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ADP.OQ - Q3 2024 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Company Summary

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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 2024 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions) I will now turn the call 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 Third Quarter Fiscal 2024 Earnings Call. Participating today are Maria Black, our President and CEO; 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 the 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. I'll now turn it over to Maria.

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Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Thank you, Danny, and thank you, everyone, for joining us. This morning, we reported strong 7% revenue growth and 14% adjusted diluted EPS growth for the third quarter as we continued to make progress delivering against our strategic priorities and as the labor market and the overall HCM business environment remains stable.

I'll begin with a review of the quarter's results and provide a brief update on our strategy before turning it to Don to update you on our outlook and share some early considerations for next year. In Q3, we delivered solid Employer Services new business bookings growth reaching record bookings for a Q3 period and keeping us on track for our full year outlook. We maintained momentum in our small business portfolio with particularly strong growth in our Retirement Services offering. And in Q3, we also delivered strong bookings results in our mid-market, enterprise and international businesses. With a steady demand backdrop and a healthy new business pipeline, we are focused on continuing to execute for the remainder of the year.

Employer Services retention was very strong in the third quarter and once again exceeded our expectations, also reaching a new record level for a Q3 period, led by our mid-market business. Our overall retention continues to benefit from ongoing investments in our key platforms and from our commitment to delivering an exceptional client experience, which together helped our client satisfaction scores reached a new all-time high for our Q3.

Our Employer Services pays per control growth was steady at 2%, reflecting the resilient overall U.S. labor market and the fact that our clients continue to add to their workforces at a moderate pace. And our PEO revenue growth of 5% for the third quarter was in line with our expectations despite continued short-term pressure from below-normal hiring activity we've been experiencing among those clients.

Moving on to a broader update. We continue to push forward on our 3 strategic priorities: leading with the best HCM technology, unmatched service and expertise and the broader scale to ultimately deliver the best possible experience, not just to the buyers of our products but everyone that engages with ADP. We are investing with purpose to deeply understand and deliver value to a vast set of personas from small business owners that count on us to HR professionals and executives of the largest global enterprises to millions of employees and gig workers around the world who engage with our solutions to CPAs, banks, brokers and other key partners to our thousands of dedicated service and implementation associates and to our sellers who represent ADP in the market every day.

It's with these personas in mind that we continue pushing forward on our strategic priorities, and in Q3, we made steady progress. Our first priority is to lead with best-in-class HCM technology. We've been rolling out ADP Assist these past couple of quarters which, as a reminder, will be embedded in our key platforms and utilizes Gen AI to surface insights, aid decision-making and streamline day-to-day tasks for our clients and their employees.

In Q3, we were very excited to begin piloting a new feature that enables our small business clients to not only leverage Gen AI to answer questions and better understand how to initiate an HR action, which we outlined in recent quarters, but to actually allow them to issue commands to complete that HR action. For example, users can now type, I need to rehire Alex or I would like to give Alex a leave of absence and are expedited through that workflow.

Our second priority is to provide unmatched expertise and outsourcing. We continue to extend Gen AI capabilities to a broader portion of our service associates. And in Q3, we started rolling out a new tool for some of our implementation teams. Now they can use Gen AI to take in unstructured client employee data, reducing manual data entry and minimizing errors during the implementation process. While it's still early, we are excited about its potential benefits.

Our third priority is to benefit our clients with our global scale. The ADP Marketplace remains a differentiator for us and is a perfect example of a benefit our clients receive from partnering with a leader in HCM. As a growing number of our hundreds of partners offer AI-enabled solutions, in Q3, we established ADP Marketplace AI principles that require our partners to commit to the same type of responsible AI principles that govern our own products, including human oversight, monitoring, explainability and mitigating bias.

Our clients put a huge amount of trust in us, and this is another example of how ADP strives to ensure the responsible use of AI throughout the ADP ecosystem. We also continue to extend our market-leading global scale. And in Q3, we reached 1 million paid employees on our IHCM platform,

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which continues to scale in several countries in Europe, and we made further progress in growing our presence in the APAC region, where we have recently been expanding our in-country payroll and workforce management presence in a number of markets.

In 2024, we are celebrating our 75th anniversary, and we pride ourselves on having built ourselves into a brand that truly matters to employers, their employees and the broader world of work. Our focus on our strategic priorities positions us to deliver more value than ever for our over 1 million current clients and to the tens of thousands of new clients, we welcome to the ADP family every quarter.

