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ADP.OQ - Q1 2023 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

ADP reported 1Q23 revenue growth of 10%. Expects FY23 consolidated 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. (Operator Instructions) At this time, I would like to welcome everyone to ADP's First Quarter 2023 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 First Quarter Fiscal 2023 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 to 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 over to Carlos.

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

Thank you, Danny, and thanks, everybody, for joining the call. As you saw this morning in the news, we have a little bit more excitement than normal, but I promise you that 1.5 hours from now, we'll go back to our boring selves because we do have a business to run.

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But before I talk about the quarter, I thought it was appropriate to just share a few thoughts given the transition from me to Maria as our new CEO, as you know, I'm going to continue as Exec Chair, but obviously, that's going to be a role primarily to supporting Maria and also helping the Board and not really involved in day-to-day operations.

So it's definitely going to be my last earnings call, which is hard to say because there's been 44 earnings calls for me. But truly been an incredible ride. Obviously, I could thank a lot of people, one person in particular that I do want to call out is John Jones, who is going to remain our lead Independent Director. And the combination of John and Les Brun before him were incredible mentors to me, incredibly helpful in providing advice and guidance on behalf of the Board. And also -- I'm proud to call them friends. And I also want to thank Gary Butler and Art Weinbach, my predecessors who gave me the opportunity to be here today and also help me a lot in terms of making me the person I am and the leader that I am today.

I'm proud of a couple of things. I'll just mention a few. One of them is I'm proud of our growth. We doubled our revenues over the last 10 or 11 years. And today, as you know, we reached an important milestone of a million clients. So I appreciate -- I wish I could say that it was anything other than a coincidence. But however it happened, it's a great thing to have happened here on my last earnings call.

We made it through a lot of challenges, economic. We went through, what I would call, financial repression in terms of interest rates, which fortunately now, we have a little bit of the opposite situation, which we'll talk about today. So there's many QEs. I think there were 3 QEs over my tenure. And then the final straw that almost broke the camel's back was interest rates. Even on the 10-year going, I think it was like under 0.5% in the pandemic, which was really kind of incredible to see happen. We also made it through a pandemic that hopefully only happens every 100 years, and we had some dissident shareholders that also had some opinions about how to run ADP that we had to deal with.

I'm also proud of our associates. I'm proud as I've always said about their commitment to our clients and to ADP. There's something that my predecessors and the culture have around our client centricity, which is really remarkable, and our associates always step up to the plate and deliver in a business that, again, we don't get a lot of credit, and I know that we're not quite up there in terms of the list of first responders and people who save lives. But we do keep the economy going, and we do, I think, make sure that commerce worldwide operates smoothly.

So our associates are the ones who get that done, and I'm proud of them. The person I'm most proud of is Maria. She's now been tested. She's prepared. She's been through a very thoughtful and long succession process, and she's going to be what is only the seventh CEO of ADP. And I know that she's the right person starting from the ground up. I wish I could have said that because that's what makes us special, this place is special. We love to bring in talent from the outside but we have some incredible people that grow up and know this place, understand this place and know how to make it continue to hum the way it's been humming for more than 70 years.

Most importantly, she not only knows our industry, but she knows our clients' needs deeply and takes great interest in that. And that is going to serve us well as well as her growth orientation, which I think is going to be very important for ADP's future.

Last thing I'll say is that I recently told our team at a senior meeting that I tried -- I strive to be what I learned about many, many years ago, something called a servant leader. And I tried to be that way to my team and to my organization here at ADP. But I want all of you to know that I tried to be that also to all of you and to our shareholders, as much as I tried to be that way for our clients and our associates. It's been truly an honor of a lifetime to serve at ADP's CEO. And we are kind of a company that likes to fly under the radar. We kind of like it that way. So I know that nobody is going to write any books about us or they may not be even writing articles about us today, but this is one of the most successful commercial enterprises in history. All I have to do is go back and look at the track record. Most people don't do that. They don't go back and look at the 10-year to 20-year and, in our case, the 50 year. The company went public in 1961. I encourage you to look at our history, our results and our TSR and compare it to some of the greatest investors and investments of all time. And I think you'll see that ADP ranks right up at the top.

Anybody who knows me knows how much I love sports and how -- what a sports nut I am. So I was trying to think of an analogy. And I feel like not only did I join the championship team, but I won the Super Bowl being here at ADP. It's really been an incredible, incredible ride.

But right now, it's time to pass the torch. It's always great to have change, especially in a company like ADP because I know you can rely on our consistent, predictable results, but we also have to continue to grow for decades to come. And the only way to do that is to bring in fresh thinking

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and to have change. And that's exactly what we're doing with Maria. So before I talk about the quarter and the results, I'm going to turn it over to Maria and let her say a few things.

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

Thank you, Carlos. You mentioned servant leadership, and I have to say that you are truly the embodiment of servant leadership. You have always kept our North Star true, which is putting our clients and our associates first. And I know I speak on behalf of all of our stakeholders, our associates, our shareholders, the communities we serve and the 1 million clients now we have the honor of serving in thanking you for everything that you've done over the decade that you served as our CEO. So my sincere thank you to you, Carlos.

I'm truly humbled and grateful for this opportunity and certainly for the confidence, Carlos that you've given me and that the Board has given me and entrusted me with this role. I am genuinely thrilled to lead ADP. You mentioned it, and it's true. I did start from the ground up. I started with this company 26 years ago, selling ADP's products and offerings store-to-door. This ability to really see our clients from the front line has given me a vision and a true understanding of the client centricity that you mentioned that we embody as a company. And since selling 26 years ago door to door, I've served in roles all across ADP in sales and service, implementation, operations, including our PEO and SBS. I'm really, really proud of the role that we play in our clients' lives and how they trust us to really help them succeed in their HCM journey.

For the last 73 years, we've had an amazing legacy and a culture. And that culture is really anchored in innovation and it's anchored in developing and providing technology and solutions that help address our clients' needs but also help address the needs of their workers. And I'm incredibly proud to be a part of that journey as we continue the modernization that we've been undergoing over the last few years.

Of course, as you mentioned, none of this is possible without the 60,000 dedicated associates that we have that are at the center of absolutely everything that we deliver. I am committed to continuing to empower their great talent, which time and time again has reshaped the HCM industry through a relentless focus on again, solving our clients' needs and predicting their future needs.

I'm also grounded by our history and our own beginning as a small business out of Paterson, New Jersey, founded by Henry Taub, a man who simply wanted to help local businesses. Then and now, I know and I feel deeply that this core value continues to define us as a company.

So with that, thank you again, Carlos, and thank you to the Board. And now I will thank you in advance to all of our stakeholders in your confidence as we continue to build on ADP's incredibly strong results-oriented foundation. We continue to drive product innovation, leading technology. And more than anything, we continue to deliver the consistent value creation that we're known for as the leader in the HCM industry. So with that, I think it's appropriate to turn it over to the results this quarter.

