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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 second quarter 2025 earnings call. I would like to inform you that this conference is being recorded. (Operator Instructions) I will now turn the conference over to Matt Keating, Vice President, Investor Relations. Please go ahead.

Matthew Keating - ADP Inc - Vice President, Investor Relations

Thank you, Michelle, and welcome everyone to ADP second quarter fiscal 2025 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'll 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 future events and involve some risk. We encourage you to review our filings with the SEC for additional information and the factors that could cause actual results to differ materially from our current expectations. I'll now turn it over to Maria.

Maria Black - ADP Inc - President, Chief Executive Officer

Thank you, Matt, and thank you everyone for joining us. Before I cover our results, I'd like to take a moment to acknowledge those impacted by the devastating wildfires in Los Angeles. Our hearts go out to our clients, associates, community members and everyone touched by this tragic situation.

To begin, I'd like to highlight a significant milestone achieved during the second quarter. When ADP's Board of Directors approved the 10% increase to our quarterly dividend in November, it marked the 50th consecutive year in which we raised our dividend. We are now proud to be included among an elite group of 'Dividend Kings', a small number of publicly traded US companies with 50 or more consecutive years of dividend increases.

This distinction is a testament to ADP's enduring business model and our ability to innovate over time and across economic cycles. We embrace this accomplishment and our role as a global HR technology leader and builder of a new era of workforce insight and innovation. We look forward to sharing more about where we've been and more importantly, where we're headed at our 2025 Investor day, which will take place on June 12.

This morning, we reported strong second quarter results that included 8% revenue growth, 60 basis points of Adjusted EBIT margin expansion and 10% Adjusted EPS growth. These results reflected strength across our employer services and PEO segments.

I'll begin with some additional financial highlights before providing an update on the progress made across our strategic priorities. We delivered solid employer services new business bookings with record volume for a fiscal second quarter.

Growth was notably strong across our HR outsourcing, compliance and enterprise businesses as well as our small business offerings. With a continued healthy demand backdrop and a new business pipeline that is up from this time last year, we look forward to a strong second half of the year.

Employer services retention declined slightly compared to the prior year. But once again, modestly exceeded our expectations. We continue to benefit from a strong overall business environment and very high client satisfaction levels.

In fact, our client satisfaction levels reached a new all-time high in the second quarter and through the first half of our fiscal year. Employer services pays per control increased 1% in Q2, decelerating from the 2% growth in Q1. The US labor market remains strong and our clients continue to hire albeit at a slightly slower pace. Finally, PEO revenue growth of 8% was driven by strong PEO new business bookings and faster zero margin pass through growth.

Now let's turn to our strategic priorities where we delivered another quarter of considerable progress. During the second quarter, we announced a strategic partnership with Fiserv that brings Fiserv's leading small business solutions specifically Clover, its cloud based point of sale and business management platform and cash flow central, its accounts payables and receivables management platform together with RUN our industry leading small business payroll and HR solution.

Helping small businesses thrive has been ADP's mission since day one and we are excited to partner with Fiserv to advance this goal and to support the millions of small businesses that drive the US economy. Through this partnership, ADP and Fiserv will offer US based small businesses access to an integrated all in one solution, combining the full power of RUN and the Clover small business management platform. In addition, CashFlow Central will be available to RUN clients, enabling our mutual customers to manage their cash flow more efficiently.

These integrated solutions will make it easier than ever for small businesses to manage the flow of money into and out of their business, whether they are selling to customers paying bills or managing payroll. We initiated mutual client referrals to our respective offerings during the second quarter and our teams are working closely to deliver the integrated solution in the coming months.

Our WorkForce Software acquisition which closed in mid-October is progressing well and in line with expectations. We are thrilled to have WorkForce Software's associates join ADP and our teams are working to integrate WorkForce Software's time and attendance, absence management and scheduling tools with key ADP HCM platforms.

While that happens, the WorkForce Software team is focused on maintaining its momentum and delivering best in class solutions, and in Q2, we experienced healthy new business activity across our new WorkForce Software offering as well as our other existing WorkForce management solutions.

In addition, we have already started to see new business opportunities that validate the growth anticipated from the combination. For example, Workforce Software's, enterprise focused industry specific solutions are a strong fit for clients allowing us to better compete and win a wide range of industry verticals and geographies.

Similarly, we are seeing opportunities to offer ADP HR and payroll solutions to workforce software clients looking for a full suite HCM solution. With the addition of workforce software, ADP is uniquely positioned to provide clients with a global HR payroll service and time solution. And this value proposition is generating excitement in the marketplace. We remain confident in our opportunity to accelerate our growth in the workforce management and enterprise spaces.

Following the successful introduction of ADP Lyric, our flexible intelligent and human centric global HCM platform, the product continued to generate strong interest in the marketplace during the second quarter. Lyric's new business booking volumes increased again and its new business pipeline ended the quarter up significantly compared to last year.

One client that started on Lyric in Q2 is a large recreation management company in the Midwest that operates nearly 20 parks, a nationally acclaimed zoo and nine golf courses. The client selected Lyric for cutting edge user experience and to simplify its personal management activities and payroll processes.

It went live with the full suite including HR, payroll time benefits, recruiting and talent management and is very pleased with the outcome. Since Lyric is a global platform, we remain focused on expanding its already broad international reach to capitalize on what we see as a significant global opportunity.