I'd like to highlight just a few of these new client wins from Q3 to give you an appreciation for the variety of ways in which we deliver value for them. In U.S. small business, we had a new boutique donut shop referred to us from one of our CPA partners. The client chose ADP for the strength of our RUN platform, our reputation for great service, our strong relationship with our CPA and our ability to provide retirement services.

Since this was a first-time small business owner, our sales team even took the time to help the business owner set up their business the right way from guiding the client on obtaining a state tax ID to making sure the client obtained the appropriate workers' compensation insurance. In U.S. mid-market, we won a multistate operator of rehabilitation centers. This client wasn't happy with their prior HCM provider and Workforce Now proved a much better fit.

What makes me the most proud in this example is how one of our ADP Marketplace partners played a key role in the decision to switch to ADP by independently highlighting the advantages we offered in terms of ease of integrations, a capability we have invested in over the years.

In U.S. enterprise, we welcomed a large luxury resort that operates multiple hotels, restaurants and retail stores on site and was dissatisfied with the prior provider's level of client service. The client was so happy following their seamless ADP implementation, which included on-site training for their HR team that they accelerated their plans to add-on features like benefits, recruiting, onboarding, wage garnishment and tax credits.

In our international business, one recent win was a leading airline that utilized ADP in certain countries and asked us to help better define their global payroll strategy. Ultimately, they expanded the scope of our services to include an additional 18 countries and started that rollout in the third quarter, with plans to add other countries over the next year to enable true consolidated global reporting and analytics.

And as a final example, our HRO team started a New York-based design firm after its leadership team recognized the company lacked the HR infrastructure required to adequately attract and retain the right talent. They turned to our PEO offering for truly comprehensive support, attracted by the breadth of our offering, including features like the MyLife Advisors program, which supports employees as they make benefits and other important life decisions.

We also advised this client in the development of a comprehensive benefits strategy to support their multigenerational workforce and help them attract the talent that they need to grow. As you can tell from these examples, it's often a combination of our technology, expertise and overall breadth that resonated with these businesses. And the result is incredible diversity in our client base and a resilient overall business model.

We look forward to leaning in and delivering even greater differentiation in the market going forward. Overall, we were pleased with the strong financial and strategic outcomes in the third quarter. I'd like to thank our associates who continue to deliver exceptional products and service to our clients in whose efforts drive these client wins and retention. Thank you again for all you do for ADP and for our clients. And now I'll turn it over to Don.

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

Thank you, Maria, and good morning, everyone. I'll provide more color on our results for the quarter and our updated fiscal 2024 outlook. Overall, we reported a strong third quarter with our consolidated revenue growth and our adjusted EBIT margin coming in a bit above our expectations. The interest rate backdrop has improved since we last provided our full year outlook. So we're updating our outlook for that as well as making a few other changes, which I'll detail.

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I'll start with Employer Services. ES segment revenue grew 8% on a reported basis and 7% on an organic constant currency basis. As Maria shared, we had a good quarter in ES new business bookings with broad-based growth across our client segments. We have a tough compare in Q4 following the last year's strong finish, but with a steady HCM demand environment and healthy pipelines, we feel on track to deliver our 4% to 7% new business bookings growth outlook for the year.

Also, as Maria mentioned earlier, our ES retention exceeded our expectations and increased slightly from last year. Given our continued strong retention performance, we are increasing our full year retention outlook slightly. We now anticipate a 20 to 30 basis point decline in full year retention, which is better than our prior forecast. ES pays per control growth held steady at 2% in Q3 and we now expect growth to around 2% for the year, the high-end of our prior 1% to 2% growth outlook. And client funds interest revenue exceeded our expectations in Q3 due to higher average client funds balances and a slightly better average yield.

We are revising our full year client funds interest outlook to reflect our Q3 results and the increase in prevailing interest rates since our last update. We now expect fiscal '24 average client funds balance growth of about 3%, and we are raising our expectation for client funds interest revenue and net impact from our client funds extended investment strategy.

In total, there is no change to our fiscal '24 ES revenue growth forecast of 7% to 8%, although we are now likely to come in towards the higher end of that range. Our ES margin increased 230 basis points in Q3, driven both by operating leverage and the contribution from client funds interest revenue growth. With our strong Q3 results and the slightly more favorable client funds interest rate backdrop, we are raising our fiscal '24 ES margin outlook and now anticipate growth of 180 to 190 basis points.