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

Thanks, Maria. Speaking of consistent value creation, let me start talking a little bit about the results here so we can get to the questions. We got off to a really strong start in fiscal 2023, with strong results that reflected the momentum we've been building for several quarters now. In Q1, we delivered 10% revenue growth, 11% on an organic constant currency basis, and this was driven by strength in a number of our businesses. And on top of that, we delivered 30 basis points of adjusted EBIT margin expansion as our revenue outperformance helped us overcome elevated expense grow over from last year's first quarter as well as continued investments in the business, which we anticipated and communicated to you last quarter.

We delivered 13% adjusted EPS growth in the quarter, and we remain well positioned as we move ahead for the rest of the year. I'll cover a few highlights for the quarter before I turn it back over to Maria.

Our new business bookings, which showed continued momentum through Q1 with demand strongest in our downmarket offering like RUN and our retirement services businesses, and we also continue to see strong traction in our PEO solution. At the same time, bookings growth in our international business started a bit softer than we had hoped. We're continuing to watch the demand environment in international markets as

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clients and prospects there are dealing with a number of uncertainties, as you know. We are keeping an eye on the macroeconomic environment as well, but overall demand remains strong, and our pipeline looks solid. We'll share further updates on what we're seeing with bookings as we progress through the year.

Our ES retention was very strong with a new overall Q1 record level led by great performance in our mid-market. We accomplished this year-over-year improvement despite further normalization in small business, out-of-business rates in the quarter. We assume we will continue to experience normalization in out-of-business rates towards pre-pandemic levels as the year progresses, and we are clearly very pleased with the Q1 results that were better than expected.

Our pays per control metric was 6% for the quarter, in line with our expectations as strong hiring that our clients have conducted these past few quarters has carried through to strong pays per control growth this quarter. We continue to expect deceleration in pays per control growth later this year, and we've seen sequential employment growth begin to slow both in the National Employment Report and in public data. But that said, job postings and other leading indicators within our client base suggest that, at the very least in the short term, demand for labor will remain solid.

And moving on to our PEO. We saw a modest deceleration in average worksite employee growth rate, which was anticipated, but the 12% growth was slightly ahead of our expectations for the quarter, and we're very pleased with that growth. Demand for both our PEO and our ES and HRO offerings remains high as the value proposition for a fully outsourced model continues to resonate in the market. And in fact, our HRO businesses combined now to serve over 3 million worksite employees out of the 40 million total workers paid by ADP.

Q1 not only provided a strong start to fiscal 2023 but also represented a major milestone in our company's history. As we -- as I mentioned earlier, we crossed the 1 million client mark during the quarter. What an incredible accomplishment. We accomplished this by driving improvement and growth on a consistent basis through decades of different employment cycles, business environments and technology shifts. It's a proud moment that was made possible only because of our relentless focus on meeting the needs of our clients, as Maria mentioned, both by delivering exceptional service and providing -- leading HCM technology. And underpinning all of this is the dedication of our associates who ultimately make ADP the company it is today.

As we look ahead, we recognize the need to remain agile in this unique and dynamic economic environment. And it is certainly our hope that inflation normalizes soon without significant harm to the global economy. But if macroeconomic conditions instead prove more challenging than we'd all like, we believe our stable business model should allow us to maintain our focus on innovation and our steady approach to investment, positioning us to continue driving long-term sustainable growth for many years to come. And it's for that reason that while I am incredibly excited to have reached 1 million clients, I'm even more excited about the opportunities ahead for ADP. And I'll now turn it over to our new CEO, Maria.

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

Thank you, Carlos. As I mentioned earlier, I am also proud of the collective efforts of our associates who made this achievement possible. One of the beauties of having 1 million clients and directly serving 3 million worksite employees in our HRO businesses is that we have unparalleled insight into the needs of the HR department, and we are putting that insight to work. I'm proud to share that, in September, we won top HR product at annual HR Tech Conference for the eighth year in a row, this time for a new offering we're calling intelligent self-service.

HR departments today devote a significant amount of time to addressing questions from their workers to help better manage this volume of worker and practitioner interaction. Intelligent self-service uses predictive analytics to help proactively address common issues before workers need to contact their HR leaders. Not only does this solution ultimately improve the experience for the worker, but it further enables the practitioner to focus on more strategic items, which is a key objective for our clients.

There are a few different components to intelligent self-service. The first is something we're calling action cards, which you can think of as proactive nudges in the ADP mobile app that appear in the flow of work so that workers are alerted and encouraged to act when there's something they need to address such as a missed time punch or time card approval.

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Another component of the offering is our virtual assistant chatbot, which was previously available to our clients' HR practitioners but is now, for the first time, being expanded to workers as well in order to address their requests or questions.

And the third piece is case management, which helps with more complex problems that require HR systems. This feature presents a streamlined way to create, manage and track workers' interactions with our HR experts and quickly get to the right experts based on the workers' needs.

Intelligence self-service is designed to create a better HR experience and reduce work, and we believe we are designing a solution that can reduce our clients' case volume by 30% or more, which, of course, would be an incredibly value-add win for everyone. We have already rolled out some of these components and are in pilot for others, but the feedback so far has been very positive.

I also want to give a quick Q1 update on our new user experience. As a reminder, our new user experience represents a significant enhancement we've been making to our scaled strategic platforms using new design principles to make them even more intuitive and more personal so our users can easily leverage our solutions to the fullest. Last year, we moved clients on RUN, iHCM and Next Gen HCM as well as the ADP Mobile app over to the new user experience. And later in the year, we also moved 20,000 Workforce Now clients to the new UX.

Enhancing Workforce Now is especially important given how integral the platform is to so many of our businesses, and I'm pleased to now share we've taken that 20,000 clients last year to over 80,000 through the end of Q1 with essentially all of Workforce Now clients on this new enhanced experience.

Among other user experience initiatives, we relaunched the ADP RUN mobile app with our new UX with managers and HR practitioners of small businesses running payroll and HR while on the go. This app is a powerful tool for them, and the relaunch has been a resounding success. You can see the app and the reviews for yourself, but it's doing phenomenally well with 4.9 stars on several thousand reviews representing meaningful improvement from the experience it is replacing.

These are exactly the types of outcomes we had hoped to achieve with this user experience work, and we are very excited about continuing to roll out to more solutions within our key platforms.

From our voice of employee offering, we mentioned last quarter to our new intelligent self-service capability to our UX deployment to our ongoing Next Gen rollout, our product teams are busy and our clients are excited about the continued innovation at ADP and our overall modernization journey. We look forward to continuing to develop ways to provide more value to our clients and prospects in this dynamic HCM and economic environment and to ultimately deliver on our bookings growth goals for this year and beyond. And with that, over to Don.

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Thank you, Maria, and good morning, everyone. Our first quarter represented a strong start to the year with 10% revenue growth on a reported basis and 11% growth on an organic constant currency basis. Our EBIT margin was up 30 basis points, coming in above our expectations as strong overall revenue growth and growing clients fund interest revenue contribution as well as favorable workers' compensation reserve adjustments in our PEO overcame inflation-related cost pressures and higher-than-typical year-over-year head count growth.

