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ADP.OQ - Q3 2025 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 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 - *Automatic Data Processing Inc - Vice President, Investor Relations*

Thank you, Michelle, and welcome, everyone, to ADP's third-quarter fiscal 2025 earnings call. Participating today are Maria Black, our President and CEO; Don McGuire, our CFO; and Peter Hadley, our Treasurer.

Earlier this morning, we released our results for the quarter. Our earnings materials are available on the SEC's website and our Investor Relations website at investors.adp.com, where you will also find the investor presentation that accompanies today's call.

During our call, we will reference non-GAAP financial measures, which we believe to be useful to investors and that exclude the impact of certain items. A description of these items along with a reconciliation of non-GAAP measures to their 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.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Thank you, Matt, and thank you, everyone, for joining us. Before discussing our third-quarter results, I want to take a few moments to acknowledge this morning's press release announcing our CFO transition. Don McGuire has enjoyed a remarkable career at ADP, initially joining ADP Canada in 1998 as Vice President of Finance. He would go on to profoundly shape our international business serving in a number of key leadership roles around the world, including its 2018 appointment to the position of President, Employer Services International.

In 2021, Don returned to its finance roots, taking on the role of ADP's CFO, where he has provided strong financial stewardship and valued strategic counsel, in particular, as I transitioned into my role as ADP's CEO. I am honored to call him a colleague and more importantly, a friend. Don, thank you from the bottom of my heart for your countless contributions to ADP.

And with that, as part of our orderly succession planning, I'm excited to share that Peter Hadley will succeed Don as CFO effective July 1 with Don assisting with this transition through the end of September. Many of you already know Peter through his participation in various investor meetings and calls over the course of the last year.

He joined ADP in 2002 and is also a global citizen, having held roles in both finance and operations for ADP in Europe, Asia, and the United States, including as CFO of our International and Enterprise business units, President of Asia-Pacific and most recently as Corporate Treasurer. Peter brings deep financial expertise, extensive knowledge of ADP and our industry and strong leadership and strategic skills to the position. You will have the opportunity to hear more from Peter at our Investor Day on June 12. In the meantime, I hope you will all join me in wishing Don well and in welcoming Peter to the CFO role.

Now on to our results. This morning, we reported solid third-quarter results that included 6% revenue growth, 10 basis points of adjusted EBIT margin expansion, and 6% adjusted EPS growth. I'm excited to share the progress we continue to make against our strategic priorities, but let's first review some additional financial highlights from the quarter.

We delivered another solid quarter of Employer Services new business bookings growth. In particular, we were pleased with the results across our US offerings with our small business, mid-market, and enterprise as well as compliance solutions offerings all performing well.

We, meanwhile, experienced a softer quarter for international bookings as a result of macroeconomic uncertainty in some of our key international markets. With healthy new business pipelines, we remain focused on delivering overall bookings growth within our guidance range.

Employer Services retention again modestly exceeded our expectations, declining slightly compared to the prior year. This continued strong retention performance reflects client satisfaction scores reaching record highs for third quarter and on a fiscal year-to-date basis, with the most meaningful improvements coming from our enterprise, international, and HRO businesses.

Our US clients continue to hire in the third quarter as our Employer Services pays per control growth remained at 1%. And last, PEO revenue growth of 7% exceeded our expectations, helped by higher wages, strong retention and continued growth in zero margin pass-throughs.

Now let's turn to our continued execution on our strategic priorities, which include leading with best-in-class HCM technology, providing unmatched expertise in outsourcing and benefiting our clients with our global scale. Our momentum with enterprise clients continued in the third quarter. New business bookings for ADP Lyric HCM increased substantially, and our pipeline for new Lyric business doubled compared to last year.

Among the new clients to start on Lryic during the third quarter was a leading provider of home healthcare services with more than 36,000 employees. This client is now live with HR payroll and time and plans to add recruiting and talent this quarter.

We were also pleased with Workforce Software's new business bookings with ongoing strong interest for its time and attendance, absence management, and scheduling tools from organizations across a variety of industry verticals and geographies. We continue to make progress in our work to tightly integrate the acquired Workforce Software business a key ADP HCM platforms.

We further strengthened our global payroll capabilities with our acquisition of PEI in Mexico in the third quarter. Based in Mexico City, PEI has provided robust payroll solutions, HCM expertise, and technology to local and multinational clients for 30 years and has been a valued ADP global payroll partner since 2009.

By integrating PEI's payroll expertise in Mexico with ADP's global reach and comprehensive HCM solutions, we enhance the experience we can provide to our local and global clients. In addition to PEI's products and solutions, the acquisition added nearly 300 experienced associates who bring deep local expertise as we continue to pursue growth opportunities across the Latin America region.

We supported our clients and partners by hosting a number of signature events during the third quarter. At the ADP ReThink event in Zurich, leaders from the world's largest organizations came together to share insights and lessons learned from their global transformations and to discuss challenges and opportunities in a rapidly changing HCM landscape.