Moving on to the PEO. We had 5% revenue growth driven by 3% growth in average worksite employees in the third quarter, representing a slight acceleration from the first half of the year. These results were largely in line with our expectations, and we were encouraged by the gradual stabilization in our PEO's pays per control growth, which decelerated but only slightly from the prior quarter.

We continue to anticipate soft pace per control growth through the end of the year and expect worksite employee growth to hold steady at about 3%, keeping us on track for our full year outlook for worksite employee growth of 2% to 3% and revenue growth of 3% to 4%. PEO margin decreased 220 basis points in Q3. As we shared last quarter, we expect this year's workers' compensation reserve release benefit to be significantly lower than what we experienced these last few years, and in particular, last year's $73 million benefit.

We are updating our fiscal '24 outlook to now assume a minimal release benefit, and as a result, we are further revising our overall PEO margin expectation to be down 120 to 140 basis points in fiscal '24 versus our prior expectation for a decline of 80 to 100 basis points.

Putting it all together, there is no change to our fiscal '24 consolidated revenue growth of 6% to 7%. With the 2 changes to segment margins largely offsetting one another, we continue to expect our adjusted EBIT margin to increase by 60 to 70 basis points. We still anticipate an effective tax rate of around 23%, and we continue to expect fiscal '24 adjusted EPS growth of 10% to 12% with the middle of that range still the most likely outcome.

As we look ahead to fiscal '25, I wanted to share a couple of early thoughts at this point. First, given the fullness of the labor market, we are planning for pays per control growth to once again be below normal levels next year and to decelerate modestly from this year's growth level in both ES and our PEO segments with the resulting revenue pressure more apparent in the PEO segment given its more direct revenue sensitivity to worksite employees. We'll, of course, share those exact assumptions with you when we give our formal guidance in a few months.

On the expense side, we are also planning to continue growing our Gen AI-related spend next year. As you've heard from us all year long, there are many ways we can put Gen AI in the hands of all of the different stakeholders that work with or on behalf of ADP, including our client practitioners, their employees, our service and implementation teams, our sellers and our developers. These are critical investments, and they are the right investments for ADP. But we expect the associated benefits in productivity and growth to phase in gradually over time, likely representing overall margin pressure for the year.

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At the same time, we appear positioned for continued tailwind from interest rates, though the extent of this benefit will, of course, depend on how the yield curve continues to develop. As usual, we're focused primarily on maintaining good momentum in our new business bookings and maintaining our strong client satisfaction and retention, and we remain upbeat about our strategy for the years ahead. And now over to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ramsey El-Assal with Barclays.

Owen Robert Callahan - *Barclays Bank PLC, Research Division - Research Analyst*

This is Owen on for Ramsey. So you're currently entering your open enrollment season for client benefit elections within the PEO. I was wondering if you could talk about trends you're seeing there thus far. You called out some stability in regard to insurance price inflation driving more attach rates. Are you seeing any of this kind of follow through? Any thoughts there might be helpful.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Good morning. Go ahead, Don. I was going to say, good morning, Owen. How about I start and I'll let Don chime in. I think the comment would be just to start, we are smack in the middle of our open enrollment season exactly as you suggested. And so it's probably too early to make a call in terms of what that's going to look like from a full year perspective on the retention side. But overall, we have seen a bit, a tiny bit of PEO retention improvement this year, and the compares are getting a bit easier, and we do expect some improvement for the full year. So with that, I'll let Don chime in.

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

No, sorry, I jumped again there. So Maria, thank you. Perfect answer. Thank you.

Owen Robert Callahan - *Barclays Bank PLC, Research Division - Research Analyst*

Great. Super helpful. And then if I may, just on client retention continues to sort of surprise to the upside. I was wondering drivers there. You previously thought potentially fewer bankers fees in the downmarket, but any expectations more longer term might be helpful there?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes, absolutely. We are very pleased with overall retention results. I think you see that in our revised outlook. You see that in the revision we made last quarter as well. And so just to kind of remind everybody just how well retention is going, fiscal '23 was a record. That record was really driven by the mid-market and international and the downmarket actually did decline a bit in fiscal '23. And we expect pretty much the same outlook, if you will, for full year '24, which is why we still have a down year-on-year retention result. But we're incredibly pleased with overall what we're seeing with the with client retention.