Our robust revenue and margin performance combined to drive 13% adjusted EPS growth for the quarter supported by our ongoing return of cash to our investors via share repurchases.

In our Employer Services segment, revenue in the quarter increased 9% on a reported and 11% on an organic constant currency basis. Key drivers to this growth were strong bookings and retention performance we delivered in recent quarters as well as solid contributions from price and pays per control. And of course, client funds interest, which mostly benefits the ES segment, grew nicely in Q1 with 39% growth driven by a healthy 9% balance growth and 40 basis point improvement in average yield. Partially offsetting that was FX, which was a slightly bigger headwind than we had anticipated. Our ES margin increase of 50 basis points was higher than planned primarily as a result of that strong revenue growth.

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For our PEO, revenue in the quarter grew 13%. Average worksite employees increased 12% on a year-over-year basis to 704,000 as bookings and same-store pays both continue to perform well, though the same-store pays contributed less than it did in recent quarters as we expected. PEO margin increased 80 basis points in the quarter due primarily to revenue growth and favorable workers' compensation reserve adjustments.

Let me now turn to our updated outlook for fiscal '23. I think, overall, you'll find a very steady outlook compared to our prior guidance with upside due in part to higher interest rates. Beginning with the ES segment revenues, we now expect growth of 7% to 8% and driven by the following key assumptions.

First, we continue to expect ES new business bookings to grow between 6% and 9%. And as Carlos covered, we see a stable overall demand environment at this time, but it's still early in the year. And with a wide range of outcomes and we will continue to watch for impact from a potentially slowing global economy as we progress from here.

For ES retention, we were happy to deliver another strong quarter, but we believe it's prudent to anticipate further normalization of small business out of business rates as we move through fiscal '23. As such, at this time, we're leaving our outlook unchanged at down 25 to 50 basis points. Meanwhile, we will look to maintain our strong retention levels in our other business units.

For pays per control, we had healthy 6% growth in Q1, in line with expectations, and we continue to anticipate a return to a more typical 2% to 3% growth rate for the full year as employment growth moderates. As we discussed last quarter, our pays per control growth outlook assumes a deceleration in growth in Q2 and very little growth in the second half of fiscal '23. This could, of course, prove to be either too conservative or bullish depending on how macroeconomic factors develop, but it still feels like a reasonable assumption to make at this point.

Last quarter, we spoke a bit about price, and there is no change to our expectation for price to contribute about 100 to 150 basis points to our ES revenue growth in fiscal '23. Our clients understand these price increases and recognize that they reflect our own cost pressures. And for client fund's interest revenue, we now expect higher average rates compared to our prior outlook. Our client funds short portfolio will continue to benefit as the federal funds rate increases over the balance of the fiscal year, and our new investments in our client extended and loan portfolios are now expected to yield about 4.3%. Between those 2 drivers, we now expect the average yield on our client funds portfolio to be 2.4% in fiscal '23, which is about 20 basis points higher than our prior outlook. We continue to expect our client funds balances to grow 4% to 6%.

And putting those together, we now expect our client funds interest revenue to increase to a range of $790 million to $810 million in fiscal '23, up $70 million from our prior outlook. Partially offsetting this revenue upside is higher short-term borrowing costs associated with our client funds extended strategy. With higher expected commercial paper and reverse repo rates over the rest of the year, we now expect the net impact from our client fund's extended strategy to be $720 million to $740 million in fiscal '23, up $45 million from our prior outlook.

One last factor to consider in our ES revenue outlook is FX headwind, which has unfortunately become a more meaningful drag over the last 3 months. We're now factoring in an FX headwind closer to 2% for fiscal '23 ES revenue up slightly from our prior assumption. For ES margin, we now expect an increase of 200 to 225 basis points, up 25 basis points from our prior outlook. We continue to expect our margins to benefit from our strong revenue growth outlook, including growth in client fund's interest revenue, and we're pleased to be able to increase our outlook accordingly.

Moving on to the PEO segment, where we're making very few changes. We continue to expect PEO revenue and PEO revenue excluding zero-margin pass-throughs to grow 10% to 12%. The primary driver for our PEO growth is our outlook for average worksite employee growth of 8% to 10%. We now expect PEO margin to be flat to up 25 basis points in fiscal '23 and narrowing our prior range higher due in part to the strong Q1 margin performance.

Adding it all up, we now expect consolidated revenue growth of 8% to 9% in fiscal '23 and adjusted EBIT margin expansion of 125 to 150 basis points. We still expect our effective tax rate for fiscal '23 to be about 23%, and we now expect adjusted EPS growth of 15% to 17% supported by our steady share repurchases. And now I'll turn it back to the operator for Q&A.

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QUESTIONS AND ANSWERS

Operator

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

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

First, congrats to Maria. Looking forward to seeing your touch on strategic vision here and certainly to Carlos for such a successful tenure as CEO, particularly through some volatile events in the last couple of years, for sure. I just had a question as it relates to bookings trends certainly see that the outlook is held steady. And I know that we're kind of early in the selling season. But if there's any -- just wondering if you could put any color on any differentiating trends you're seeing at this point of the year, maybe perhaps versus the last year or 2, maybe attach rates or on ancillary modules or even going to more outsourced models, you seeing any changes in behavior there?

And then as it relates to the pricing discussion that we just had, do you feel like you have any more room? It seems like your clients are responding well and things look good. But do you still -- do you think that there's potential upside to the pricing strategy? Sorry.

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

Thank you, Pete, and thank you for the well wishes. I certainly appreciate them. And as you mentioned, look forward to connecting with many of you around strategic vision going forward. With respect to bookings and really thinking through year-on-year changes in behavior, I'll comment on that, and then I'll turn it over to Don that can talk about whether or not we have more room on price.

But again, just to kind of confirm the overall outlook at 6% to 9%, we do feel confident in this outlook. When I think about how we planned for the year, and we were generally pleased with the results that we saw in the first quarter, in fact, they were actually technically a record from a year-on-year perspective.

But the thing that makes us not necessarily call that out in that way and really speaking to the continued momentum, to your question, it's really about in the context of the records that we've had, in the past few quarters, it's really been broad-based across every bit of the portfolio. And as you heard in the prepared remarks this morning, we had significant strength in our downmarket offerings. Really pleased to see that across our RUN portfolio, the small business segment inclusive of our insurance offerings, retirement offerings. We also continue to have significant strength in our HRO offerings, inclusive of the PEO. So in terms of changing behavior, I see that as constant behavior as it relates to -- those are businesses that have had continued strength over several quarters and the value proposition, both downmarket and certainly into the HRO space has been good.

I think the area, again, that we called out a little bit that we're keeping an eye on is really our international business. Now the good news with our international business is that it's a small contributor to our overall bookings. But when we look at what really happened with the international space, specifically for this quarter, we don't still actually see a macro impact. We see more of an impact of the strength that we had coming into or coming off of a record Q4. And so when you think about our upmarket business, specifically our international business, there are times that it's a bit lumpy as we pull deals forward to accelerate through the fourth quarter. And candidly, who wouldn't want to have an incredible finish and an incredible fourth quarter? But as it has for several decades, I would say that does sometimes lend itself to some of those businesses needing to continue to rebuild the pipeline.