Before I turn the call over to Don, I want to take a moment to express my gratitude to our associates for their dedication and hard work. Their unyielding commitment to our clients inspires me each and every day. It is these efforts that continue to contribute to our record client satisfaction scores. Thank you again for all that you do for ADP for each other and for our clients. Let's continue to build on our momentum and strive for even greater success together. Don?

Donald McGuire - ADP Inc - Chief Financial Officer

Thank you, Maria, and good morning, everyone. I'll start by providing some more color on our second quarter results and then update our fiscal 2025 outlook. Let me begin with our Employer Services results and outlook. ES segment revenue increased 8% on a reported and 7% on an organic constant currency basis in the second quarter.

As Maria mentioned, ES new business bookings growth was solid. With a healthy HCM demand backdrop and higher new business pipelines compared to last year, we are maintaining our 4% to 7% full year growth guidance.

ES retention declined slightly in Q2, and we continue to forecast a modest decline of 10 basis points to 30 basis points for fiscal 2025. ES pays per control growth of 1% came in slightly below our expectations, but we are maintaining our forecast for 1% to 2% growth for the full year.

Client funds interest revenue increased by more than we anticipated, driven mainly by stronger growth in average client funds balances. For the full year, we are increasing our forecast for client funds interest revenue and the net impact from our extended investment strategy by \$25 million.

Despite recent FX headwinds more than offsetting the increase to our client funds interest revenue forecast, we are maintaining our outlook for full year ES revenue growth of 6% to 7%. Our ES margin increased 90 basis points in the second quarter, reflecting operating leverage and client funds interest revenue growth. We continue to forecast ES margin increasing 40 basis points to 60 basis points for the full year.

Moving to the PEO. Revenue growth of 8% and average worksite employee growth of 3% slightly exceeded our expectations. Revenue growth benefited from strong new business bookings, accelerating zero-margin pass-through growth, wage growth and the timing of state unemployment insurance revenue. With continued healthy new business activity levels, we are maintaining our full year forecast for PEO revenue growth of 5% to 6% and average worksite employee growth of 2% to 3%.

PEO pays per control growth stabilized in Q2, but we continue to expect it to grow slightly slower than ES pays per control growth for the full year. PEO margin decreased 140 basis points in the quarter, impacted by higher zero-margin benefits pass-through revenue growth and an increase in workers' compensation and state unemployment insurance costs. We continue to expect PEO margin to decrease between 70 basis points and 90 basis points for the full year.

Putting it all together, we are maintaining our fiscal 2025 outlook for consolidated revenue growth of 6% to 7% and Adjusted EBIT margin expansion of 30 basis points to 50 basis points. We continue to expect a full year effective tax rate of around 23%. Our fiscal 2025 Adjusted EPS growth forecast of 7% to 9% is also unchanged.

There are two cadence matters I would like to highlight. First, we mentioned the timing of PEO state unemployment insurance revenue and we likewise had some favorable revenue timing in our ES segment in Q2 related to the calendar.

We expect these factors as well as the strengthening US dollar and the impact of lower short-term interest rates to result in a deceleration in both ES and total revenue growth in Q3 before growth trends reaccelerate in Q4.

Second, we expect Adjusted EBIT margin expansion and Adjusted EPS growth to be lower in Q3 than in Q4 to reflect the lower revenue growth as well as the timing of integration expenses associated with the WorkForce Software acquisition.

Thank you. And I'll now turn it back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Samad Samana, Jefferies.

Samad Samana - Jefferies - Analyst

Hi, good morning. Thanks for taking my question (inaudible) and great to see the strong end to the calendar year the last year, Maria and team. So congrats on that. I guess, first question just on the Fiserv partnership, that's obviously exciting news.

Is that going to be a referral between the two organizations? Is there a co-development on the product? And maybe just help us think about is there any kind of revenue share associated within? And should we see this as the beginning of more of an ISV-driven strategy? I know it's a multi-parter, but there's a lot there.

Maria Black - ADP Inc - President, Chief Executive Officer

Yes, sure. Good morning, Samad and thank you for the accolades on the strong finish, certainly excited as well about it. With respect to the Fiserv relationship, we're incredibly pleased to enter into this relationship. If you think about our two organizations, they are two companies that are

anchored in serving the small business market and have always believed in making things easier for that small business owner to navigate being in business.

So if you imagine two great companies coming together, 2 great distribution arms coming together to really solve what I believe are real things for real clients in the real world, if you will. So to answer your question, we are, at this point, in a referral relationship back and forth. That's what we've done to date, but you're exactly right as we think about integration of the products long term. And so the RUN offering will be embedded inside of Clover and vice versa.

So Cash Flow Central will be embedded inside of RUN. And so that ability to really have a joint offering from the technology side is what we're working on and what we -- what is to come, if you will. But thus far, we're really encouraged by what we're seeing so far with respect to the distribution arms, passing leads back and forth between the two great companies.

I think you also asked is this the beginning of more relationships, and I think my answer would be we believe in partnerships. We believe in the ecosystem. Certainly how we go to market, specifically in the downmarket today, is through the great strength of our distribution, but through that great strength of our channel partners, be it banks, be it the accountant channel and now be it this channel with Fiserv.

