffed in our RF business because it's definitely a growth engine.

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

Can you size it, Carlos, in terms of -- I mean, we were aware of the coming gale-force winds. Just wondering how meaningful it's going to end up being to you on the whole.

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

I would say, it is a general range, so you have some sense, it's smaller than the HRO business, for example. So you shouldn't assume that we have a $1 billion business, so you don't start getting too many images of grandeur. But it's a big business, call it, maybe somewhere around half-ish of that business. I don't know if Danny, before I get into trouble...

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

We'll just say hundreds of millions.

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

Hundreds of millions of dollars, but growing, I think, also at one of the faster rates, I think, in terms of our businesses here, and both for bookings and for revenue.

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

Great. And then the follow-up is just, Carlos, you mentioned your non-GAAP description in terms of interest income on the float for next year. How much of that -- when we take a look at the Analyst Day discussion and the margin discussions, we typically look at the margin expansion ex float, how much of the float would you let flow through? I know you aren't giving us the '23 guidance. But just philosophically, how are you thinking about that?

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

Well, first of all, philosophically, we don't hide anything. So as you know, there's a nice little schedule that we include that allows everyone to do the math. And so next quarter, you'll -- I'm sure you're going to do the math, and you'll ask us how come you are or aren't allowing x percent to flow through.

Because the math is actually fairly straightforward. We give you the balances that are maturing in that year because since we ladder, the only relevant issue is really what's maturing as well as new money invested in that year, which is what benefits from the higher rates since we hold to maturity. And you'll know what -- we'll give you a forecast of what our balance growth is going to be, and we'll also give you a forecast of what yields are going to be in the next year.



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So you'll have all that math, and it will be very easy to do. And then what you'll have to do is quiz us on what the other side of the ledger in terms of what are the other factors in terms of that led to the final reported or, in that case, guided net income figures or EBIT figures. And I think one of the things that's changed from Investor Day is that there's no question that interest rates are way up, and client funds interest -- our forecast for client fusions would be much higher. Because you can do the math, just like we can.

The other -- the variable that we want to take another quarter to make sure that we think through and that we finalize our plan before we communicate is that inflation is also way up in multiple ways, including on wages, as Don alluded to, right? So when we had Investor Day, we had not yet taken this action of an off-cycle merit increase or wage increase. We had not yet -- which we are now fully accrued for some of our incentive bonuses, which are driven primarily by performance but come in handy when you are competing for talent and trying to hold on to talent.

And so those are all things that we have to kind of weigh now. And then the last factor being, I think Don talked about price increases, where does that finally land will also have an impact. So there's a few more moving parts than I think is typical for us. And I think it's just -- it's important for us to make sure we add it all up and wrap it all up. But one thing I can guarantee you is you will have transparency.

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**Operator**

Our next question comes from Jason Kupferberg with Bank of America.

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**Mihir Bhatia** - *BofA Securities, Research Division - VP in Equity Research & Research Analyst*

This is Mihir on for Jason. I wanted to ask about the competitive intensity and pricing actions. Maybe just talk a little bit about the pricing and promotional environment that you're seeing currently? Are we back at pre-pandemic levels and the pre-pandemic trends? Any changes worth calling out in the mix or aggressiveness of competitors and/or particular segments? Even I know you compete across a lot of different segments, so anything you can help us there?

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

Yes. So Carlos alluded to the competitive intensity. I think he called it trench warfare, and that's certainly the case. I think in terms of being back to pre-pandemic levels, with respect to pricing and promos, we're definitely seeing the competitive intensity that would be reflective of prior years, both as it relates to the trench warfare as well as the pricing element of it.

So I think it's fair to assume that it's still very competitive. I think that's part of the reason that, as we think about our price increases, whether it's on the new business side or on the existing client base, we're being incredibly thoughtful market by market, call it, country by country, segment by segment, product by product, to ensure that we continue to remain thoughtful in terms of the overall price value equation that does keep us remaining in a competitive pricing environment.

So I would say that the intensity has not waned. It continues and very formidable competitors out there. And we're confident that we continue to win in the market and that we continue to take a balanced approach on the price value equation.

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**Mihir Bhatia** - *BofA Securities, Research Division - VP in Equity Research & Research Analyst*

And then just maybe turning to the growth in average worksite employees. Can you talk about what is driving the strength you're seeing there? Is it in particular verticals? Is it broad-based? Any additional color you can provide there?

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

Well, I think the -- probably the biggest picture -- the answer is no, there's no specific verticals or we're too big and too diversified to really -- it's not geographic or verticals or all that. It's basically very strong bookings with very good retention and also growth of the client base.

This pays per control that we talk about in Employer Services, you have the same phenomenon in the PEO, where the clients themselves are recovering, right, and hiring at a faster rate than they would have been because they had either shrunk or hadn't hired during the pandemic. And so that is a tailwind also for the PEO. But the biggest factors are sales, minus losses, and then what's happening with the base, which is obviously strong.

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**Operator**

We have time for one last question, and it comes from the line of James Faucette with Morgan Stanley.

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

Great. I wanted to follow up on a question, and it has to do with the competitive intensity. But I guess, previously, you talked about you had some expectation for a slight retention deterioration. But that isn't playing out, and in fact, it seems like your outlook is improving. You mentioned mid-market and international were main contributors, but are you seeing anything also in terms of business closures in the downmarket that's performing better? Or any other contributors that are helping out there?