At the ADP Meeting of the Minds event in Las Vegas, we hosted enterprise clients from across all industries, sizes and locations, together with industry experts to focus on one important mission, making work better. And at our Accountant Connect Summit, we provided more than 10,000 partner attendees with access to thought leaders who are shaping the future of the accounting profession.

During the third quarter, we also continued to advance our embedded payroll partnership with Fiserv. We are actively referring our clients and prospects to Fiserv's Clover point-of-sale solution, while Fiserv is referring its merchant clients to ADP's run payroll.

We expect our sales to accelerate as we complete our product integration work this year, enabling us to offer a differentiated integrated solution. We are excited by this relationship as well as the broader opportunities we see to grow our embedded payroll solution over time.

Finally, our focus on best-in-class HCM technology led to several recent awards, including RUN being named number one on G2's Best Software Products for small business, ADP Lyric HCM being named Data Solution of the Year for Human Resources in the 2025 Data Breakthrough Awards, and ADP Assist being named a winner in the 2025 Artificial Intelligence Excellence Awards presented by Business Intelligence Group, earning recognition for driving innovation and possibilities in AI.

We look forward to sharing more details around the strength of our product portfolio as well as our innovation road map at our upcoming Investor Day on June 12.

Overall, we were pleased with our strong financial and strategic outcomes in Q3. I'd like to thank our associates who continue to deliver exceptional products and service to our clients and whose efforts drive our client wins, industry recognition, and record client satisfaction levels.

Thank you, again, for all that you do for ADP and for our clients. Don?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Thanks, Maria, and good morning to everyone on the call. Before I start, I would just like to thank you, Maria, for the kind words. It has truly been a privilege to contribute to ADP's success over the years and to work alongside so many talented and committed colleagues. I am also happy to see ADP's CFO position being assumed by such a capable and innovative leader, and I look forward to working with Peter to ensure a seamless transition in the coming months. .

Now for some color on our results for the quarter and our updated fiscal 2025 guidance. Overall, we reported a solid third quarter with our consolidated revenue growth and adjusted EBIT margin coming in above our expectations. We are adjusting our full-year guidance to reflect our better-than-expected Q3 results as well as making a few other changes, which I'll detail.

Let me begin with our Employer Services results and guidance. ES segment revenue increased 5% on a reported and organic constant currency basis in the third quarter. As Maria mentioned, ES new business bookings growth was solid. Given the current macroeconomic uncertainty, a recent softer international bookings, and the importance of the fourth quarter, a range of new business bookings outcomes remains for fiscal 2025, and we are reiterating our 4% to 7% growth guidance.

With ES retention again coming in better than expected in Q3, we now forecast a decline of 20 basis points to flat for the year, which is better than our prior guidance. ES pays per control growth was 1% in Q3, and we now expect 1% growth for the full year.

Client funds interest revenue increased by more than we anticipated in Q3, driven by stronger average client funds balance growth. We are raising our full-year average client funds balance growth expectation to 5% to 6%. Our fiscal 2025 forecast ranges for client funds interest revenue and the net impact from our extended investment strategy each increased by $15 million at the midpoint.

In total, there is no change to our fiscal 2025 ES revenue growth forecast of 6% to 7%. Our ES margin increased 20 basis points in the third quarter, and we are narrowing our fiscal 2025 ES margin guidance to now expect growth of 50 to 60 basis points.

Moving on to the PEO. We had 7% revenue growth and 2% average worksite employee growth. PEO revenue, excluding zero margin pass-through growth of 8% was supported by higher wages and strong retention. PEO pays per control growth decelerated modestly from the second quarter.

To reflect our Q3 results as well as the ongoing benefits anticipated from higher wages, we are increasing our full-year PEO revenue growth forecast to 6% to 7%. And PEO revenue, excluding zero margin pass-through growth to 5% to 6%. We are maintaining our 2% to 3% average worksite employee growth guidance for the year.

PEO margin was flat in the quarter as strong revenue growth and favorable actuarial loss development in workers' compensation reserves were offset by higher workers' compensation and SUI costs. We now expect PEO margin to decrease between 60 and 80 basis points for the full year, which is slightly better than our prior forecast.

Putting it altogether, we are maintaining our fiscal 2025 guidance for consolidated revenue growth of 6% to 7% and now expect to come in towards the high end of this range. We are updating our adjusted EBIT margin expansion guidance to 40 to 50 basis points. We continue to anticipate a full-year effective tax rate of around 23% and now expect fiscal 2025 adjusted EPS growth of 8% to 9%.

As we look ahead to fiscal 2026, we wanted to share a few early thoughts. First, heightened levels of macro uncertainty are leading to projections for slower economic growth. With this in mind, we expect our pays per control growth to continue at below normal levels next year.

We will also continue to monitor any impact from the uncertainty in the global macroenvironment on international sales, particularly our larger multi-country deal activity. As a result of our laddering strategy, we remain positioned for continued tailwinds from our client funds portfolio as anticipated reinvestment rates remain above the average yield of our maturing securities, driving overall yields expected on the portfolio above fiscal 2025 levels.