So that's really what we think is happening. But at the same time, we're very -- we're keeping an eye on specifically in Europe, what's happening in the Ukraine, what's happening with the energy crisis. Those are watch items for us, but just kind of reiterate, we don't see any macro overall trends. We don't see changes in behavior. We see the strength continuing in the downmarket and into our HRO and PEO offerings, and we were very, very pleased with the results this quarter, and they are record results in that respect.

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Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes. And with respect to the pricing, we've been very happy with our ability to execute the price increase in the way we did. And as we've said on prior calls, we're mindful of the fact that these are incremental costs for our clients as well, and we need to be competitive. So we made sure that we've price increased and passed on the costs we have in a way that keeps our customers with us for a very, very long time.

Having said that, we said 100 to 150 basis points. And I would tell you that, currently, we're pushing towards the upper end of that range in the price increase. So we've done very well against expectations and executed, as I said, well across the business. Of course, is there more available? Good question. If we look at our client base, particularly with the large clients, we do have contractual obligations that come due from time to time. And a number of those are tied to various price indices, et cetera. So that limits the ability to do anything beyond some of the pricing indices that drive or undermine or underlay, if you will, the price that we have.

But I guess I would say we've been very happy with where we are now, and we'll always look to see if there's an opportunity. But I think that we want to make sure and that we will continue to make sure that we do what's best for ADP in the long term as opposed to being too overzealous, if you will, with short-term price increases.

Operator

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

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

Great. Carlos, I want to say, again, grateful to have worked with you and share the time and learn from you from, I guess, over 40 earnings calls and meetings and stuff. So I appreciate that. And of course, congrats to Maria. I want to just ask, if you don't mind, 100% agree from the release, Carlos led the transition from payroll to HCM. So I know you can't tell us everything in terms of what's next here, but is it fair to think the focus might be more so on the employee now in addition to the employer, in addition to modernization, maybe data? Just maybe some thoughts there would be great. Love to hear it.

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

I think that was for you, Maria, given that I'll be sitting on the beach.

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

Fair enough. Thank you for the chance to comment a little bit. Obviously, early days as it relates to -- essentially starting as early days as it relates to having conversations around long-term strategy. I think the first thing I'd like to reiterate, I know I talked about my 26 years here. I have spent 8 of those as part of the incredible management team that Carlos alluded to earlier, and has been a part of the journey that we've been on as it relates to the overall modernization journey.

So I think you mentioned the transition from payroll to HCM. That is a piece of that modernization. But in my mind, it's more broad-based than that. It's really been about the decisions we've made, everything from our strategic locations to early days of platform migrations to reconfiguring our organization to really create a technology organization. We've been actively modernizing our service organization. You hear me speak about that all the time in terms of continuing the modernization of tools but also making sure that we're taking the work out for our clients. We've been making a transition to the public cloud.

And then one of my favorite topics is the modern selling approach that we've been embarking upon that really has been going on for many years as we founded inside of sales, if you will, 20 years ago to the most recent during the pandemic, really focused on digital selling and meeting the buyers in a different way.

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So I think all of that is really about our modernization journey. And I think as I look forward into the next decade, if you will, in the next chapter, it is really about continuing the great work and the foundation that you mentioned that Carlos laid. I have a lot of passion around our clients. I have a lot of passion around the 40 million workers that they pay and how we can create value for each one of those stakeholders, both the workers as you mentioned, the clients' employees as well as our clients.

And my ultimate goal, Carlos touched on it, I think I mentioned it as well upfront, when I think about client centricity and really solving meaningful things for our clients, I think the last decade in this modernization journey has really been about setting us up to be able to deliver value in a very different way for our clients. My goal would be to continue that journey and, in the end, make sure that our clients are in love with our products and in love with the experience that they have with ADP and the true evangelists of what it is that we bring. And I feel confident in how we've been set up to embark on that journey, and I look forward to sharing more with you on it as we move forward.

Operator

Our next question comes from Kevin McVeigh with Credit Suisse.

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

Great. And my congratulations all around as well. Carlos, I guess, why is now the right time? I mean you've done an amazing job, you're still incredibly young. Just any thoughts as to why transition now?

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

Actually, it's a good question because, honestly, it's something that we started -- we were joking about it yesterday, that I started talking about this about 12 months after I became CEO. Not that I was trying to leave 12 months after I became CEO. But in case people haven't noticed, I'm like a business junkie, right? So I just love business. I also love kind of the whole idea of like a successful commercial enterprise, and you have this kind of tension in this area of succession where the longer you are around, the more you know. There's some studies out there that show that beyond a certain amount of time is really when CEOs hit their stride. But then there's an equal amount of research that shows you'll beyond a certain time, you become stale. You don't have any new ideas. You become enamored with your own ideas and thoughts.

And so I have not written the book on this, but I read a lot of books on this. And my sense was that kind of beyond 7 years was -- there was diminishing returns based on my "research." And you can see that I made it past that. And some of that was -- circumstances, I think, made it such because I didn't have any specific goal. Like I'm not trying to run out the door.

My -- the only thing I want to do is the best thing for ADP and the best thing in this case now for Maria and for our Board. And so this is a collective decision over -- I know it's hard to believe but really over a decade as to what the right timing was, who the right person was and how to position them for success and how to position the company for success.

By the way, that also involves -- we had a very meaningful refreshment of our Board that, I think, is something that has to be taken into context because it's all a package, right? It's -- the right CEO, the right Board, the right Board leadership. And so I think that bringing the Board along, I think, required a little bit more time than I had expected. So that's a long way of saying I don't have any magic answers to what the right time is. What I know for sure is not the right way to do it. There's nothing to do with my age and whether I'm young or I'm old or whatnot. It has to be done when it's the right time and it's the best thing for ADP, and I think that's what we just did.

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

That makes a lot of sense. The numbers speak for themselves. So I'll leave it there. Congrats again.

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Operator

Our next question comes from Kartik Mehta with Northcoast Research.

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

Carlos, just -- or Maria, just your thoughts on the economy. Obviously, I look at your results and things look good. I know you said maybe the second half, you're just being a little bit more cautious. But as you look at kind of the numbers now and you talk to your customers, just your thoughts on how the economy looks now and just kind of the outlook over the next 6 to 9 months?

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

So we obviously don't have the market cornered on economic forecasts. We do have a reasonable amount of data, particularly on what I would call the near-term next few quarters, I would say. But when you look at the last 2, 3, 5 years, 10 years, really, as long as I've been doing this, you have to be really careful about taking economic forecasts at face value. So you have to be careful. You have to be prepared for all eventualities. And that's why we like to call ourselves an all-weather business model because I think we actually perform, I think, through a variety obviously, better in some than others.