That's really being led by a combination of things, one of which is the investments we made into product, the record results we have in terms of client satisfaction. That in and of itself was a record in the third quarter along with retention. So we're very, very pleased with that. As mentioned, there's still downmarket variability and there's downmarket out of business. We haven't seen it thus far this year, but we still expect it to normalize a bit further. And then there's always normal variability in retention. So we believe the retention guide is the appropriate one. But certainly, we're very, very pleased with the record quarter and where we sit with retention thus far this year.

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Operator

Our next question comes from Bryan Bergin with TD Cowen.

Zachary Ryan Ajzenman - *TD Cowen, Research Division - VP*

This is Zack Ajzenman on for Bryan. First question, I just wanted to dig in on the ES revenue growth affirmation despite the higher retention of PPC views. Heard that you might come in towards the higher end of the range, but perhaps you can elaborate on some of the underlying assumptions and any offset?

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

Yes. So a couple of things, Zach. We already mentioned that retention is in very good shape for us. So certainly, that's been helping and contributing to the revenue growth. And of course, what's changed since last time around, which is making us even more comfortable with saying we're going to be towards the higher end of the range is that client funds interest impact is very good. So I think those are the 2 primary drivers to why we're more confident that we're going to see revenue come in towards the higher end of the 7% to 8% than we perhaps were 90 days ago.

Zachary Ryan Ajzenman - *TD Cowen, Research Division - VP*

Got it. And a follow-up on demand. ES new business bookings affirmed at 4% to 7% growth. What are the strongest segments of the market? And any notable changes to call out versus the second quarter?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Sure. So first and foremost, we feel good about the overall demand environment. Companies are still hiring as we saw today, and they're still investing as such in people and HCM. The callouts, I made a few of them during the prepared remarks, but it's really -- the downmarket continues to impress us this quarter, specifically in Retirement Services. So I'd make a callout there. It's quite fantastic to see that story and Retirement Services come together. We talked quite a bit about secular tailwinds in that space based on legislation. That coupled with the investments we've been making and an incredible distribution execution. Really great to see the Retirement Services leading the way.

I think other areas that I would call out that have been remarkably strong is our mid-market as well as international. And so again, similar story to Retirement Services in that it's really a great story coming together between investments and execution and enterprise also was strong for us for the quarter. And then in terms of anything changing broad-based, we haven't really seen anything change in the demand environment. Quite candidly, we feel really, really strong, as suggested by the overall hiring landscape and the labor demand.

Operator

Our next question comes from Mark Marcon with Baird.

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

Client retention, obviously, really strong. Obviously, your scores continue to go up. Are there any areas that you would call out that are standing out in terms of driving the higher NPS scores and the higher client retention? Anything that you would particularly note?

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Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

I would say to you, mid-market on both of those. So mid-market is driving strong NPS scores to record highs. The mid-market is driving incredible retention. So that's the one callout. You can probably hear the optimism in my voice there because it's a fantastic story kind of coming together. But I think overall retention is incredibly strong. The midmarket, international in fiscal '23 were very strong. They continue to be strong, but that's really the one callout I would make is the mid-market.

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

Great. And then there's -- Maria, there's one area that investors have been asking more about and you have -- you and ADP have the broadest outlook with regards to the space, so I'm asking this on the call. But some people wonder a little bit about saturation. Your new bookings continue to grow, but investors are asking a little bit more about like how much room do we have for new solutions or how many clients have already upgraded cities of that nature. Your results and the results of some of your peers continue to belie the concerns, but I'm wondering if you could address those.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes, absolutely, Mark. I'll give it a shot and certainly happy to have Don chime in. Maybe he can talk a little bit about our growth opportunity in international. But I think broadly speaking, when you think about the total addressable market of the HCM space and where we all play and we all compete and it's highly competitive, and there's been a lot of investments coming into the space over the past few years. What I would suggest is there's still a tremendous amount of growth and growth upside for all of us. And as you mentioned, we continue to deliver that and the results that we see on the new business bookings side. And so I think overall, there is still runway. There's still plenty of space.

