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ADP.OQ - Q1 2026 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 first quarter 2026 earnings call. I would like to inform you that this conference is being recorded. (Operator Instructions)

I'll now send 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 first quarter fiscal 2026 earnings call. Participating today, I'm Maria Black, our President and CEO; and Peter Hadley, our CFO. Earlier this morning, we released our financial 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 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 arranges 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 findings with the SEC for additional information on factors that could cause actual results different 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. This morning, we reported solid first quarter results that included 7% revenue growth and 7% adjusted EPS growth. We achieved these financial results while also making meaningful progress across our strategic priorities. I will briefly review some additional highlights from our results before discussing our strategic progress. .

We delivered solid Employer Services new business bookings with growth accelerating from our fourth quarter last year, resulting in a record sales volume for our first quarter. Growth was healthy in our small business portfolio, which includes our retirement and insurance services businesses. We were also happy to see growth reaccelerate in our Employer Services HR Outsourcing Business after a softer finish to last year.

Overall, HCM demand remained relatively stable, and we experienced specific strength in ADP Lyric HCM. Our Employer Services retention rate continued to exceed our expectations and only declined slightly. Our overall client satisfaction score reached a new all-time high for a first quarter, reflecting improvements in each of our business units.

Employer Services pays per control growth continued to moderate and rounded down to 0% for the first quarter with clients remaining cautious around adding head count in the current environment. And last, our PEO revenue growth of 7% exceeded our expectations, helped by growth in zero margin pass-throughs and higher wages. We are proud of our first quarter financial results and excited by the progress made across our three strategic business priorities.

I will start with what we are doing to lead with best-in-class HCM technology. In the small business space, we continue to scale our embedded payroll solution. Embedded payroll saves small business owners time by bringing payroll directly into the software platforms they are already using to run their businesses.

We are pleased with our early embedded payroll sales collaboration and look forward to adding more partners over time to further extend the reach of our small business distribution network. We also continue to add functionality to our existing small business offerings. For example, earlier this month, we launched a benefits recommendation tool designed to help guide small business clients on the most suitable benefits options.

Today, these recommendations cover group health and individual coverage, health reimbursement arrangement or ICRA, and they will expand in the future to include our PEO. Our insurance services business also recently launched a digital option that enables small businesses to purchase ICRA plans directly on our run platform through our partner, Sach.

This opens up more choice for employees by allowing every team member to pick the plan that is right for them, health, dental, vision, all in one place. In the mid-market, we accelerated the deployment of Workforce Now NextGen. We reached an important milestone in the first quarter with more than 80% of our new mid-market clients in the 50 to 150 employee space were sold on this next-gen version of Workforce Now.

Moving forward, we will continue to extend the solution to larger mid-market prospects to enable them to also benefit from its modern tech stack and enhanced functionality. In the enterprise space, ADP Lyric HCM continues to experience strong momentum. Lyric's new business bookings exceeded our expectations for the first quarter, and its new business pipeline continues to grow.

Among the many enterprise clients that started on Lyric during the first quarter was a large travel management company. This client selected Lyric for its AI-driven automation and flexible architecture. They are using ADP for payroll HR time, benefits and talent in both the U.S. and Canada. Highlighting its positive reception in the market, Lyric was recently recognized by HR executive as a top HR product of 2025 and honored at the HR Tech Conference in September.

With respect to our Workforce software acquisition, we continue to make meaningful progress. By unifying workforce management, HR and payroll, we help our clients to gain better visibility, simplify their operations and lower overall costs. Our differentiated approach helped us win the time and attendance business of an existing payroll client in the student transportation business with thousands of employees.

And just this morning, we announced the acquisition of Pequity, an innovative compensation management software provider. This acquisition will broaden ADP's capabilities to support the complex compensation planning needs of our clients who are looking for insight-driven compensation solutions that help them make informed pay decisions.

Underscoring our commitment to leading with best-in-class HCM technology, we also continue to advance our AI initiatives. We deliver purpose-built AI to solve real-world problems for HR teams. Our latest enhancements to ADP Assist use the power of generative AI to analyze and resolve things like payroll anomalies by automatically identifying inconsistencies or deviations in the data, analytics requests that can take days to fulfill and routine compliance tasks, which pull teams away from strategic work.