But I guess that's the way of saying we're not obsessed with economic forecasts because if I had taken economic forecasts at face value over the last 3 or 4 years, we would have made numerous mistakes. And I think all I have to do is go back. I know nobody does this because otherwise there wouldn't be -- economists wouldn't exist. But if you look at what economists forecast 12 months prior and then what actually happened or 20 months prior and what actually happened, that's not really the right way to run a business.

But it doesn't inform our decisions right, and our planning. And as you mentioned, what happened this year in terms of our fiscal year planning is we thought kind of common sense told us that some of these things were going to happen like normalization of downmarket retention, right, towards hopefully still above pre-pandemic levels but not at the kind of levels they were when the government was providing so much support for small businesses that you could just see it in the data in terms of the drop in bankruptcies and out of business and so forth. So we expect some normalization there.

Likewise, pays per control, it's not -- you just don't make numbers up. Like we -- if you assume that you reach kind of "full employment", and that the population and employment, employable (technical difficulty) people is growing at a certain rate, you can kind of back into kind of a normal what you think a normalized pays per control rate, and then you sprinkle in a little bit maybe there's going to be some economic weakness in the back half.

And I think what we signaled and what we have in our plan is, I think, kind of flattish pays per control growth, which to me personally is feeling conservative right now based on the -- that feel like we have this kind of continued strength into this quarter, and that typically doesn't fall off the cliff right away. But maybe that happens in the first quarter of '24 that it becomes flattish. I don't know. But I know that right now, there are definitely still -- we got back to what employment was pre pandemic, but the population also grew and the employable number of people grew. So labor force participation is still below where it was before. So there is definitely still room for some employment growth there.

So this could be a very strange slowdown, right, or if you want to call it a recession, where it's, I think Danny calls it a labor full recession where it doesn't feel like employment, at least the stuff that we look at background checks, job postings, et cetera. I mean if you look at the JOLTS, you look at everything, there's still a lot of -- we had 260,000 jobs created and that wasn't 500,000, it wasn't a million, but in any other environment, that would be like an incredibly strong number, but it's clearly slowing, but everything we see is that the labor markets remain, again, in the time horizon that we have visibility to pretty strong or certainly not as strong as a year ago or when we were in the middle of the recovery from the pandemic, but that's really more of the comparisons than kind of anything underlying. So I think we're just heading back to kind of more normal rates, but in an unusual way where the labor market doesn't appear to be the leading -- the leader in the slowdown. It appears to be people spending less on stuff that they spent a lot of during the pandemic, if I can be bold. That might be like exercise bicycles. It might be things like grills, like -- and maybe

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even, unfortunately, for a company that's close to my heart, software, right, and some things that are -- that you have these kind of, unfortunately, fluctuations of demand that we've never seen before. And so the now how do you predict and forecast how that all kind of lands in the medium to longer term. It's very, very hard for any company to do.

But specifically for us, labor is still strong. As long as labor is strong, our clients are still looking for tools to employ, to hire and to manage that labor. And we have this other little weird thing happening to us, which is really fantastic, which is interest rates are rising. And the rising in the face -- I mean, typically, when interest rates are rising, the economy is slowing, and that's exactly obviously what the intent of the Fed is. But right now, you're kind of at this point where we're getting this big tailwind from interest rates, and it doesn't feel like that's going to change again in the near term.

It doesn't mean that rates won't stop increasing, but if rates stop increasing, like, for example, like in the spring of '23, and they stay there, home run for ADP. All of you and everybody internally here at ADP make fun of me when I used to talk about how our balances in 2008 were like $15 billion and they had grown to $30 billion, but our client funds interest had been cut almost by 2/3 because of interest rates. And I used to say, "Can you imagine if interest rates go back to where they -- near back to where they were back then, but our balance is now are $33 [billion] (corrected by company after the call) and growing, I think it was 9.5% this quarter? Wouldn't that be amazing?" And that's exactly what's happening.

So I'm leaving a little bit of gas in the tank for Maria. Well, actually, I can't take credit for that. I appreciate Chairman Powell helped with that. But we -- I think we have some gas in the tank here with interest rates as well, which again, is a little unusual, but I don't know if you want to call it a hedge to our business model, but it's definitely welcome because we are -- as you know, we always carefully watch our expenses and everything in ADP, but it's a much better place to be from an ability to invest and an ability to weather when you have this significant tailwind, which is not a secret. I mean I think Don laid out the numbers, and you can do the math. It's a pretty big tailwind.

Operator

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

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

Congrats Maria. Congrats to Carlos as well. I had 2 questions. The first one, just, Maria, picking up on your comments around some of the intelligent self-service offerings. I think you made mention of the potential for customer service cases to be cut by 30%. I was just curious to get a little more color around that, what might be the time line for achieving that goal. And is that any kind of rough proxy for how much your customer service costs could be reduced over time if this is successful?

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

Thank you, Jason, for the well wishes. And I'm actually -- I'm glad you asked this question because I wanted to make sure there's clarity around that 30%. And that 30%, just so we're all on the same page, it's really about our clients being able to save that time. So this is really about serving up, leveraging intelligence, artificial intelligence, machine learning. It's really serving us the most frequent interactions that can be either performed in a self-service capacity or really performed again through this case management and really taking the work out than necessarily, call it, taking the work out of our system. It's really about giving that 30% to our clients.

In fairness, it is early days as we measure this. And when I say that, I'd say that lightly and that we did study this across our 3 million HR worksite employees, if I may call them that, that in terms of the most frequent cases that get served up and what that would yield in terms of a return to our clients. And that's where that 30% comes from. But as we launch this product and more and more adoption happens, we will be keeping a keen eye on that outcome to ensure that, that number remains true, and our hope is to continue to make progress and take more work out of our -- out of the system for our clients as they navigate the relationship between them and the practitioners and the workers.

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

Just one quick follow-up. Just if nothing had changed in the rate environment since the time of the last earnings call, would you guys have raised revenue or margin guidance for fiscal '23?

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

I think it's -- certainly, the rates helped us. But just a couple of things though to comment on. Certainly, we -- still we're performing well against our internal expectations on margin improvement. So we're still very focused on spend and efficiency of spend, et cetera. But I don't think that we would have been as -- we wouldn't have been as eager to raise expectations in the absence of interest rates, especially given it's still Q1, and we need a little bit of time to see how things progress over the next couple of quarters.

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

Well, that's fair. But I'm pretty happy with the results because we -- Don, this is just the way our culture is. So everybody is talking about all the positives that we have, like interest income and so forth. But we had some headwinds as well. Like our T&E is up significantly. Remember, last -- it's hard to remember that last year, this quarter, I think we were still in the whole Omicron thing. It was just starting and we really hadn't opened up most of our buildings. I think our salespeople were for sure in the field but not traveling and spending the way they are now, which by the way, we were very grateful that we have them back in the field.

So like there are a couple of things like T&E is the smallest of them. The biggest one is when you look at our head count numbers, it hasn't come up yet, but our sales force is I think, more than fully staffed. And as you probably heard from our comments 6 to 9 months ago, it was difficult to get there back then. Now not only are we fully staffed but our turnover is coming down across the board not just in sales but also across the rest of the organization.