I think the part for us outside of our incredible distribution organization, which has always been a competitive advantage in how we go to market. That distribution is also anchored to our ability to upsell to the base. So you mentioned this ability to upgrade and how much is upgraded and are we all the way there. What I would suggest to you is we're still at about 50% as it relates to new business bookings coming from, call it, new business, net new business versus upgrades, which suggests to me that we still have a tremendous amount of opportunity even within our base. And that's a lot of the focus that we have as an organization, whether it's in the PEO getting smarter about which clients within Employer Services that we target to offer to the PEO or it's the work that we're doing on generative AI to try to get upsell and offering the right product to the right client at the right time.

And in my mind, bending the curve and continuing to focus on attach rates, whether that's on the point of sale or on the attach at a later time, it's definitely an opportunity for us to continue to deliver bookings in a very broad market that still has a tremendous amount of opportunity for all of us but moreover, where we continue to execute and deliver on that. So I don't know, Don, if you want to comment a little bit on international in terms of the opportunity there.

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

Yes, perhaps to add a little bit more color. I think we're very -- still very optimistic about growth opportunities beyond the U.S. or the North American market. So Mark, I think we talked before, we're on the ground in 40-plus countries outside of the U.S. We're present in multiple segments in those markets as well. We've got some great things happening in Southeast Asia, where we're rolling out a single platform across beginning in India, but many countries surrounding India in the Southeast Asian market. We're excited. We often talk about the fact that we pay over 1 million people in India every payday, price points are still a bit low, but we expect those things to work for us and work in our favor in the future. So I think still lots and lots of opportunity for ADP from a growth perspective. And certainly, we don't worry about saturation being a limiter to our future.

Operator

Our next question comes from Scott Wurtzel with Wolfe Research.

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Scott Darren Wurtzel - *Wolfe Research, LLC - Research Analyst*

I just wanted to go back to some of the early thoughts, Don, that you provided on fiscal '25 and talking about the Gen AI investments, and I think you had mentioned that there could be some margin pressure associated with that. And I just wanted to kind of clarify, were you talking about that potentially leading margins to be down year-over-year? Or are there other offsets with general operating leverage and interest income that can potentially offset the margin pressure from those investments?

Operator

Yes, Scott, thanks for the question. I think it's still early. I think the intent here was to give some very early guidance on what '25 could look like. So we still expect to see some improvements in margins. It's just -- do we expect to see as much of an improvement given some of the Gen AI pressures -- expense pressures that we may see. Of course, CFI, at this point in time, depending what the yield curve does. Once again, things have changed a fair bit in the last 90 days. And if I was to -- not that I have a crystal ball, but I don't think many folks right now are expecting anything to change from a rates perspective in the U.S. before September. So I think we're going to get some tailwinds from that. So we're not really trying to signal here -- not signaling a decline in our margins. What we're signaling perhaps is perhaps a slower growth in the margins as we look into '25.

Scott Darren Wurtzel - *Wolfe Research, LLC - Research Analyst*

Got it. Got it. That's super helpful. And then I just wanted to go on to the PEO segment, sort of going back to some of the verticals that we've talked about over the last year and technology and professional services. Just wondering if you can kind of update us on some of the trends you've seen there with pays per control growth. I mean even looking at the employment report that you guys released this morning, it looks like Professional Services is stabilizing and increasing, but technology information kind of seems a little bit choppy. So just wondering if you can kind of talk about trends in the PEO with respect to those verticals.

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

Sure. So if I -- Maria talked a little bit about bookings. I think so we've been -- we were happy with our bookings. They softened a little bit in Q3, but we had a very, very strong Q2 on PEO bookings. If you move on kind of to the PPC growth, back in Q1, it decelerated a little bit more than we anticipated and a significant amount of that deceleration was attributed to the technology and professional services sector. And in Q2, that stabilized. So that was good for us. While there's still some headwinds in PPC, including from technology and service sectors, there were no surprises in Q3. So it's important to note that worksite employee growth accelerated about 1% over Q2 despite the modest incremental pressure we had from PPC pressure. And so -- and that, of course, is a function of the year-to-date booking success that we've had. So nothing really to call out. More stability, if you will, in PPC pressure than we talked about previously.

Operator

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

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

Anything on the pricing side worth sharing, Maria? Just thinking about some of the peer commentary out there. Any callouts or interesting observations?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

In terms of -- from a standpoint of our price or pricing in the market from a...