Samad Samana - Jefferies - Analyst

Great. And then maybe just one follow-up. On the enterprise side, I know that with the rebranding to Lyric, there's been a lot of focus on that. You sounded very good about it last quarter. You called it out for bookings this quarter. Are you seeing -- is this kind of a clear inflection now? Is it fair to say that? And how should we think about maybe the impact of bookings or what's built in the forecast of this year from the enterprise side of the business?

Maria Black - ADP Inc - President, Chief Executive Officer

Sure. So it is clear that Lyric is resonating really well in the marketplace. And just real quick for everyone, Lyric is the new name for our Next Gen HCM solution. And it is really anchored in flexibility, intelligence. It's human-centric and design.

So we believe it's a really strong product offering. I believe the market is seeing that as well based on what we're seeing with respect to client adds, the pipeline building. I think the pipeline is incredibly strong year-on-year.

We do expect Lyric to contribute to our growth this year from a new business bookings perspective. But again, it is still early days and so it will take some time to scale and for it to overall dent the financials of the organization. But the offering is resonating with our global enterprise clients, and we're really excited in terms of the receptivity we're seeing in the market.

Samad Samana - Jefferies - Analyst

Great. Thank you so much for taking my question.

Operator

Bryan Bergin, TD Cowen.

Bryan Bergin - TD Cowen - Analyst

Hi, good morning. Thank you. My first question on demand, so it's good to hear the continuation of a healthy backdrop here. Can you double-click on how that's progressed across the client segment size? And I'm curious as the calendar turn just post-US election, did you note any changes or anything that's worth calling out in bookings specifically on what you see in the US versus international?

Maria Black - ADP Inc - President, Chief Executive Officer

Sure, Bryan. Good morning. So demand is strong. It's broad-based. We feel good about the overall HCM demand. We also clearly benefit from having a great sales and marketing organization. I would say across the various segments in the downmarket, downmarket companies, they're still hiring, they're still buying. They're still navigating being small business owners as we just talked about.

There are a couple of pockets. I think we're keeping a watchful eye on things like new business formations, which seems to have a little bit of pressure this fiscal year. But it's still at an elevated level, if you will, from a pre-pandemic standpoint.

In the mid-market, we are seeing that strength in HR outsourcing. I mentioned that in the prepared remarks. And that's a differentiation for us in that mid-market space. Really excited to see the extension there. And then we've talked over the quarters about the investments we've made into our mid-market product, Workforce Now, the record NPS, the record retention. And so we have a nice mid-market story to meet that demand across the mid-market segment.

I think with respect to global and upmarket, I tend to say every quarter we're always keeping a watchful eye just given the uncertainty in the global space and economic backdrops. But at this point, we don't see anything that would be alarming. And I think, generally speaking, we feel really good and broad-based about the pipeline strength heading into the back half. But as we all know, we're a back half business. We have a lot to execute against.

You asked about the new administration and anything that's changed. I think it's too early to call whether or not we're seeing a demand change as a result of the new administration. But the good news is there seems to be a lot of activity, and change is good for ADP. As companies navigate change, we're there to help them stay compliant. And so we're looking forward to helping our clients sort through what undoubtedly seems to be quite a bit of change.

Bryan Bergin - TD Cowen - Analyst

Yes, for sure. Okay. Appreciate all that detail. And then on the '25 outlook here. So Don, appreciate the cadence clarifications. For the full year outlook, when we think about you affirmed the range on EPS growth, just any indications on kind of comfort levels within that range as you move through the second half. How should we be thinking about the EPS here as it relates to kind of upside potential as the curve remains elevated versus potential FX headwinds from dollar strength?

Donald McGuire - ADP Inc - Chief Financial Officer

Yes, Bryan. So I think you touched on it right there at the end. It's the FX headwinds that are really causing us to see some slowdown. But I'd also say that, particularly in the third quarter, which is by far our largest average daily balance time as the new taxes -- or sorry, as federal and state taxes kick in again at the start of the year, that's when we tend to have the highest balances. And all those funds or most of those funds are short. And short-term rates are down 100 basis points year-on-year. So that's what's put more pressure on Q3, in particular, before it rebounds into Q4.

So I think that's the trade-off. It's the FX headwinds are causing some grief and then, of course, the short nature of the investment portfolio in the third quarter as a result of the various taxes kicking in at the start of the calendar tax year.

Bryan Bergin - *TD Cowen - Analyst*

Okay, okay. Appreciate that. And congrats on the 50 years of dividend increases.

Maria Black - *ADP Inc - President, Chief Executive Officer*

Thank you.

Operator

Ramsey El-Assal, Barclays.

Ramsey El-Assal - *Barclays - Analyst*

Hi, thanks for taking my question. Good morning. Don, would you comment a bit further on the drivers of the implied slower PEO revenue growth in the back half? I know there were some timing-related issues. Can you just sort of parse that out for us and help us understand a little better why that should decelerate the way you've implied it will.

Donald McGuire - *ADP Inc - Chief Financial Officer*

Well, we certainly have the -- so we talked a little bit also in the prepared remarks about the pull forward of some SUI into Q2. So that was really just the way the calendar fell with New Year's Day happening when it did in the holiday. People processed at the back end of Q2 as opposed to Q3. So that pulled some of the low-margin SUI into the second quarter as opposed to letting it fall into the third.