So all of a sudden, if you look at our head count growth for this quarter, it is what I would call a peak and the highest I have ever seen since I've been here at ADP. That was necessary because there was some catch-up, which is why we -- I called it a grow-over issue from last year's first quarter, where we were definitely understaffed, didn't have enough people. And then all of a sudden, our revenues actually were outperforming. The number of clients was outperforming, so -- and you know how important retention is to us. So we set to basically staff up across the Board implementation, service and sales. And that's when you had that whole great resignation thing happening at the same time. And it was -- I mean, again, I don't think most companies go around talking about this, but we were trying to hire as fast and as many people as we could at that point.

The good news is we were successful. I think the better news is that puts us in, I think, in a good position in terms of staffing and sales, but also in terms of our service and implementation organizations. And now with declining turnover again, from a plan standpoint, besides planning for pays per control to be "flattish" in the second half, our head count growth declines, the growth of head count declines every quarter for the next 4 quarters. And I think that, I think, should help us feel good about this quarter and also about the fiscal year.

So I think technically, Don is correct. By the way, if you go back to ADP's 10-year history, this has been a weird 2 or 3 years like us not raising as we hadn't raised in the quarter, again, I don't know what you would have thought of that or what it would have meant, but I think that's pretty Danny maybe can confirm or tell me I'm wrong, but like we weren't in the habit of changing a lot in the first quarter because this is -- how can we say this is a predictable, stable business that we know what we're doing and then changing (expletive) every quarter. It doesn't make sense.

Now we have a pandemic, that's a different story. Like we struggled like everyone else to kind of keep a handle on what things were happening -- how things were happening on the way down and also on the way back up. But this is going to be a much more stable environment. I would hope some of you would welcome that. But with 10%, 11% growth organic and our headwinds from expenses abating here a little bit, I think we're in a pretty good position.

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

Jason, the only other thing I would point out is that in addition to interest becoming more favorable and contributing to most of the raise as you can calculate on your own, FX obviously also got worse. So in this parallel universe without a higher interest rate, we would perhaps be absorbing that higher FX and not changing the outlook.

Operator

Our next question comes from Bryan Bergin with Cowen.

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

First congrats to Carlos, on your success and Maria, on the promotion. I wanted to just start with a more specific follow-up on the bookings trends in the pipeline. Can you just give more color on what you're seeing in those forward sales indicators, lead volumes, sales cycles in recent weeks? And really just any discernible changes you've noticed there?

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

Yes. I think Maria can talk about -- I think she's actually been looking into a lot of the details around pipeline disorder. The only thing that I would add is color commentary because I was trying to defer to Maria on kind of the big picture in terms of bookings.

But since I've been doing this for a long time, 44 quarters and then many years kind of watching from, I guess, a year before that as, not quite a year, but as President, and before that, I really paid close attention to all the stuff. And Maria mentioned it, but the problem with the crystal ball right now is that when we have the kind of finish we had, you saw how enthusiastic we were and how bullish we were in terms of our finish and whatnot. And almost predictably, when we have that kind of finish, about half of our business, we count the bookings when we sign a contract. And the other half, we only count the bookings once the client starts. And that portion of the business that -- like, by the way, that's the way most companies that sell to larger clients book their bookings, which is when you sign a contract. That's why it's called bookings. That has always been an issue. When we have this very strong quarter and very strong finish, the pull-forward stuff has been driving me crazy forever because we have very strong incentives and what we call accelerators in terms of commissions so further drive, and we want that because we want to get the revenue as quickly as possible, but that sometimes leads to kind of a weaker start.

The problem here is that on top of that, now you have a macroeconomic challenge potentially, we definitely have a macroeconomic challenge in Europe. Luckily, it's not a huge part of our bookings. So it's hard to differentiate. But what I would tell you, again, back to color, the businesses that we count the bookings when they start are mostly the downmarket businesses. So that would be SBS, PEO, et cetera. We had double-digit bookings growth in those businesses.

That makes me think that it's unlikely that, all of a sudden, we have an economic whatever challenge or disaster because why would those businesses still be performing the way they are. But I would just -- again forward-looking statement, I would say I don't know for sure that there isn't a problem in terms of demand or the economy or whatnot, but it doesn't feel from the first quarter like we could put our finger on something that says, holy cow, we have to put kind of the red flag or the yellow warning flag up just yet. And I don't know, Maria, if you have comments in terms of a little bit more tangible.

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

Yes. Thank you, Carlos. He's right. Carlos is right. I've been studying deeply the pipeline specifically of these businesses that recognize bookings that potentially have some of the pull forward into the fourth quarter. And that's primarily in the larger size type of organizations. And so in studying the pipeline kind of segment by segment, country by country, if you will, and deeply, it does appear that the pipelines are there, the pipelines are

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continuing to build when I think about deal cycle time, right? So you think about all the data points we are analyzing on a daily basis to really understand the question you're asking, Bryan, which is, is this an economic and macro, is this -- what is this?

And the answer is, from a pipeline perspective, the pipelines are healthy. From a deal cycle time, let's go back to Carlos' commentary. It does appear that we did to have a lot of pull forward, and there were potentially not enough days to pull things into the first quarter. And we have -- again, what does that really mean in the macro? It's really returning to more pre-pandemic levels. So these are not concerning deal cycle times. These are actually more normal deal cycle times, the ones that we saw pre-pandemic.

What I'm referring to there is really and there used to be a time that it did take a lot of time to move larger deals through the system because so many individuals are involved, whether that's on the contracting side, the legal side. During the pandemic, there was a deal acceleration that happened, and a lot of that has to do with folks being stationary. That's no longer the case. We see that every day in terms of the world is back at work. And with that, that also has a tendency to slow down, if you will, the deal cycle time, again, back to pre-pandemic levels. So nothing that's alarming.

And so I think this is really about a pipeline, normalization. The pipeline is strong; it's healthy. The demand is there. Despite what all the big companies are reporting in the news, we are seeing incredible strength amongst our client base. We're seeing demand for HCM. There is 6% pays per control growth. So as Carlos mentioned earlier, the jobs are there. Our clients are growing. Our products and offerings fit right into that sweet spot that everybody is still trying to solve for, and our pipelines are healthy.

So at this juncture, there really isn't a macro broad-based trend that we can see besides the watch areas we've called out. I think the only other comment I would make, I alluded to it earlier, is please remember that when a quarter ago, we gave the guidance for the 6% to 9%. The way that we thought about the year, first and foremost, the first quarter is the lightest quarter for us from a pure dollar perspective. So it's the smaller contributor from a dollar perspective on the full year.

The way that we planned the year, which we talked about on the 6% to 9% bookings guidance that we gave a quarter ago was really assuming some elements of a slowdown in the back half, specifically in the fourth quarter. So it's really about this quarter, i.e., the current one that we're in, which is the second quarter and the third quarter, and so in looking at where we stand today, we feel confident in the 6% to 9% in terms of how we plan for it. We didn't assume massive and severe recession, but we definitely have assumptions in there that we feel confident at this point that we can execute against.