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

Yes, your pricing or as you're thinking about resetting prices as you go into the usual seasonal time changes -- price changes, any thoughts there, both for renewals as well as new deal bids?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes, absolutely. So I think my general sentiment and then Don can give the kind of a little more directional. But my general sentiments around price remain that we're very thoughtful and very measured as it relates to how we think about price, whether that's on the new business side or it's on the renewal side, as you mentioned. And so for us, it's about understanding kind of by segment. So you heard my commentary in the prepared remarks just how broad and deep and diverse ADP is with respect to our client base. As you can imagine, we think about a downmarket price increase differently than perhaps in enterprise. Some of those are also long-term contracts that have indexes attached. And so all of that lends itself to a very surgical approach, right, to ensure that the price value equation remains the right one for the market and for our clients.

And obviously, at the same time, what we're doing is also monitoring what's happening in the HCM space with respect to the peer group and pricing overall. And I would say from a competitive lens, we haven't seen anything unusual as it relates to price from us or the others, even though it continues to be a highly competitive environment, and so as such, our approach this year to price, which I'll let Don comment on, has been very thoughtful, and I would expect us to take that same measured approach as we head into '25.

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

Yes. So pricing -- the price increase this year was relatively well received. We're in the 100, 150 basis point range. We're closer to the 150. So happy with where we're at. But back to Maria's comments, we're in the middle of our planning cycle right now, and we'll look very carefully at that whole value equation, making sure that we keep our retention up. Our NPS is supporting that. And we'll make sure that we're mindful and thoughtful about what we do with pricing going forward.

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

Yes. I'm sure you'd be thoughtful about it. Just on the Gen AI front, I respect the investments there. I'm curious if you were to classify it as either driving expense efficiency versus driving better sales efficiency. What are you really aiming for with some of these investments here for fiscal '25?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Both. The answer is both. So I think it's really about solving for, again, all of the users that interact with ADP, right? So if you think about all the personas, our clients, our clients' employees, and our service agents, our sellers, it's really about putting Gen AI in each -- in every part of our ecosystem. So in terms of what are we solving for? The answer is both. We're trying to drive greater service efficiency. I think we've proven out that through digital transformation and taking friction out of our products and making those investments, we have the ability to drive up our NPS results and record client satisfaction tends to lead to similar record retention. So definitely working on ensuring that we're driving up retention.

Obviously, the more happy clients we have, the easier it is for our sellers. We're also investing in degenerative AI for our sellers to become more productive. So it is about service productivity, it's about seller productivity. It's about client experience. Client experience lends itself to retention. So I guess it's just one happy virtuous cycle, but I think our answer or my answer is both and all of it is what we hope to gain.

Now again, kind of back to the investments we're making and what Don alluded to in terms of any pressure we would have with respect to margin on those investments. Some of these investments, we know they're the right thing for ADP, but they will take time to ultimately garner all of the results in all of these categories that I just mentioned. And so as it stands today, we have some really exciting things that we're seeing. If you think about something like call summarization that I've spoken about in the past and we're shaving off roughly a minute per call, that doesn't probably

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sound that exciting. But if you think about a minute per call over time and you think about how many calls we take broadly across ADP in a given year. The math lends itself to overtime tremendous efficiency and again, hopefully, a better experience, right? So I think the answer is all of it. We're solving for all of it.

Operator

Our next question comes from James Faucette with Morgan Stanley.

Michael Nicholas Infante - *Morgan Stanley, Research Division - Research Associate*

It's Michael Infante on for James. Just one for me today. You mentioned coming in at the higher end of the range on ES for the full year, which makes sense given some of your commentary on bookings strength, better retention, pays per control improvement in the flow benefit that we're seeing. But given all of those factors, it looks like ES in the quarter came broadly in line with our expectations despite all of those tailwinds. So I'm curious, given your commentary about price coming in towards the higher end of your historical range, what does that imply just in terms of what you're seeing on the net new side as well as cross-sell and upsell.

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

Yes, Michael, thanks for the question. I think that first of all, the price, there's no change in that. I think we've been calling that out for most of the year, certainly in the 1 to 150 range. So not much of an incremental impact, if you will, for Q4 and therefore, for the year in total. So not a lot of change from that. Yes, I mean bookings, we called out, we're still in the hunt for delivering on the range as we declared, so we're still in that. So -- but not really a lot to drive incremental revenue other than some of the float. But as the year shortens or we have fewer months days left in the year, the impact from higher CFI is going to be somewhat muted as we look to finish the year.