As always, we will remain focused on driving growth in our new business bookings, maintaining strong client satisfaction and retention levels, and investing in our products and people to deliver sustainable revenue growth and margin expansion over time.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Ramsey El-Assal, Barclays.

Ramsey El-Assal - *Barclays Capital Inc. - Analyst*

Hi. Thank you for taking my question, And it's been great working with you, Don. Best of luck in the future and also congratulations to Peter.

Maybe I could ask about the softer international bookings that you called out, a little more color there. Is it sort of a particular regions, products? Any other color that you could give us there would be helpful.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yeah. Sure. So good morning, Ramsey, and thanks for joining us today. So I'll comment on the international bookings. So overall, the international space had executed, and we have several quarters of consistent strength. And what we saw in Q3 was a bit of softness.

And undoubtedly, we think the softness is anchored in the uncertainty in the macroenvironment. That said, though, the international space in general, these are large deals. They tend to be lumpy. We have strong pipelines. So from a broad-based perspective, the pipelines are strong, both in country as well as the global view offers and things of that nature, the multi-country deals.

However, we have a lot to get done, I guess, in the fourth quarter. So it is a little bit of a lumpy environment out there. These are lumpy deals, but the pipeline supports a solid finish to the year.

Ramsey El-Assal - *Barclays Capital Inc. - Analyst*

Got it. Okay. Thank you. Got it. Okay. And also on the -- you called out the Fiserv relationship. And I guess just more broadly on that embedded offering, what do you think of the growth opportunity there in the addressable market? Is there a large opportunity for embedded across potentially other distribution channels and partners?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Sure. So we are very, very excited about the Fiserv relationship. It is progressing well. This year, we are going to roll out the integration. I think there will be a leapfrog stage for both of us. So thus far, we're sharing referrals back and forth. We are perfecting the model from a distribution.

So you imagine our distribution being folded together with their distribution across our go-to-market, but also across our bases, in terms of the over 1 million clients that we have in RUN. And I think they're shy of 1 million, but nonetheless, the overlap is not 100%. So there's a tremendous amount of opportunity for us to address each other's bases.

And so -- we do think the game changer though will be when RUN is embedded into the Clover offer and CashFlow Central is embedded into the RUN offer. And that's forthcoming. So we're really excited about that. We do think that's big.

That said, we also believe that there might be an opportunity to extend that reach across multiple additional ADP platforms. So think taking it into potentially the mid-market, into other countries. We're both global businesses. So we think the reach just even within Fiserv is meaningful for us.

But to your question, beyond that, we're very excited about our embedded offer. We have it across a couple of other places. And in my mind, this is the proof point of really seeing how the integration can work from a technology perspective. But certainly, we are looking at other places that we have the ability to extend our reach through our embedded offering to really extend the total addressable market, if you will.

Operator

Dan Dolev, Mizuho.

Dan Dolev - *Mizuho Securities USA, LLC - Analyst*

Hey, guys. Great results, and it was a pleasure working with you, Don. It's -- I feel like everyone is a little bit confused. Results are great. You're talking about uncertainty. Some of the payment companies out there are still saying things are good.

Can you maybe tell us a little bit more in terms of when we say uncertainty, how much is it holding back on hiring? Or is it just people are worried? Like maybe just like concerns -- maybe you could parse out concerns versus actual actions, I would say, from your clients that would I think would really be helpful for investors.

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Yeah. Dan, thanks for the comments, and thanks for the question. What we're seeing, we're seeing a lot of stability in our base. I mean the underlying economic factors are still pretty strong for us in terms of unemployment is low. And yes, we are still rounding down to 1% PPC growth, so people still are hiring. There's some of that happening.

I think the uncertainty that we're seeing, though, as Maria mentioned earlier in the bookings comments, is these very large deals that perhaps span multiple countries. I think there's some apprehension there, if you will, to make decisions, although the pipelines are very strong, and these deals are always a long time in the making, because they are complicated and complex and they do reach into several corners of the globe.

But having said that, we're not terribly far off what we saw pre-pandemic, where it was always hard to find people to get signatures, et cetera. So we're still optimistic. And as we said, we -- in our own base, things are still going well. We watch bankruptcies. We watch clients who are active but not billing.

So things seem to be pretty calm for us. But we can't deny what we're hearing and what you're reading -- we're all hearing. So hopefully, these things settle down. But in our own base and day-to-day business, things are still pretty strong.

Operator

Mark Marcon, Baird.

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

First, Don, it's for the pleasure working with you. Hope you have all the best and enjoying your retirement. And Peter, welcome.

Maria, you mentioned international, and we just talked a little bit about the uncertainty. But I'm just wondering if you could delve a little bit more with regards to what you're seeing in terms of mid-market companies, the smaller companies that would typically use RUN. Are you hearing anything, or are your sales folks hearing anything about any sort of uncertainty pushing out delays? Or how is that impacting the PEO business we heard from a different player yesterday that ended up indicating that they were seeing a slowdown with regards to potential hires in their PEO business. So wondering about that? And then I've got a follow-up.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Sure. So I'll start. I think we talked a little bit about international. And Don shared that, broadly speaking, we feel solid about the pipelines, we feel solid about the execution. I think it's really about -- we have a lot to get done as we always do in the fourth quarter. So I think with respect to the mid-market, the down market and the PEO and the rest of your question, Mark, broadly speaking, we're very pleased with our results this quarter.