And then, of course, we are in our renewals time so we're looking at that. Pays per control continue to be -- as we said, we expect pays per control growth in PEO to be a little bit slower than they were in there -- or they are in ES.

Do want to clarify in ES, while I'm saying this though, that we did round down to 1% pays per control growth. And yes, we didn't round up, we rounded down. So pays per control growth was a little bit slower than expected, but it was still above the 1% rate. So I think those are really the primary drivers of what's slowing the PEO growth in the back half.

Ramsey El-Assal - *Barclays - Analyst*

Got it, okay. And then a follow-up for me. In the context of the Paychex-Paycor acquisition, do you see any changes in the M&A environment or in your appetite to do deals?

Donald McGuire - *ADP Inc - Chief Financial Officer*

Yes. I guess, I'd say that our views on M&A really haven't changed. I think that over the years, the things we've looked at, we really haven't thought the regulatory environment has really been an encumbrance to us doing anything. There's still incredible amount of fragmentation in the industry.

So I think we're going to keep to our principles. We need to make sure the things that we acquire complement our offerings and don't complement -- or complicate them. But certainly, we continue to look. I mean, you should expect to see -- as we've done over the years, expect to see some tuck-ins, they're very important for us and they have contributed to us getting better control over our network, et cetera. So you may see some of those going forward. But I don't think that there's going to be any changes based on potential new regulation that would result in us seeing a much different stance on M&A than we've had to date.

Ramsey El-Assal - *Barclays - Analyst*

Got it. Alright. Thank you very much.

Operator

James Faucette, Morgan Stanley.

James Faucette - *Morgan Stanley - Analyst*

Great. Thank you very much. Appreciate all the times this morning. Want to ask quickly about retention. Last quarter, you flagged you saw a little bit of a retention degradation, but it wasn't really specifically attributable to an uptick in small, medium-sized bankruptcies and instead kind of rather broad-based off-peak hiring levels. What specifically did you see in the quarter on that latter point? Are we seeing kind of hiring levels move around at all? And what's the assumption in the back half for -- and is the assumption for the back half that small, medium-sized business bankruptcies will pick up again?

Maria Black - *ADP Inc - President, Chief Executive Officer*

Yes. That is the assumption, James, in the back half. Good morning. So retention, as you noticed, we did beat modestly, again, on retention. I'm very pleased to see that because the biggest piece is if we're beating modestly on retention, that does mean that ultimately small business owners are staying in business so that makes me even more happy for them as well as our results.

We did see a little bit of a degradation, if you will, in the downmarket. So we believe we're almost all the way normalized. We're not quite there, it declined. It declined modestly in the first quarter, declined modestly in the second quarter. That said, we do continue to beat.

So based on what we're seeing and the fact that across each one of our segments, we've really been at that record retention levels, we believe it's prudent to keep our retention guide as is. But I'm optimistic, as I'm sure we all are, to hope that specifically small businesses stay in business.

James Faucette - *Morgan Stanley - Analyst*

Great. Appreciate that. And then I wanted to do a little bit of a status check on some of your AI and machine learning-driven initiatives. You guys have always been very front-footed on that, and I know that kind of ebbs and flows as a topic. But I'm wondering if you can just give us an update on service and sales efficiency efforts with some of your Gen AI projects. And if you have any examples that you could provide of how your Gen AI initiatives are impacting client retention or sales productivity or any other metric you may want to touch on.

Maria Black - *ADP Inc - President, Chief Executive Officer*

Yes, sure. So I'll start, and I certainly welcome Don to chime in here with respect to the results that we're seeing. But we are laser-focused on our generative AI strategy, on our overall approach. And just to kind of level set and remind everybody, the way that we've been thinking about it is really in three, call it, specific buckets, which is putting generative AI into our products. That's what we call ADP Assist.

That's making our products more usable and better for our clients. It's putting generative AI into our service organization. So think of that as Agent Assist, but that's part of the overall ADP Assist umbrella. And that specifically, James, kind of answers your question around service and things of that nature.

Some of the things we've spoken about in the past that are already making meaningful impact are with respect to things like call summarization. So I think I cited before that we're shading off one minute per call, which may not sound that exciting to everybody that one minute per call, but when you take lots and lots of calls, it adds up pretty quickly. So we continue to make a meaningful impact on some of those tools.

Other things we've cited in the past, digital transformation as it relates to implementation. And so the small business organization is at really record levels as it relates to end-to-end digitally onboarding clients using new tools that are anchored in generative AI. So that's kind of the service side.

By the way, I could go on and on about this topic. Switching gears really quickly to the go-to-market. We've been undergoing a sales modernization effort, and I'd argue, for two decades. We have one of the most meaningful sales modernization tech stacks that exist. Think the likes of best-in-class technology to enable our sellers.

Some of the things that we've talked about is opportunity prioritization. So think about putting the right lead in front of the right seller at the right time to drive value into the sales process. We're doing things like rapid pre-call planning. So this takes me back to my olden days where I used to have to pull everything up on the Internet or MapQuest and try to study what I should say to a certain client. These are all tools now that exist that are helping our sellers become more effective on their sales calls.