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

And one of the things -- if I can just add like one of the beauties of our business model is that bookings are, for sure, an incredibly important thing, especially kind of over the longer term. But I mean, I hope it's obvious from a revenue standpoint, again, with visibility only for the next 2, 3 quarters, we have -- it's really about converting prior sales, which were incredibly strong in prior bookings. I mean you saw what our bookings results were for the fourth quarter and for the year. So that's the stuff that now turns into revenue in those businesses where we recognize the booking at the time we sign a contract.

So that -- it's just -- I know it's obvious but just a reminder because this business doesn't -- we're not selling widgets, where if you stop selling widgets, like all of a sudden you're back to 0 next quarter, like the -- I think we have a solid revenue plan that I think reflects, as Maria said, what I think was already a pretty conservative number in terms of bookings growth, particularly in the back half of the year. So we may have other issues like FX on the negative side, clients with some interest may help even more or may help less, but I don't think the bookings issue is a fiscal '23 focus item in terms of impact on revenue.

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

Okay. All right. A follow-up on retention then. It seems like it's fair to say you beat your plan in 1Q. But what do you attribute that 1Q success to? Was it more a function of a slower rate of SMB out of business losses? Or do you think it also did better on the controllable factors as well?

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

It's really -- I think it's -- the controllable factors, I think, are the most satisfying part of the whole story because the story is kind of playing out a little bit the way we expected, which is small business is kind of in the process of kind of normalizing. But the really -- by the way, positive ironically in our international business, which might not be so ironic because the challenges economically, there are probably getting -- convincing people that they should stay put.

I don't want to say that it's not all great execution because we have a great leader in international, and we have the former great leader of international here, which is Don McGuire. So there's a lot of great things that have happened in that business that are probably powering some underlying improvement in retention. So some of it is probably inertia as a result of what's happening in the economic environment there.

But the most satisfying part of the whole story here is what's happening in the mid-market, where I think some fundamental improvements that we made pre-pandemic, as you remember all the pain in terms of the migrations and then the improvements in product, the UX experience improvements, all those things, it just seems like it's ratcheted up the "potential", the maximum potential retention, if you will, for our mid-market business, which was a record this quarter as well. Clearly, the down market, the pace of normalization of the down market has some impact. But the big story, I think, this quarter was really the mid-market, and our international business has helped a lot on the retention side.

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

Bryan, I'll just confirm the down market didn't really contribute to the outperformance versus our expectations. So the mid-market was clearly the bigger piece.

Operator

Our next question comes from Samad Samana with Jefferies. .

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

Just add my congrats to those given so far as well. Maybe just a question. When I think about the transitioning of the Workforce Now base to the new UX and the progress there and tamping down market, how should we think about maybe that were going to translate into monetary benefits? Is that more of a benefit in gross margin for a lower cost to serve or just less back-end work or higher retention, all of the above? Just help us maybe map what the kind of economic outcome is from moving over to the new UX for ADP.

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

I have a lot of time for our new UX. I can't boast about it enough. And the majority of that reason is all of the above. We expect this to impact our clients' satisfaction, their retention, our ability to demo more, sell more. In terms of teasing out the specific results difficult, but the answer to your question is all of the above.

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

Got you. And then maybe one for Don, any thoughts on [locking in] or changing duration with rates where they are? Just as I think if I look back historically at the presentation, even yields currently are higher than they've been at kind of any time for even what the long end of the portfolio looks like. Any view on changing duration? I know you guys get what the mix is, but I'm curious if it were blocking it in for a longer duration.

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Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes, I'm going to start on this, but something tells me Carlos won't be able to resist following up on whatever I have to say here. So I guess I would say that the laddering strategy that was implemented a number of years ago has delivered great returns. And while I think everyone can see the temptation of changing the duration and trying to benefit more from short-term rates, rates will either normalize or they may even come down again at some point in the future.

So this laddering strategy that's been deployed over the number of years has served us very well, and we expect it will continue to serve us well. And not to say that this question doesn't come up from time to time when we discuss it. But every time that we look at it, we -- you really either -- you're making a bet for today as opposed to a bet for down the road. And given the positive experience we've had, it doesn't really behoove us to make any substantial changes to a policy and a program that has been doing very, very well. Carlos, I'm sure...

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

Don, I have nothing to add other than -- I obviously picked the right time to retire. Very well said. And because I think that encapsulates lots of other things where we focus more on the longer-term in the medium term rather than because, again, if rates do normalize, as you said, we're going to be very grateful that we -- that our extended portfolio that we took advantage of these "higher rates" that will help us for 2, 3, in some cases, 5 years down the road.

So it's the right -- we're not a financial services company. We're not a bank, and that's not the kind of bets that we're trying to make here. This is just happens to be a nice little windfall as a result of a business model that we have that allows us to kind of manage float income at a very, very large scale. And anyway, well said.

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

I think we all appreciate the institutional continuity as the transition occurs.

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

Thank you.

Operator

Our next question comes from Mark Marcon with Baird.

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

Carlos, congratulations on a great tenure not just as CEO but everything that you did prior to that. And Maria, look forward to working with you and getting to know you even more over the coming years. I'm wondering, can you talk a little bit about how you're set up for this current fall selling season? Certainly, you've got a number of big product improvements. Which ones could we end up seeing like being incremental in terms of PEPM? And just how strong do you think the sales momentum could be? How are you thinking about your marketing efforts, particularly with all the improvements that you've got in place?

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

Yes. Thanks, Mark. And similarly, I look forward to spending more time together, and I've appreciated the time thus far that we spent together getting to know each other. So in terms of selling season, we do feel, I think Carlos mentioned, I think the first call-out I would make, I know you asked specifically about products and contributions PEPM, but I think it's important to go back to the discussion that Carlos had around head count.

So I've been -- I spent some of last year and last fiscal year speaking about a flattish head count growth as it related to sales. We committed to [mid-single-digit] (corrected by company after the call) growth heading into the quarter, and I'm pleased to report, as Carlos alluded to, that we are ahead of those plans. And so what that means is that we have more quota carriers in the system as we head into selling season, significantly more than we expected but significantly more than last selling season. And that, in and of itself, is the biggest contributor that we have to our overall results as we think about the productivity of more people in the system and, as Carlos also mentioned, with tenure of those associates picking up the increase in productivity of our sellers as they lap the 10-year band.

So I think that's the biggest variable I see. We do have a lot of amazing things as it relates to products in the system. Certainly, the new user experience being broad-based across all of the products gives the sellers an extra step in their momentum as they head into the end of the year as it relates to demos, things of that nature. I mentioned some of the other products such as the voice of the employee and our intelligent self-service, which both serve us up through our mid-market. So that mid-market value proposition is continuing to grow. The other is the strength that we are seeing in that PEO and the HRO are comprehensive and managed services businesses as it relates to customers that are continuing to face the complexity.