They're solid. And so I think from a distribution standpoint, we continue to execute. We continue to see that clients are investing in their people. So if you think about our industry versus what was shared earlier from Dan around, call it, the payments business, if you will, HCM is not discretionary as it relates to companies are investing in their people. They're investing in hiring. They're investing in talent, candidly. They have to pay people.

And so we're not seeing from a distribution and HCM demand perspective. Demand feels okay.

It feels -- as it relates to pipelines in the down market and PEO, we measure that more with respect to activity in terms of how many appointments or sellers are going on, how many RFPs are going through the PEO model. PEO bookings, there was growth in the third quarter. It was a little bit less than the second quarter. But at the same time, we have line of sight of good solid growth in the PEO to round out fiscal '25.

We also see good strength in the PEO and retention. So I think all things being equal, we feel good about the demand. It feels okay out there in the downmarket, mid-market, upmarket, PEO, even in international has pipelines to support the broad range of bookings guidance that we have.

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Yeah. Maybe, Maria, just to add on the PEO question, Mark, that you asked, our PEO bookings were good in the quarter. We were happy with them, and we did have a 2% worksite employee growth. So our pays per control were also a little bit better than we expected. So we were happy with PEO in the quarter for sure.

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

That's great. And then Maria, ADP has been doing a great job in terms of modernizing. Can you give us an update with regards to Workforce Software in terms of that being integrated and maybe even a little bit more color with regards to Lyric. It sounds like things are going really well from that perspective.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

They are, Mark. Things are going incredibly well. Just a reminder for everyone, we closed on that integration in October. We've been very busy since then. And so part of that busy-ness was the overlap of the pipelines and really seeing the go-to-market come together. It's also the integration of the overall offer and, call it, the organization into ADP.

So we are still working on the technology integration, and that's coming along incredibly well. We're really excited to see the sales force has come together. And from a go-to-market perspective -- I know I mentioned our ReThink events; I mentioned our Meeting of the Minds event. I think the thing that -- I wouldn't say has surprised us, but what really pleased us since October is how well this offer is resonating with our large clients in the enterprise and in the global space.

So we're really excited. In fact, we have a few wins that -- we were excited to see come through this quarter that candidly wouldn't have been wins without this offer in our portfolio, if you will. So we're really excited about the progress we've made. We're excited to see the integration come together, and I think it's going to continue to drive tremendous opportunity for us going forward.

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

Great. Thank you very much. Look forward to seeing you on June 12th.

Operator

Tien-tsin Huang, JPMorgan.

Tien-tsin Huang - *J.P. Morgan Securities LLC - Analyst*

Hey. Thanks so much And all the best to Don, of course. I wanted to ask on ES, it decelerated a couple of points and is running below the full-year range. I know you reiterated it for the full year and you're running on the higher side in the first half. But just wanted to make sure I understood what the factors were there for the change.

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Yeah. Tien-tsin, thank you. So on the revenue side, I think as we set up the third quarter, we mentioned that we had some poor calendar for us. So we had a bit of a stronger Q2 than Q3. So we expected that softness. There was a strengthening dollar that at that time that was causing us some grief. And we also expected that we were going to have some impact from declining short-term rates.

So we positioned Q3 to be a bit softer. And then we actually did better in Q3 on the revenue side than we had anticipated because those things didn't come to fruition, but -- or there was less impact.

As we look forward to Q4, we do expect a little bit of reacceleration. There's no anomalies in the calendars. FX is a little bit more favorable. And of course, client fund balances are really making an impact. They're growing based on higher wages more positively than we had expected.

But then if you look at the second half, we look at ES, and we think about margins, the real story on the margin side is that we would have had better acceleration in our margins. Certainly, we're getting some benefit from the higher rates. We are getting an offset to that, though.

We said Workforce Software integration was going to cost us about 50 bps, and we continue to think that's about the number for the full year. So that's having an impact. So that's the other aspect, and FX should be a little bit less unfavorable on the compare in the fourth quarter. So I think those are really the drivers for ES.

Tien-tsin Huang - *J.P. Morgan Securities LLC - Analyst*

Okay. Thanks for the complete answer. I knew we had the leap year thing in there, but I just -- yeah, I wanted to make sure we caught all that.

Just -- my quick follow-up just on the PEI, the Mexico acquisition, can you roughly size that for us? And I'm curious, can that be extended or pushed into other parts of the region, LatAm, et cetera?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

So PEI has been a long-time partner of ours since, I think, 2009. So it's been with us for quite some time. This is really a domestic Mexico company. It's important for us to -- yeah, so it's important for us to get in the ground. It's -- I don't even think it shows up in the cash flow statement. It was a sub-$10 million acquisition.