And the way that you see that and quantify it -- certainly, the end game there is more sales. But it's really this balance between as we invest into our sales modernization and these various pieces of technology, it's really driving productivity. So we had a natural lift right now in productivity just based on the tenure that we're seeing in our sales organization.

So if you imagine, as we're bringing on new associates, we're also building tenure in the existing sales force. So new associates are able to become more productive, and existing associates are also able to become more productive.

Part of that is anchored in tenure. A lot of that is anchored in these tools that we're investing in. And the long-term output of that is more sales and more sales productivity. So I think I've said a lot, but I'll offer, Don, if there was anything you wanted to add to that.

Donald McGuire - ADP Inc - Chief Financial Officer

No, I'd just add that we are seeing good efficiency and good productivity, but I would say that we still have these tools in many of our associates' hands, but there's still many more to get the tools. And when they get those tools, we expect to see even more positive results.

So we'll watch the productivity improvement, and hopefully, we see those things reflected in the margin. Of course, we have made some minor investments in these tools themselves. So the bottom line impact is going to be over the longer term and certainly not short term, but very, very positive results from everything we're seeing and everything we're doing.

James Faucette - Morgan Stanley - Analyst

That's great. Thank you so much.

Operator

Mark Marcon, Baird.

Mark Marcon - Robert W. Baird & Co. - Analyst

Hey, good morning, Maria, Don and congratulations on the strong end of the calendar year and obviously the 50 years for the whole organization. On the strategic side, with regards to Fiserv and Clover, it sounds really promising. How meaningful could it be? Like if we fast-forward two years or three years, how do you envision the partnership working?

And could it be expanded above and beyond RUN? Because I think for some clients, it might also be pretty relevant on the lower end of Workforce Now. So I'm wondering how you're thinking about that. I know it's early days but wondering if you can just give us a feel for that.

Maria Black - ADP Inc - President, Chief Executive Officer

Sure, Mark. And first and foremost, thank you for the accolades on the 50 years. You've been a big part of that over the years, so I appreciate all the interest you've had to help us along and certainly this interest in our go-forward strategy.

I think you hit the nail on the head. We have all sorts of plans and visions just how far we can go. Again, if you think about that downmarket ecosystem and how we go to market today, it is primarily through channels.

I think we've cited in the past specific numbers around how we distribute through those channels, be it banks, be it CPAs. Certainly through POS channels or merchant services channels such as Fiserv, this could be a meaningful channel for us. That is why we've engaged and we believe in it.

So when I -- if I was to fast-forward 5 years, I think it's a channel that we speak to very similarly to the way that we speak to the accountants and the banks today. And I think about two, again, great products, great companies and great distribution engines coming together to really drive that value into the overall small business space. Could it go beyond small business? I think the answer is a little bit to be determined. I think that's something that as we see the traction in the downmarket, we'll continue to challenge ourselves.

Listen, I -- it's very simple for me. To me, it's -- the guiding principle is always about the client. And if we have an opportunity to solve real challenges for business owners, be it small, be it mid, be it up, upmarket, we're all about that. And Fiserv is as well, and I think that's what makes this so exciting. So anything we can do to make things easier to navigate being in business, we're here to help.

Mark Marcon - Robert W. Baird & Co. - Analyst

That's great. And then on WorkForce Software, it sounds like everything is going according to plan. As you think through the next fiscal year, how well integrated will it be by -- for fiscal '26, do you think? And how meaningful could that end up being with regards to the upmarket?

Maria Black - ADP Inc - President, Chief Executive Officer

Sure, Mark. So we are actively working through that from a plan perspective right now. So I'm pleased to say everything is on track. We actually just rounded 100 days. It's amazing, time flies when you're having fun. But last week, we celebrated 100 days in.

And at this juncture, what we've done is welcome the WorkForce Software associates. We folded them into the ADP family. Really pleased to see how the milestones that we've accomplished in the first 100 days have come along. And in there, thus far, it's really taking a look at the go-to market.

So as we talked about last quarter, they have a meaningful set of clients. And so as we look at their client base and our client base and comparing pipelines, really that ability to go to market together to ensure that we're winning consistently on the WorkForce Software and the time and labor management side, that's been a big piece of the focus.

And then as you can imagine, working through the integration is really the next set of pieces. So I don't think we're in a spot yet to declare necessarily exactly by when, but that is a big piece of the work that is being done. And we're really excited about what this is going to mean to us from an opportunity in the workforce management space, but also in the enterprise space, in the global space as we bring this product also together with the Lyric offering.

Mark Marcon - *Robert W. Baird & Co. - Analyst*

Terrific. Got tons of questions, but I'll leave it there. Congratulations again.

Maria Black - *ADP Inc - President, Chief Executive Officer*

Thanks, Mark.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Hi, guys. Good morning and congrats on the solid results. Just a clarification on the Fiserv partnership just on the economics. How do the economics exactly work between the two companies? Is it a percentage of sales as a onetime fee? Is it a recurring fee? Just curious on how that relationship works on both sides.

Maria Black - *ADP Inc - President, Chief Executive Officer*

So I don't know that we want to get into the specifics of exactly how we orchestrated it, but the answer in a broad sense is both. So there is a referral piece to it. There's also revenue share over time that really drive the financial for both of us to make this an accretive proposition for us to go to market together.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. That's helpful. And then just as a follow-up, just thinking about selling season and targets for kind of new client growth and what is the pricing environment? What kind of pricing yield do you think you'll be able to get in the key new selling season?