Utilization of ADP Assist is also increasing with more than 5.5 million client conversations over the last year. This helps reduce the need for clients to contact us as their questions are answered proactively within our products.

As we look ahead, our vision for ADP Assist includes simple agents to handle everyday tasks advanced agents to execute multistep processes, autonomous agents to go further managing workflows from start to finish, being sure to keep humans in the loop where it matters.

What makes our approach different from others is the scale of the data we use to power our agents and how we train them to work together. A single action sets off the right follow-ups for employees, managers and HR practitioners. It is in these connections where the real value is produced. We have an opportunity to use AI, not just to speed up the client workflows, but rather fundamentally shift how work gets done.

It's the difference between using AI to do things better and faster than before and using AI to do things better and faster than anyone else. Our new AI capabilities empower our associates to deliver on our second strategic priority, providing clients with unmatched expertise and outsourcing solutions. These internal AI tools provide our sales, implementation and service teams with client-specific insights to address market shifts, resolve unique challenges and ultimately deepen client engagement.

Additionally, all of our developers are now equipped with coding copilot tools that are leading to measurable productivity gains. We also continue to expand our use of digital implementation for both small business and PEO clients. These AI initiatives create additional time for our associates to engage in higher value-added activities that support our clients' growth.

Finally, we continue to execute on our third strategic priority benefiting our clients with our global scale. We bring value to our clients through our unmatched footprint in over 140 countries and continue to add to our global capabilities.

During the first quarter, we also went live with our first global view client in Costa Rica, where we now serve one of the world's largest employers. Further underscoring the quality of our global products, ADP was recently positioned as a leader in multi-country payroll by Nelson Hall in its payroll reimagined 2025 meet and as an overall leader in multi-country payroll solutions by Everest in its 2025 peak matrix.

We remain confident in our ability to advance our strategic goals drive our competitive differentiation and deliver strong financial results. And with that, I would like to take a moment to recognize our associates whose efforts and outstanding performance help us consistently deliver for our clients and maintain our record high client satisfaction levels.

Thank you all. And now I'll turn the call over to Peter.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Thank you, Maria, and good morning, everyone. I will start by providing some more color on our first quarter results and then update our fiscal 2026 outlook. Let me begin with our Employer Services results and outlook. ES segment revenue increased 7% on a reported basis and 5% on an organic constant currency basis in the first quarter.

As Maria shared, ES new business bookings were solid to start the year with a relatively stable demand drop and continued healthy pipelines, we are maintaining our 4% to 7% full year growth guidance. ES retention declined slightly in Q1 versus the prior year but still came in better than we anticipated. We are continuing to forecast a 10-basis point to 30 basis point decline in full-year retention.

ES pays per control growth rounded down to 0% for the first quarter coming in slightly below our expectations. We are now forecasting pays per control to remain about flat for the full year. Client funds interest revenue increased more than we anticipated in Q1, helped by stronger average client funds balance growth.

While the yield curve has declined marginally since our last update, this impact is more than offset by our stronger client funds balance growth. We are now forecasting average client funds balances to grow 3% to 4% in fiscal '26, and we are continuing to expect an average yield of approximately 3.4%.

Accordingly, we are increasing our full year forecast for client funds interest revenue by $10 million to a range of $1.30 billion to $1.32 billion. We are also increasing our expected net impact from our extended investment strategy by $10 million to a range of $1.26 billion to $1.28 billion.

Overall, we are maintaining our full year ES revenue growth forecast of 5% to 6%. Our ES margin decreased 50 basis points in Q1, reflecting integration and acquisition-related costs associated with the Workforce Software acquisition, which closed last October.

Moving on to the PEO. Revenue growth of 7% represented a solid start to the year with average worksite employee growth of 2% in the quarter. We saw continued growth in PEO new business bookings. However, PEO pays per control growth moderated in the quarter. As a result, we are continuing to expect fiscal 2026 PEO revenue growth of 5% to 7% and average worksite employee growth of 2% to 3%.

PEO margin decreased 140 basis points in Q1, mainly driven by higher selling expenses, the timing of state unemployment insurance costs, zero margin pass-through revenue growth, and some onetime costs connected with the retroactive change in the deadline for filing certain employee retention tax credit claims.