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

Michael, it's Danny. If you're wondering whether there is some offset somewhere else, there's a little bit from FX moving adversely relative to our prior expectations.

Operator

Our next question comes from Pete Christiansen with Citi.

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

Maria, Don, you gave a great explanation of the wallet share opportunity that's still left earlier, PEO, propensity modeling with Gen AI and then international. I want to dig into the international side a little bit, particularly some of the newer markets that you're getting into. Just hoping if you can give us a bit of a progress report on a lot of the last-mile infrastructure that you've been putting in place, go-to-market ramping that up. And I'm just curious should we think of like the deployment of Pi, the next-gen payroll engine in international is a real catalyst for the next lag of bookings growth.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes. Thanks, Pete. I think that was a solid like 3, 4 questions in one. So I will -- I'll do my best to weave through it here. But as Don mentioned, we're on the ground in 40 countries. We do payroll across 140 countries, inclusive of our partner network. In terms of the final mile or the last mile, as you referenced, the first thing I would comment on is we've been building that for 50 years, right? So when I think about international and everything

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we've done over the course of decades to build that infrastructure, it's a tremendous lead is what I would suggest, and you see that in our international bookings results, right?

So we had a nice first quarter in international. We accelerated that in the second quarter. We had an even better Q3. A lot of that is being driven by our multinational growth. So think about our Celergo offering our GlobalView offering. These were especially strong for us in the third quarter. And I do believe it's the overall demand environment, coupled with our on-the-ground strategy, if you will. And by the way, the international pipelines remain healthy, and we believe it's going to position us for a solid Q4, but also next year.

In terms of where we continue to expand I mentioned that in my prepared remarks, Asia Pac or APAC is something that our Asia business has been relatively modest, but we see significant growth over time. Obviously, that growth is a direct byproduct of our clients' demand growth as it relates to the activities of our clients and where they're moving associates and where they're moving business. So we believe that continuing to lean into Asia Pac is important for us.

And so as a result of that, we kind of are continuing to lean in there. I think we mentioned last quarter the acquisition of a company in the Nordics, specifically in Sweden. So that's an area that also is a high-growth area from a client perspective. And so I think our strategy over time has been as we get further into a country and we see the demand at times we will fold in our partners, and you've seen that, obviously, in the Nordics. You've seen that in many countries prior to that. But that ecosystem is vast across 140 countries. It's decades of building that final mile. It's a clear competitive differentiator in the market. You can feel, see and it's really palpable.

On the heels of the last earnings call, I was actually over at our Rethink event, which is where we bring together a few hundred of our very largest global MNC clients and the spirit of how we're executing in that market is really palpable when you hear it directly from our clients. And I believe it's a tremendous opportunity for us to continue to drive growth. So I think I covered all of that, Pete.

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

Just a quick follow-up. Do you think that the deployment of Next Gen Payroll is a catalyst for go-to-market in some of those newer markets?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes, of course. So Next Gen Payroll, for sure, our intent is to continue to drive Next Gen Payroll across various international markets. We have it deployed in a few of our markets today. And that, coupled with these offers that again have the lead of Celergo and GlobalView over time will just further the growth narrative and the story over there, but that is absolutely the intention and the strategic direction of Next Gen Payroll.

Operator

Our next question comes from Ashish Sabadra with RBC Capital Markets.

David Paige Papadogonas - *RBC Capital Markets, Research Division - Senior Associate*

This is David Paige on for Ashish. It's great to hear about your results and growth in the mid-market verticals. I was wondering if you could just give a little bit of an overview on the competitive landscape there? Are you guys taking share or the entire market corner. Just what's the outlook or the environment in terms of competition in the market?

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Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes, absolutely. So the mid-market is a great segment for us. It's certainly not getting any easier to be an employer in the mid-market. It's littered with complexity and all sorts of challenges to navigate. Just even if you look at the last 30 days, you can see legislation that mid-market employers are having to navigate. And so it's a strong market. It is a highly competitive space. That's not new.

I think for -- from a competitive landscape perspective, it's always been competitive. And I don't know that we've seen a noticeable changes in the competitive landscape. What we have seen is incredible distribution, execution, incredible satisfaction, execution on our end. We've made great investments into the product set. It's winning in the market. You marry that strategy with great execution on the seller side and great execution on the retention side. That, to me, is what's changing in the mid-market is that we've gotten stronger.