Donald Mcguire - *ADP Inc - Chief Financial Officer*

Yes, Bryan, I don't think we're seeing anything unusual. The competitive environment continues to be pretty much the same. Nothing's happening. There's always promotions. We have promotions, other folks have promotions, et cetera. But things are feeling the same as they were previously. So not seeing anything unusual.

In terms of price increases for existing clients, as we said, we're targeting about 100 basis points this year, which is more than the 50 we've got historically, but less than 150 we got during the couple of years of heavy inflation. But -- and the 100 points -- 100 basis points is looking pretty attainable, and our clients are staying with us as the retention rate shows. So we think it's something that's achievable for us.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. That's helpful. Thanks, guys.

Operator

Jason Kupferberg, Bank of America.

Jason Kupferberg - *Bank of America - Analyst*

Thank you, guys. Good morning. I just wanted to start on bookings. The tone there continues to sound quite upbeat. I know the guidance for the year is unchanged at 4% to 7%. I was hoping you could talk qualitatively at least about how you're tracking to that guide this year versus last year. Just wondering whether or not the visibility on the full year bookings is higher now than it was at this time last year?

Maria Black - *ADP Inc - President, Chief Executive Officer*

Yes. Perhaps the best way to answer that question is with respect to pipelines year-on-year. So the pipelines are in good shape overall. They are up year-on-year. Just to clarify, when we talk about pipelines, that's really a mid-market, upmarket, international term, right, as you're able to actually see the longevity of a deal and how a deal is moving through the sales motions. And we feel good about pipelines year-on-year.

In the downmarket instead of pipelines, we really talk about things like activity. How many new appointments are we going on? How many RFPs are being handled in our PEO? So again, we feel good about the activities. We feel good about the RFPs. We feel good about the pipelines year-on-year heading into the back half.

What I would say is all across, and I mentioned it earlier, all across ADP, we are a back half company as it relates to sales. We still have a lot of execution to get done, but we feel good with respect to our position year-on-year.

Jason Kupferberg - *Bank of America - Analyst*

Understood. Okay. And then maybe one for Don. Appreciate all the moving parts here in the back half of the year. But can you just put maybe a finer point on Q3 versus Q4, how we should be thinking about revenue growth and margin cadence just so that we've got the pieces calibrated?

Donald McGuire - *ADP Inc - Chief Financial Officer*

Yes. So just to reiterate, I think the -- I'll do these in order of importance. I think the FX, number one, is having a revenue impact, which, of course, will fall through and have a margin impact. The CFI, of course, is bit of a challenge given the 100 basis points drop and how much of the portfolio is in the short position. And of course, in the third quarter, we're also really getting going here with all the integration expenses, whatnot, with respect to WorkForce Software.

I'll also call out now that when you see the 10-Q, you'll see a very detailed breakout of all the items that -- all the breakdown of the goodwill and all of the line items and the intangibles, et cetera. So you'll be able to have some very clear insight into amortization times, et cetera, and get a view of how that's going to look over the coming years.

But certainly, we're going to see some softness in Q3 as a result of those factors. And then when you get back into Q4, we'll see growth accelerate a little bit more, but more -- slower growth in Q3, a bit faster growth in Q4 bringing us to our reiterated guidance for the full year.

Jason Kupferberg - Bank of America - Analyst

Okay. Thanks a lot.

Operator

Scott Wurtzel, Wolfe Research.

Scott Wurtzel - Wolfe Research, LLC - Analyst

Hey, good morning, guys. Thank you for taking my question. So I wanted to start on the PEO segment. One of your peers had called out maybe some dynamics with clients opting into lower-cost benefit plan. So just wondering if you've been seeing any changes in benefits enrollment behavior recently?

Maria Black - ADP Inc - President, Chief Executive Officer

So not really, Scott. I think for our purposes, we're actually heading into our renewal season here in the back half of our fiscal year in the PEO. So a bit to be determined, if you will, but not really, not thus far. I think some of the PEOs, just to remind everybody, we're all somewhat structured differently. Some of us have ASO offerings, HRO offerings. Some of us have different ways that we fund our health plans.

As you know, the PEO, ADP TotalSource, we're fully insured on the health side. And so the behaviors don't always match each other and we've really not called out those swings in the past. We do have an HR outsourcing offering, I mentioned it earlier. It has contributed great results from a bookings perspective, and we expect that both from that offer as well as the PEO. So I think we see strength across both, and we don't really see the swings back and forth.

Scott Wurtzel - Wolfe Research, LLC - Analyst

Got you. That's helpful. And then just as a follow-up, Don, on the softer pays per control growth maybe relative to your expectations, was that in any specific pockets of your client base?

Donald McGuire - ADP Inc - Chief Financial Officer

No. It was pretty broad-based. It was not -- no specific industries or regions of the country, et cetera. Pretty broad-based.

Got it. Thanks, guys.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - JPMorgan Chase & Co - Analyst

Hi, thanks so much. Yes. So a couple of quarters of really strong pipeline. I think you've mentioned -- I'm just curious, do you see timely deal awards in the second half? And I don't know if I heard this, but are deal sizes getting larger in general? Just curious how the shape of the pipeline and the quality.