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

I think the best way to describe it -- that, by the way, was all accurate, like we're really happy with international, but also, in particular, the mid-market. I think we kind of underestimated -- as usual, there are multiple moving parts. So you had the pandemic at work. And so we were looking at kind of our historical trends and thought there will be some normalization within the mid-market.

But we also had forgotten that right before the pandemic -- not right before, but 12 to 18 months before the pandemic, we completed our migrations onto 1 single platform, which is our modern Workforce Now platform, huge process improvement initiatives that were led by John Ayala and the team there that really improved the underlying strength of that business, right? So then you get into the pandemic and you get that noise.

Now you come out of the pandemic, and there's no scientific way to pull all that apart, but it does feel like our mid-market business has a new floor, if you will -- or not floor, it's not the right way to describe it, but a new level of retention that's higher than it was before. That's at least, right now, the way it looks in our hope going forward. So that's really good news.

The other item on the out of business that you're mentioning, which is really more of a downmarket question, we, again, are big subscribers to the school of common sense, and it's playing out kind of the way we expected. Because if you look at the reported level of bankruptcies from government figures, they're pretty flat. But that really is not the way the small business market works that everyone declares bankruptcy. Like some people get into business, and they stock their business, and they never declare bankruptcy. So that is a good proxy, and it's one indication, but it's not the only one.

And so we have seen some normalization in that downmarket business because of what we call noncontrollable losses, right, which would include out-of-business bankruptcies, all of the above. It's a big enough factor in that segment that it's impossible to believe that it wouldn't normalize, which is why we planned the way we did. The good news is that it hasn't normalized as fast as we thought.

And the other part of our business, the controllable losses have performed better than we expected. And so net-net, we are in better shape than we thought. But just because you have the second best retention you've ever had doesn't mean that it isn't down from the previous year. And so



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I just wanted to be crystal clear on that because others may have a different perspective on that, which would defy, I think, Finance 101 theories and so forth.

Because the number of the -- the percentage of losses related to the economy and so forth are just significant in the downmarket. And so when you have this unbelievable tailwind, when you think about the amount of stimulus that was put in with PPP loans and so forth and stimulus checks. Remember, some of these small businesses are just like consumers. They're 1-person companies or 5-person companies. And when they get a stimulus check, that's like a stimulus check going to their company.

That stuff is all coming out of the system and interest rates are going up, it will normalize, unfortunately. But you see the outcome, net-net for us, which is still incredibly gratifying and way above what we would have expected.

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

Just to clarify that. That second best comment, James, was with respect to the downmarket only. Overall, it was an all-time high.

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

Sorry. Yes, I mean -- thanks, that's right.

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

Yes. And then -- so does that -- so should we interpret it then to mean like as far as the -- that we should still expect some deterioration, particularly as that downmarket normalizes? Because that hasn't happened maybe as fast as you thought, but the drivers are still there, whereas on the mid-market, you're feeling better that your new platform can actually help prevent or improve that retention versus what you thought. So you kind of have 1 thing that's permanent and 1 that's still to happen, and net-net, there may be still some deterioration, but not as much as you thought. Is that a fair assessment?

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

I think that is a fair assessment that you should stand by for further details next quarter, for next calendar -- next fiscal year because I think we gave you enough color. We just -- what you just described is exactly what we expect to happen for the fourth quarter, and you see the outcome in terms of our overall guidance for retention. But I think what's more important for you guys is, I hope it's not just next quarter, but the next year, and I think we'll have another several months of information by then.

And we have some other businesses. I talked about the -- our HRO business, our FBS, I mean, there's other businesses that are frankly outperforming outside of kind of the economic factors and the mid-market business that are outperforming. So it's really not appropriate yet to jump to any conclusions, but I think your general thesis is exactly correct.

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**Operator**

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

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

Well, thanks for all of you for joining us today. I hate to end on a down note here, but I think it's important for us to acknowledge what's happening in the Ukraine and express our sympathies for the folks that are in the midst of that conflict. We obviously, like everyone else, would like to see the



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violence end. We have very small exposure from a revenue and business standpoint in Russia and Ukraine, but we do have quite a number of associates and a decent-sized business in Eastern Europe. And so we would love to see this violence end and certainly not to spread.

We've been doing our part, along with some of our colleagues in other companies, in the humanitarian efforts to provide relief to the people in Ukraine. But what's really been most gratifying to me is not just what we've been able to do through our foundation and through ADP, but what our associates have done globally, kind of reaching into their own pockets, both to help their fellow global citizens.

We increased our match -- our matching contribution amounts for associates who wanted to provide to various relief agencies. And we had the largest, I think, reactions we've ever had to any global crisis. And it's obvious why because when you see the pictures of what's going on, and it's truly horrifying. And I mean, for me, personally, to see people leaving everything behind and children and families having to flee is personally very painful.

So our hearts go out to those folks. And we pray that all of the leaders involved can come to some sort of resolution and end the violence. But with that, I will thank you once again for participating with us today, and we look forward to giving you all the information you're looking for, for fiscal year '23 on the next earnings call.

Thank you very much.

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**Operator**

This concludes the program. You may now disconnect. Everyone, have a great day.

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