Operator

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

Caroline Noelle Latta - *BofA Securities, Research Division - Research Analyst*

This is Caroline Latta on for Jason. Sorry to double down on price, but just given the way inflation isn't dropping off maybe the way the market was hoping or expecting recently, do you have any updated expectations about ADP and like the broader peer group's ability to raise pricing heading into the fourth quarter and 2025 without like significant pushback?

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

Caroline, thanks for the question. I think it just comes -- continues to come back to the same concepts, and that's making sure that we offer good value to our customers over a 10-plus-year lifespan. So we're always mindful of making sure that clients are getting good value and that we keep those clients for a very, very long time. So it's that client life cycle of the total return on the entire life of a client. So we're always very, very careful not to overstep on pricing. Having said that, we, of course, watch what the competition is doing. We have our ear to the ground. Our salespeople have their ear to the ground.

We're trying to make sure and understand what's happening from the competition. So we will continue to look at it. We'll continue to knock around some ideas and some models and see what the impact could be. But I don't want to signal exactly what we think we're doing because we're still, as I said earlier, in the midst of our planning cycle here. But we always look at it. We take price usually every year where we can, not including some of the contractual commitments we have with some of our larger clients, but it's just something we're very, very careful and cautious about doing.

Operator

And our last question comes from Kartik Mehta with Northcoast Research.

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

Maria, as you look at the mid-market and the success ADP is having, who are you winning market share from? Is it traditional payroll companies? Is it companies that are maybe using other software products that you wouldn't consider payroll companies? I'm just wondering where the success is coming from.

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Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Everywhere. Candidly, listen, from a mid-market perspective, again, the demand is healthy. The competitive environment is competitive, and we continue to remain laser-focused on all of the competitors, specifically the ones that have been talking a lot about us over the last few years. And I think the way that we've been focused is really about the investments we've made, investments into a best-in-class product. investments into focus on distribution, investments into digital transformation that's driving great client satisfaction. And so that really has allowed us to have a winning story as it relates to really all of the players.

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

And then just one follow-up. Just on the PEO business, as you look at the long-term growth perspective of that business, obviously, there's been a couple of things that happened that maybe have slowed the growth down in the last year or so. I'm wondering just your outlook on the PEO business and if you think anything has changed in that business or demand for the product.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes. So I'm happy to start and certainly happy to have Don chime in too on the PEO. I'm always very, very bullish on the PEO value proposition. I've been close to that business for a long time, and I will tell you it's stronger than it's ever been. So despite the strangeness that we've had in the PEO from a kind of the componentry heading into the pandemic, during the pandemic, after the pandemic and then now, call it, a little bit post, post pandemic. What I would suggest to you is it has nothing to do with the fundamentals of that business and what we would expect over time from a growth perspective long term. And so the value proposition is strong. Nothing from our end has changed there as it relates to the overall demand from the business. And we see that just in the -- we continue to have 50% of our clients into the PEO coming from the base. So it's resonating with our existing clients. It's resonating with the open market, and it continues to be a very strong offering for us. So I don't know, Don, if you want to add anything there?

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

Nothing to add other than the value proposition is as strong as ever, and the fundamentals in the business are -- continue to be quite strong.

Operator

We have one more question from Dan Dolev with Mizuho.

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

Apologies, I was on a different call. But I know it's kind of maybe early, but do you have any news about the next -- your next fiscal year, maybe something like early views as we head into the fourth quarter?

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

Yes. Dan, just a couple of things, thinking about next year. We do think that it's early, so we didn't share too much, although we did say that the pays per control will continue to be under a little bit of pressure, given the fullness of the labor market. So that's kind of continuing story that we've been telling. We will continue some of our Gen AI-related spending, making the right investments for ADP. And of course, we're going to get some tailwind from interest rates. So I think those are the 3 primary things. And of course, we always remain very, very focused on bookings and our strong client retention and client experience. So I think those would be the highlights for '25.

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Operator

There are no further questions. I'd like to turn the call back over to Maria Black for any closing remarks.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & DIrector*

Yes. Thank you, and thank you once again to everyone who joined us today, whether the full time or late. We always appreciate the questions, the interest and we certainly look forward to speaking with all of you again soon and look forward to the close of the year. Thanks.

Operator

Thank you for your participation. This does conclude the program, and you may now disconnect. Everyone, have a great day.

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