So a company we've been working with for a very, very long time, but it's a very much domestic Mexico. But certainly, we're enthusiastic and hopeful that we can grow in the domestic Mexican market and use it -- continue to use it as a Celergo partner as we have for many, many years now.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yeah. I think the only comment I would make is we're really excited about their deep expertise and obviously, the local contribution that it will make from a Mexico perspective, but we are also incredibly focused on our global expansion, and we have a big business in Brazil, a big business in Chile. I was there actually just a couple of weeks ago. So we continue to remain focused on overall international expansion, but specifically Latin America.

Operator

Bryan Bergin, TD Cowen.

Bryan Bergin - *TD Cowen - Analyst*

Hi. Good morning. Thank you. And Don, congrats and best wishes. And then Peter, we're looking forward to working with you.

My first question is on '26. So I appreciate the comments on PPC. I was hoping you could just dig in a little bit more on early 2026 thoughts. Any important considerations on implied 4Q '25 exit rates across the business that may be stickier versus those that may be at more risk? And can you remind us just how to think about relative installation in the business model in the face of a potential macro slowdown?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Okay. I'll say a little bit about '26 beyond what we said in the prepared remarks. I mean I think we wanted to make sure everyone understood the float impact and how our laddering strategy is going to work and -- if you have more detailed questions on that, you can certainly ask Peter; he's in the room here with us. So he can answer that question if -- we want him to do that.

But I think I also don't want to run Investor Day coming up on June 12. So not too much to say on '26 beyond what we shared in the prepared comments.

But I would say that when we think about the potential of a slowdown ADPs, weather these types of storms many, many times, and our business is well insulated. So it took several quarters, the slow down to -- the prior slowdown to show itself in our results.

So answer to the question earlier, the business activity continues to be good. And so if things were to start to materialize or manifest themselves in a kind of a less positive economy, we would certainly see things in the pipeline, et cetera, the sales pipeline.

But generally speaking, it takes quite a while for that to work its way through the ADP business model, which is very resilient as Maria said just a few minutes ago. We're not discretionary. So that works well for us.

And then, of course, we have the levers that we've had in the past, and we can use them. There's some naturally self-correcting items like sales commissions, et cetera. If things were to progress or continue, there's -- implementations would be slower, et cetera. A number of things -- changing the focus on some of our R&D initiatives.

So there's many things in many levers we can pull to soften any potential blows. And I think our history has shown that we've been able to do that on a pretty successful basis many times before.

Bryan Bergin - *TD Cowen - Analyst*

Okay. Understood. And follow-up on client hiring. So can you comment on what you saw as you move through the third quarter kind of month to month through 3Q and through April? And is there any notable variation by industries that may be more directly exposed to tariff versus not?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

No. I think generally -- and I think I made the comment on the last call, last quarter that we rounded down to 1%. We're still rounding down to 1%. And yes. So things are softer.

In normal years, we go back '16 to '19, and we look at pays per control growth are in the 2% to 3% range. So at 1%, we're at the lower end. But there was nothing specific -- no specific industries that kind of jumped out at us. So we would prefer to have higher PPC growth, of course, but it's still positive and rounding down to 1.

Operator

Samad Samana, Jefferies.

Samad Samana - *Jefferies LLC - Analyst*

Hi, good morning, And I will echo the comments of many. Congrats to Don and look forward to working with Pete as well. Peter and Maria, just maybe a question for you. When I think about the Lyric bookings pipeline, again, I think for the last several quarters, you sounded much more optimistic about trends up market, specifically with Lyric post-rebrand. How much of that's from existing customers that are converting over to it versus gaining share from competitors as you've now kind of established a beachhead with some four customers there?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

So it's a great question. So I should reiterate my incredible excitement and optimism for Lyric as a whole, not just the rebrand, which, by the way, it is an incredible brand. And certainly, love the name Lyric. But that offer is resonating really well.

So we talked about the pipelines building. We don't delineate necessarily. We obviously know, but we don't disclose how much of the pipeline is upgrades and/or new business bookings or net new logos, if you will, but the answer is both. It is resonating really well with CHROs in the market. I would say at these events, be it ReThink and Meeting of the Minds that I mentioned, the excitement was there around Workforce Software, but it is also there around Lyric and the combination of the two.

And what I would say to you is CHROs are liking this modern offer, because it is arguably the most modern technology that's out there at this point. It's human-centric in its design. It's adaptable. We consider it groundbreaking. It appears, based on the response we're seeing in the market and in the pipelines, that the market agrees with that sentiment.

So yeah, we're really, really optimistic about what we're seeing with the market receptivity and how that is resulting in the pipelines and the new business bookings that we've seen with Lyric and expect to continue through this year.