By the way, whether they are up market, in the mid-market or even down market needing more of those tools to navigate the complexity of being an employer, and so we see tremendous strength there. And so we're making good progress on our Next Gen. Very pleased to see specifically on our Next Gen Payroll how that's resonating in the mid-market with Workforce Now. And as we continue to increase the addressable area that we are able to target with those offerings undoubtedly will yield, as you suggested, greater sales, greater PEPM as well some of these enhanced features and products that are served up through our existing platforms that I've mentioned before.

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

That's great. And then with regards to Next Gen Payroll, can you give us an update in terms of what percentage of the new Workforce Now clients are now getting Next Gen Payroll?

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

Yes. So we are -- we committed to -- and I've been talking about kind of that 50% of our overall mid-market and Workforce Now clients, and we continue to make progress on that. So we're not entirely at the-- entire market that work Workforce outsource today. But each and every day, actually, in every release, we continue to clear the path for more and more opportunities to be able to participate in that Next Gen offering, which is truly the game changer for ADP as it relates to the innovation there.

Operator

We have time for one more question, and it comes from David Togut with Evercore ISI.

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

Congratulations, Carlos and Maria, Carlos, all the best for you in the next chapter. Don, a question for you on pays per control growth. 6%, clearly well above the 2% to 3% guide. But as you noted, contemplated, can you walk us through the sequencing of kind of pays per control in terms of what's embedded in the quarterly thought process as we go through FY '23?

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Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes. So I think we were happy with 6% growth in the first quarter. And once again, back to Carlos' earlier comments, if you had believed all the economic forecasts, you might not have been expecting to see that stronger growth in pays per control. But we do continue to see the pays per control growth moderating down in the first half of this year. And as we shared -- as I shared in the prior -- the prepared comments, we have virtually 0 pays per control growth in the back half of the year.

So we do expect that we should, given the strength of the first quarter, the first half should be a little bit better. I think we've reflected that in some of our guidance here already. And as we go through the next few months, we will be in a position to better decide whether we think we're going to be bullish or bearish on what's going to happen in the back half. And quite frankly, I think we'd all like to be very bullish about what's going to happen based on the first quarter's results, but I think if we did that, we'd kind of look a little bit foolish given all the predictions and now the storm clouds that people are talking about. So 6% first quarter slowing for the first half and then essentially very little growth if any, in the back half is what we're looking at.

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

Yes. And I think the simple math is, again, rather than getting into individual quarters because that talk about trying to like -- it's very hard to pin down that exact number. But I think ballpark, 6% for the first half, 0% for the second half gets you to 2% to 3% that you have for the full year. I mean that's probably the right -- obviously, the way we laid it out, it's slightly different than that but that's close enough, I think, for what you're trying to accomplish, I think.

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

Appreciate that insight. Just as a quick follow-up. Looking at Slide 6 under the PEO margin footnote, PEO margin up 80 basis points year over year which obviously is well above your pervious guidance for the full year and it's so well above your upgraded guidance. It's 0 to 25 basis point increase for the full year, can you walk us through how big the workers' compensation reserve adjustment was in the September quarter and how you expect that to trend through the year?

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Sure. I mean, I can give you the specific numbers, you'll see them later in the queue anyway. So the -- we had a $14 million positive adjustment in the first quarter, and that compares to a $10 million positive adjustment in the first quarter of last year. So not that significant, $4 million, give or take. So that's the -- those are the raw numbers. We do not expect to see as good a reserve release in this fiscal year as we saw last year. There's still several quarters to go through, and the actuaries will let us know what those numbers are, but we are contemplating the same level of reserve adjustment or recovery as we did in FY '22.

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

The only -- the other color commentary that I would add is, I think the PEO -- again, if you look at last year, it's obviously, we've seen, as expected, some deceleration, but I would call 12%, that employee growth is still pretty strong. That obviously requires investment, right, in terms of service, implementation expense, et cetera. And so I would say that the PEO is one of those places where we were really adding a lot in terms of expense and resources from a place where we were not where we needed to be, call it, last year's first quarter. So that's the poster child, I think, for this kind of grow-over expense situation that we have.

But the good news is, I think, as we are -- we're staffed. Again, turnover is improving across the board in terms of all parts of ADP. And I'm talking to other CEOs, I think this is happening kind of across, things are just kind of settling down. That helps a lot because improvements in tenure help a lot in terms of productivity and just getting the work done.

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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.

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

Well, what can I say? Another disappointing quarter where no one asked about the dividend. So let me just say that if the Board -- because obviously I don't want to get ahead of the Board, but if the Board approves a dividend increase in November, this will be our 48th year of increasing dividends, which I think is a pretty elite group out there. And if you look at our payout ratio and you assume the Board will want to stay in the same payout ratio, you can do the math in terms of what's going to happen with our dividend. I think people really way underestimate. I hope this doesn't become an environment where, for the next 10 years, people are very focused on dividends because that has its own negative implications. But if you look at over 50 years or 70 years or 100 years, dividends matter, right? And compounding growth of dividends matters a lot.

If you look at ADP's return and did a little math since we went public, which is why I was bragging about this being one of the most successful commercial enterprises in history, and again, and all of you have the same HP 12C calculators, you do that math, it's a pretty important driver of overall returns. So I'm incredibly proud of that.

Maria gets to be the person who will preside over the celebration, again, forward-looking statements assuming we get there, of reaching 50 years, which will make us a dividend king. And I think there's only like less than 15 companies that have accomplished that, and some pretty incredible names.

So that's the only thing I want to talk about was the dividend and the one last comment I have is what I've always said, and I'll say it again, I'm incredibly grateful. I'm grateful to my team. I'm grateful to Maria. I'm grateful to the Board. But the people who really get all the work done are the people on the front lines here at ADP, the 60,000 associates that make everything happen for us. There's something that Henry Taub put in the water that has created this culture, a can-do culture of delivering consistent results, not just from a financial standpoint before our clients. I think it's just fundamental to what we do to our DNA. And I'm so proud of our associates in terms of what I've seen them do throughout my career here at ADP, but particularly over the last 3 years, which were unbelievably challenging.

And I know many other companies and many other employees of other companies stepped up to the plate. So I know that we're not unique, but I only know what I know, and I only know the people I know, and they're great people doing great things every day for our clients. And that -- doing that is what has delivered the results that you guys enjoy as investors. So never forget that it all starts with our associates.

I thank you for listening. This is my last earnings call after 44 of them. And like I said, I won the Super Bowl, and I like the analogy to the dolphins. I'm not sure that I had a perfect season ever. I made plenty of mistakes, I learned from them and made myself and ADP a better and stronger company, but I definitely feel like I have one of those Super Bowl rings on. So I may have to go buy something a little bit bigger in terms of jewelry, so I can brag about it.

But thanks again for listening to me all these years, putting up with me. And as I said, to our leaders and to our associates that I remain their servant leader. I remain your servant leader now moving on to becoming a shareholder and also to a director. Thank you very much.

Operator

Thank you for participating in today's program. You may now disconnect. Everyone, have a great day.

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