Maria Black - ADP Inc - President, Chief Executive Officer

I would say deal sizes and timing on deals is relatively consistent. And so I think we've talked about several times over the last couple of years we're kind of back to, I guess, the new normal or the old normal. So I think deal cycles move through motions very similar to how they operated prior to the pandemic.

That's not to suggest that you don't hear every now and then strangeness in timing. Certainly, the holidays this year fell differently. That had interesting impact to us, both from a revenue perspective, but also interesting impact on the sales side if you think about when deals kind of cross that line.

But listen, large deals are sometimes lumpy as well. And so I would say, generally speaking, things seem to be moving through the motions that they usually do. And it's really similar to how we think about the business pre-pandemic.

Tien-Tsin Huang - JPMorgan Chase & Co - Analyst

Glad to hear it. Just on the consolidation side, Maria, just I feel like we've seen some SMB players invest in mid-market solutions. Feels like an endorsement of the ADP's model. I don't know, do you see that as a trend? Love your thoughts on that.

Maria Black - ADP Inc - President, Chief Executive Officer

Well, first -- yes, first, I'll say thanks. I'll take that. There's nothing better than -- the best form of flattery is when somebody copies you, right? So no, all kidding aside, listen, the -- I obviously know the consolidation that you're referencing. I think for our end, it does validate having a broad-based segment approach. The breadth and depth of ADP continues to shine.

I would say with respect to the two players that are consolidating, we fared well against both of them. We expect that we will continue from a balance of trade to fare well against both of them. Who knows, maybe it presents itself to be a bit of an opportunity for us.

But I think as it stands, we are really strong about the position of our products and the best-in-class platforms that we have in each of the segments. So the RUN offering in the downmarket, the Workforce Now offering across the mid-market and HR outsourcing solutions inclusive of the PEO. And now with Lyric and WorkForce Software coming together, we feel really great about the offers that we have in each one of these segments.

Tien-Tsin Huang - JPMorgan Chase & Co - Analyst

That's great. Thanks, Maria. And way to get map plus into transcript, didn't expect -- Thanks. Have a good day.

Operator

Pete Christiansen, Citi.

Peter Christiansen - Citi Investment Research - Analyst

Thank you, and good morning. Lot of good stuff here. Maria, I wanted to talk about -- dig a little bit in your thoughts longer term perhaps on the adjacency of B2B payments, even treasury management solutions. It seems like a real natural adjacency for ADP. I know ADP established ADP Trust Company a couple of years ago. Just wondering how do you think about that longer term? We've seen a couple integrations with some other companies, even on the cross-border side with payroll. Just curious if you see this emerging as a real longer-term TAM expansion opportunity for ADP. Thank you.

Maria Black - ADP Inc - President, Chief Executive Officer

Yes. Sure, Pete. By the way, I'll take that as an offer to join us at our Investor Day because I think we're pretty excited to talk about the future of our strategy. And certainly, we think a lot about the various things that you're referencing, and we've looked, right? We've looked before -- by the way, we've been in the office of the CFO before.

I think this adjacency partnership that we're entering into with Fiserv, I think we're going to learn a lot. I'll go back to what I said earlier, which is really putting the client at the center of that solve, which means if we have the ability to come together with other companies through partnership or perhaps even deeper integration or perhaps even shared ownership or full ownership to solve real problems, those are always things that we are battling around from a strategic standpoint.

So I suppose more to come. That's not, by the way, to suggest there's some giants unveil, but we're pretty excited to share some of the things that we're thinking about for the future for ADP. We actually haven't done an Investor Day since November of '21. And a lot has changed, both in certainly how we are thinking about the business and some of the things that we've shared over the last couple of years. But certainly, the overall industry has changed and continues to evolve as well. So more to come, Pete, but certainly top of mind for us always.

Peter Christiansen - Citi Investment Research - Analyst

Thanks, Maria. It's very interesting. Looking forward to your analyst day.

Operator

Kevin McVeigh, UBS.

Kevin McVeigh - UBS - Analyst

Great. Thanks so much. I think, Don, you talked about kind of trends in the back half with the reacceleration in Q4 as opposed to Q3. Any puts and takes on what drives that reacceleration? I think it was specifically around ES or maybe the business overall?

Donald McGuire - ADP Inc - Chief Financial Officer

Yes. I think around -- it is around ES predominantly. I think the big difference is the client funds interest. The Q3, of course, is where we have the largest short portfolio and we don't have that in Q4. So that is what's going to -- so the impact of the short-term interest rates are going to be somewhat less in Q4 than they will be in Q3. And I think that's a significant piece of the puzzle.

The other part is that we do have some heavier expenses in Q3 where even though it's 100 days, we are still in the early days of the integration of WorkForce Software, so there are some heavier expenses in this coming quarter than there will be in the fourth quarter. But that's really about it. There's really nothing more detailed than that.

Kevin McVeigh - UBS - Analyst

That's helpful. And then just real quick on the retention. I know typically the Q2, right, the December quarter -- or Q1 rather, just any thoughts on what quarter seasonally would have the most outsized retention? Just remind us, I know there's some seasonal impact just given the January start. Just any thoughts around that.