Samad Samana - *Jefferies LLC - Analyst*

Understood. And then maybe a follow-up, Don, just as I think about the commentary between what's going on with the core business and maybe some of the international softness that you've seen and then the kind of the macro side that you called out, if I take all that together, how should we think about maybe ADP's own hiring plans? Are you guys going to still track to maybe what you anticipated in terms of head count growth for fiscal '25? Or should we think about a change in either direction in terms of hiring more or less than you originally anticipated, especially as we contextualize it with what's happened maybe over the last several weeks?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Yeah, Samad. I think that we're not expecting to make any changes at this time. Things are going pretty well. The business is solid. So we have no changes to our plans. Of course, just building off the prior question from Bryan, should something come up, we will definitely slow hiring, et cetera. But as we sit here today, things are solid, and we have no changes to our plans as we actually go into our budgeting cycle next week. So we're full speed ahead and still optimistic.

Operator

James Faucette, Morgan Stanley.

James Faucette - *Morgan Stanley & Co. LLC - Analyst*

Great. Thank you so much and offer my congratulations to Don and Peter as well. I wanted to ask quickly on PEO, just wondering how client behavior in the PEO segment has evolved regarding benefits enrollments? And are you seeing any shifts in preference towards lower-cost benefit plans, particularly as there's a little bit of macro pressure, perceived macro pressure?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

I was going to say -- yeah, so I guess we can both answer that, but I'll start. From a PEO perspective, listen, there's always some of that. We actually just completed our renewal cycle. And so we're really pleased with what we've seen with respect to our execution through that.

The team has done an incredible job moving through the motions of that. But moreover, PEO retention was strong in the third quarter. We do anticipate a very modest tailwind, contributing, if you will, to the overall PEO results for '25. There was a modest tailwind in '24.

So I think the retention of the PEO business speaks directly to the value of the value proposition within there, which is benefits, right? And so I think as it stands, we see stability, if not minor tick-ups, if you will, in benefits attached, which are all good signs that the value proposition is resonating. Benefits is an important piece of that. A lot of that has to do with the cohorts, the industries that we sell our PEO offer to.

So I think in general, the PEO, we're very pleased with the results on retention. We're pleased with how we've moved through the renewal cycles. Every cycle has some nuances, James, as it relates to what clients choose. But overall, what they're choosing is to stay with the PEO, and that's good news for us.

James Faucette - *Morgan Stanley & Co. LLC - Analyst*

Got it. And maybe just like a more nuanced question or deeper dive. I mean clearly, you're executing well, et cetera, but is there anything that you can point to -- I guess I'm just a little surprised because it seems like you guys are driving even better growth off of a higher base than a lot of your peers. And so just trying to get a sense of whether that's go-to-market, cross-sell, specific offerings where you think you're differentiated? Just a little more color there is all. Thank you.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yeah. So I think one of the things I always like to remind everyone of is that all PEOs are not created equal. I'd like to think we have the best one, of course. But moreover, it's the fact that our constructs are different, right?

So we don't entirely all target the exact same industries. Some tend to skew more to white collar companies; some tend to skew to less professional type of companies, if you will. So I think we address different industries. We're not always all in the same exact states, if you will.

And then I think the other piece is we're constructed different. So one of the big differentiators, especially in, call it, volatile health benefit cycles is that we have a fully insured model. And so I think our model lends itself to more predictability, more stability. And that's a home run in times like this. So we're -- I think we see some of that in our results.

I also think the other piece, which you touched on, is distribution. We have there's -- not every PEO has the luxury of having an additional sales distribution engine, which is the rest of the payroll sellers that's -- as you know, 50% of the business that the PEO onboard comes from existing ADP clients. So the upsell, cross-sell, the go-to-market together with payroll sellers just the way that we distribute, I think, is, again, a home run. So I think our model is different, and I think it lends itself to better results.

Operator

Caroline Latta, Bank of America.

Jason Kupferberg - *BofA Global Research (US) - Analyst*

Hi. This is actually Jason Kupferberg from Bank of America. Congrats to everybody. I wanted to maybe just start with a question. It might be more for Maria. But coming back to this topic of just bookings and sales cycles and the macro, the intersection of all that, obviously, you talked about some of what you're seeing on the international side. Maybe just talk a little bit more about the US.

Are you seeing any client hesitancy, particularly upmarket? Any changes just in the last month or two as the tariff uncertainty has skyrocketed? And to the extent US customers seem to be behaving differently than international, I would just be curious to get your perspective on why that might be the case. Thank you.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yeah. Sure. So I think, broadly speaking, Jason, we're really pleased with our results. From a US perspective, kind of moving through the motions of the down market we talked about, clients are still investing in talent. The mid-market doesn't get any easier; it's still complex.

So I think we see strength in the results. We see strength in the activities, in the down market, mid-market. As you get into the enterprise space, pipelines are up year on year. We feel good about the enterprise clients in terms of the overall results and the pipelines, and we expect growth.

What I will say is those very large clients in the enterprise space often do have that international reach, right? So as you get more global in the enterprise space, the multinational clients -- I would say, again, there is a tiny bit of pipeline aging that we're seeing.

Again, the pipeline substantiates the results. it's always lumpy. Q4 is big for us in that space. It always is. And so I think from a standpoint of where we are, we're executing against a very strong pipeline, both in the international space as well as in the enterprise space.

We have an incredible offer with Lyric. We have an incredible offer combined with Workforce Software. So I think we have a good story. We have good pipelines.

We've got a lot to get done, but we haven't seen necessarily huge elongation of sales cycles. I think we talked a lot about the sales cycles being back to kind of pre-pandemic days. We're seeing -- Don mentioned it earlier, more signatures, maybe a tiny bit of additional timelines, but all eyes on Q4 is the way we think about it. We have the pipeline, and we need to execute against it.

Jason Kupferberg - *BofA Global Research (US) - Analyst*

Understood. I wanted to also get your latest views just on the competitive landscape, particularly down market. I mean we've been hearing a little more from some of the privately held cloud-based providers. So curious what you guys might be seeing on that front just in terms of win rates, pricing, et cetera?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yeah. I would say there's nothing new to call out. It's always competitive. Q4 is always competitive. There's always a lot happening in the down market with respect to the RUN platform and the mid-market with respect to the Workforce Now platform.

And in the down market, we have an incredible story. We have almost 1 million clients on our own platform. We're extending our reach through our partner ecosystem. This partnership with Fiserv is -- it's a big bet, but we're also -- we believe it's a meaningful bet that's going to extend our distribution strength with theirs. So I think that's really exciting for us. So we have a winning offer.

We have good results on client satisfaction. I think I mentioned that during the prepared remarks that's lending itself to a strong retention. So the down market story is there.

I think in the mid-market, we have an incredible offer there in Workforce Now. We've made meaningful investments. We have strong NPS. We have strong retention. We have a winning offer in the mid-market. So I think it's always competitive, but I think we have best-in-class platforms, best-in-class execution, best-in-class service, and we see that through the results in retention in NPS.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank Securities Inc. - Analyst*

Hi. Good morning. I wanted to ask, what percentage of bookings come from international?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

It's a great question. It really marries our revenue. And I think the last disclosure we had, it's 88% of the revenue is in the domestic US and the rest is outside of the US. And so it's a -- think of it as a close correlation to that.

Bryan Keane - *Deutsche Bank Securities Inc. - Analyst*

Got it. No, that's helpful. And then just thinking about the enterprise moving more to Lyric and Workforce Software solutions, you talked a little bit about the drag on margins. I think it's 50 basis points this year. Just how do we think about margins in general going forward? Do we get that 50 basis points back into fiscal year '26 and then the overall kind of margin profile Lyric and Workforce Solutions?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Yeah, it's a good question, Bryan. We don't get it all back. Certainly, the intangible amortization and the financing costs, which we've included in that 50 basis point number we give you, those don't go away. We do get some back certainly on the integration and deal expenses. So I wouldn't model too much into that because it's -- in the grand scheme of things, it's not an enormous number across the ES margin.

Bryan Keane - *Deutsche Bank Securities Inc. - Analyst*

Got it. Okay. And congrats, Don, amazing career, and Peter, welcome.

Operator

Kevin McVeigh, UBS.

Kevin Mcveigh - *UBS Securities LLC - Analyst*

Great. Thanks. And again, congratulations. It's been a pleasure, Don. I guess can we talk -- maybe just reconcile the improving retention with the lower pays per control, is that a function of the client mix? Or what's driving that?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

From the overall retention results and the pays per control, I think the overall results as it relates to how we're feeling with the retention guide. And so I think we're -- we've been executing well on retention. We continue to see kind of the improvements. And so we thought it was prudent to bring up the retention guide. And as it relates to the PPC side of it, I'll let Don kind of take that.

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

So I think the big story on retention is a couple of things. One, we're very proud of the progress we've made in the NPS scores. They've been very, very strong for us. We continue to either hit records or very close to records. And most of our business units are kind of at all-time highs, and that's across the board. So we think that's important.

We also, of course -- we're seeing a little bit less switching. I think it's -- things are a bit quieter in that regard. So people are hanging around because they like the service; the NPS is good. And as we look to the balance of the year, we think that perhaps not all of the normalization in other businesses, et cetera, has settled in, but we think substantially all of it has.

So we continue to beat our retention guide quarter after quarter and there's only a quarter left. So I think we're a little bit more comfortable with the guide that we've given you -- the improved guide we've given you for the balance of the year.

Kevin Mcveigh - *UBS Securities LLC - Analyst*

Helpful. And then just real quick on the client funds. It looks like you increased -- it was a similar amount for kind of client funds and then the extended strategy as well. But obviously, the balances are a lot different in terms of average balances. Anything that kind of explains just -- because, again, you increased it by the same amount, but it's like 7 to1. Anything that explains that?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

I think I'm going to give Peter an opportunity to speak here and answer that question as the treasurer.

Peter Hadley - *Automatic Data Processing Inc - Treasurer & Incoming Chief Financial Officer*

Thanks, Kevin. The balance increase is really driven by higher wage levels. So we had a strong bonus season in Q3. That's the time of the year where we do pick that up. So we hold a lot more short money, if you like, our client short portfolio. We have less borrowing. So that's really what drove the balances.