Donald McGuire - ADP Inc - Chief Financial Officer

I think the -- seasonally, the retention tends to go up and down by quarter. But certainly, it's in Q3, that's when all the switching happens and whatnot. So that's where you'd see a bit of a dip, but of course, we compare the dip to the prior year's dip, et cetera. So nothing there unusual.

And as Maria said, we're -- even though we had a slight decline, we declined less than anticipated, less than expected, and we're happy with that. It means people are staying in business and clients are staying because they're happy. NPS scores continue to be high. So we're -- hopefully, we'll see some opportunity in the retention score for the whole year, but we're certainly happy with where it's at right now.

Kevin McVeigh - UBS - Analyst

Great. Thank you.

Operator

Kartik Mehta, Northcoast Research.

Kartik Mehta - Northcoast Research Partners, LLC - Analyst

Hey, good morning. Don, you talked about pricing and pricing being about 100 basis points versus 50 that it's historically been and maybe down from the 150 you saw previously. But I'm wondering, do you think the environment has changed? Is 100 basis points something you could see net pricing for the next couple of years or do you think we're just in a unique period where you're getting this a little bit outsized pricing?

Donald McGuire - ADP Inc - Chief Financial Officer

Kartik, good morning. Thanks for the question. I think that's a difficult one to speculate on for me because I guess it depends on what you think the economic forecasts are saying. Some are saying we should expect higher inflation, but who knows, not sure. We haven't seen whether some of the policies that are being bandied about are really going to be put in force and drive inflation or not.

So -- but I would say generally that if there's higher inflation, we will do our best or take the opportunity to continue to provide good value and make sure that we're passing our costs along. But it's -- once again, it's all about the long-term value of the client for us, and we'll do what we need to do to make sure that we keep that retention rate up. That's the most important metric for us when it comes to the pricing.

Kartik Mehta - Northcoast Research Partners, LLC - Analyst

And just a follow-up on the PEO. You've talked about pays per control being slightly lower in the PEO than ES. And I know that's kind of more of a near-term phenomenon. Is there anything changing in that business or the industry where you could see this trend continue or is this just a bit of an anomaly where the pays per control are lower than the ES business?

Donald McGuire - ADP Inc - Chief Financial Officer

I think we've been talking for several quarters about PEO, and we've been happy to talk the last couple of quarters about stabilization and improvement. So hopefully, things are going to go back and look better. Historically, as you know, the pays per control growth in PEO has been better than it has been in the ES segment. But I think we're happy with where we're at right now, and we'll see how it materializes. But I don't know if there's any particular drivers.

I will say that for the quarter, we saw stabilization across most of the industries where we provide the services. So that was a positive thing to see, in particular, or in the financial administrative, it stabilized and that had been an area of weakness for us in the past, but it has stabilized. So we are comfortable with where we're at and looking for it to improve.

Kartik Mehta - *Northcoast Research Partners, LLC - Analyst*

Perfect. Thank you very much. Appreciate the time.

Operator

Dan Dolev, Mizuho.

Dan Dolev - *Mizuho Securities USA LLC - Analyst*

Hey, guys. Thanks for squeezing in here. I did notice -- I know we talked -- you talked a lot about the backlog, but I did notice a slight change in maybe language or formulation. I believe last quarter, you said clients continued to hire at a moderate pace and now you're saying albeit at a slower pace.

I just want to know maybe more about from your experience, you've obviously been doing this for a long time. When this slowing train starts rolling, is it a trajectory that could change? Is this like maybe just a hiatus? Just more like long-term perspective on this one would be great. And other than that, obviously, really strong results and love it. Thank you.

Donald McGuire - *ADP Inc - Chief Financial Officer*

Yes, Dan, I guess I'd answer that by saying that the macro environment continues to be very, very strong and solid. The labor environment, strong, 4.1% unemployment. I think the fundamentals are good. And so I think that the hiring and companies still being profitable and there seems to be an awful lot of optimism in the US market, in particular. So I think that all bodes well for pays per control and overall growth.

And of course, we do have the opportunity that we also have operations outside of the US, so we can see opportunities there and manage the portfolio in that way. But I would say I think really the only way to answer that question is just around the macro environment, and it continues to be quite solid.

Dan Dolev - *Mizuho Securities USA LLC - Analyst*

Got it. Thank you, and congrats again on being a thought leader on HCM, looks like your competitors are taking a page off your book now. So congrats again.

Maria Black - *ADP Inc - President, Chief Executive Officer*

Thank you.

Operator

Thank you. This concludes our question-and-answer portion for today. I am pleased to hand the program over to Maria Black for closing remarks.

Maria Black - ADP Inc - President, Chief Executive Officer

Thanks, Michelle, and thank you again to everyone for joining and for the compliments and the encouragement and the interest in ADP. I did want to share something very exciting, hot off the press. ADP has been named once again by Fortune Magazine as for the 19th consecutive year on the distinguished list of being a World's Most Admired Company in 2025.

This recognition for me means everything because it's a true testament to our associates that really make this company the great entity that it is, serving so many clients across so many segments and so many markets in such a changing environment for our clients to navigate each and every day. So I'm super proud to share this news with all of you. And congratulations to all the ADPers on this well-earned accomplishment. 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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