The rate position hasn't really moved. And you can see from our schedules that from a short-term rate perspective, we're relatively well hedged across the year, not so much by quarter but certainly across the year for short rates. So we are quite insulated from fluctuations in short-term rates between our clients short and our borrowing levels.

So I would say it's a balance of story, mainly driven by wages. And as a result, the balances have gone up. A point of balance is around $11 million or $12 million of revenue on a full-year basis. And the revenue guide went up and also we narrowed the range given there's only one quarter to go.

Kevin Mcveigh - *UBS Securities LLC - Analyst*

Helpful. Congratulations, Peter.

Operator

Karthik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you. I know there's a ton of questions asked on international bookings, so I apologize for asking one more. But can we get a sense -- have you seen any pushback from ADP being an American company and maybe companies holding off a little bit until things settle down? Or is this just an issue of uncertainty?

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Yeah. So we're not, right? So from the standpoint of the conversations with respect to international, they're not about pushback on American companies. One reminder is that we have from a client -- or from an ADP perspective, we have 80 peers on the ground in close to 50 countries, right? And our offers also our in-country in many of the 140 countries that we serve, right?

So from the standpoint of how we serve our clients, we serve them sometimes from a global perspective, but we also serve them from a local perspective. I think Don -- and you can hear him in a minute talk to you about kind of the final mile and how all of that works. So that's certainly not the conversation in international. It's really about the large deals and how they move through the motions toward closure through the fourth quarter.

The pipelines are there, but it's not reflective of us being a US company by any stretch. So I don't know, Don, if you want to add --

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

No, I think it's just important to comment that we're on the ground, and we serve our customers very, very locally. And we're part of the fabric in these -- in the social security ecosystem, the income tax ecosystem in many, many countries. So I don't think there's any pushback just based on the so-called nationality of the company, but I think it's more just the overall uncertainty that's driving any apprehension, if you will.

Kartik Mehta - *Northcoast Research - Analyst*

And then to follow up on the PPC on the PEO business. I know that there has been a difference between the ES PPC and the PEO PPC. This quarter, did that come a little bit closer? It sounds like they're both kind of getting close to 1% or just a matter of rounding.

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

No, it's a good observation, Kartik. The PPCs did come quite close. As a matter of fact, to be candid, the PPC in PEO is a little bit stronger than it was in Employer Services. So -- but you're right, they're both trending down to 1.

Kartik Mehta - *Northcoast Research - Analyst*

And Don, it's been a pleasure working with you. Good luck with everything. And Peter, look forward to working with you.

Operator

Ashish Sabadra, RBC.

Ashish Sabadra - *RBC Capital Markets Wealth Management - Analyst*

Thanks for taking my question. Just on PEO ex-pass-through revenue growth. There was like -- it grew 7%, 6% and 8% in the first three quarters. The 5% to 6% guidance for the full year implies like a material slowdown. Is that just conservatism? Or are there some puts and takes as we got into the fourth quarter?

Donald Mcguire - *Automatic Data Processing Inc - Chief Financial Officer*

Yeah. I think there are some puts and takes. I mean, the revenue in the third quarter was better than we expected, because we did have higher zero-margin pass-throughs, higher SUI. And of course, the retention was also a little bit better than we expected in the third quarter. So we do expect the fourth quarter to be a good and valuable contributor to us. But there's no major signals there.

Ashish Sabadra - *RBC Capital Markets Wealth Management - Analyst*

That's very helpful color. And maybe just on the broader theme of GenAI, I was wondering if you could share any additional progress on that front. Thanks.

Maria Black - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

I'm so excited that you asked. It's amazing; we almost made it all the way through without a GenAI question. But listen, we're incredibly excited about the progress we're making with respect to our ADP Assist and the overall portfolio of generative AI offers that we're putting into the market.

I mentioned during the prepared remarks, the award that we won, and we're excited about that, but we're also excited about the entire strategy as we think about putting generative AI into our product for our clients to use, for our service associates to use, for our sellers to use to actually help build products.

So I think we have an incredible plan. It's still very early days, right? So the results that we see, the awards that we're winning are fantastic. But I really look forward to how this evolves for us over the coming months and the coming years as we continue to unveil more and more functionality and continue to drive more and more efficiency in how we serve our clients.

Ashish Sabadra - *RBC Capital Markets Wealth Management - Analyst*

That's great color. And congrats to both Don and Peter. 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 - *Automatic Data Processing Inc - President, Chief Executive Officer, Director*

Thank you. And thank you, everyone, for joining us. I will echo the sentiments that I heard across all of the financial analysts this morning, which is a giant thank you to Don again and congratulations to Peter.

And of course, to our associates, I am so grateful for all that you do to support our clients, to support each other. As we did a little bit of a brand refresh over the last quarter and leans more heavily into our brand colors, I have to tell you all of our associates, all of you, each and every day, you make me incredibly proud to be ADP [red]. Thank you.

Operator

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