Putting it all together, we are maintaining our fiscal 2026 consolidated revenue outlook for 5% to 6% growth and our forecast for adjusted EBIT margin expansion of 50 basis points to 70 basis points. We continue to expect our effective tax rate to be around 23% for the year. We also continue to forecast fiscal 2026 adjusted EPS growth of 8% to 10%, supported by share repurchases.

I would also like to add a quick reminder of how we reflect the impact of our client funds investment strategy in our segment reporting. The results of our client funds interest revenue are reflected in our Employer Services segment. while corporate extended interest income, which represents the interest generated from the portfolio on the days that we borrow as well as the related short-term financing costs are both recorded in our other segment.

Accordingly, from a segment geography perspective, some of the benefit we expect to receive from our overall client funds investment strategy in fiscal 2026 is recorded in our Employer Services segment, while the balance of this overall benefit is recorded in our other segment. This dynamic played out in our first quarter, and we expect it to continue throughout the rest of our fiscal year.

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 LLC - Equity Analyst*

Hi, good morning and thanks for taking my questions, Maria, I'll start with you. It sounds like the booking side is going well both in employer services and PEO, and I thought it would be helpful if maybe you can update us on what the backdrop looks like in terms of deal cycles just looks like?

And then how are you thinking about just time to close and if there's been any change in what you're seeing in deal timelines, particularly with larger customers? and then I have one follow-up for Peter.

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

Sure. Good morning, Samad, and thank you for the question. So, overall we feel okay about the HCM demand backdrop. I think we refer to it as relatively stable, and that's exactly what I would suggest that it is. It really doesn't feel like a lot has changed as it relates to the dynamic of the demand backdrop. We called out a bit of pipeline aging throughout fiscal '25. We saw that kind of continue into Q1.

So we're really back to kind of those pre-pandemic. I used to call it, I suppose the new normal or the old normal. I think it's just kind of normal. So I think it felt largely the same, as it did as we finished up the year in terms of really across the board, whether it's in the down market where we're measuring things like new appointments or it's in the upmarket that you asked about Samad with respect to deal cycles, I would say we haven't observed any meaningful changes in Q1.

Samad Samana - *Jefferies LLC - Equity Analyst*

Great. And then, Peter, as I think about the guidance, and I appreciate the color on the individual pieces and how you tend to maintaining it, and I know it's still early in the fiscal year, but particularly on Employer Services, if I think about some of the underlying pieces, it feels like there is a little bit of a downtick, whether that's pays per control, whether that's retention.

So how do you get confidence in the range and maybe just as we think about shorter term into the next fiscal quarter, how should we think about maybe where that should track and if there's any onetime things, I think maybe there is one less processing day last fiscal -- last year this time last year. So just maybe help us think of the guidance.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. Sure, Samad. So I think there are a number of things. None of them are individually particularly significant, they're going in different directions. So as you pointed out, we have lowered our pays per control guidance to the lower end of that range.

So again, we're talking about 10s of basis points of movement there. There's obviously some revenue and margin attached to that. Conversely, we have a relatively small uplift in our client fund interest revenue driven by the balances. Again, that's sort of a counteract. We also have a little bit of favorability on FX and sort of one or two other things. So like I definitely feel very confident, I think, with respect to the guidance we have shared there.

In terms of the quarterly cadence, we actually had one extra processing day in Q2 last year. We also had some SUI revenue in the PEO pulled into Q2 last year. So we have to grow over that in the second quarter. There may be not a material difference, I would say, absent the anniversary of the Workforce Software acquisition at the end of this quarter.

So when you take that out and go back to sort of an organic constant currency type level, not a material difference, maybe a slight downtick in the revenue growth rate for the quarter, just growing over that extra processing day in the ES, and a little bit of that SUI revenue pull forward that we're at this point, we're not anticipating in Q2.

But in terms of the full year and in terms of Employer Services, I think the movements are relatively small and somewhat offsetting each other. So again, we feel just as comfortable with the ranges what we were three months ago when we issued our initial guidance.

Samad Samana - *Jefferies LLC - Equity Analyst*

Thank you both for the color, and good to see the solid results. Have a great day.

Operator

Mark Marcon, Baird.

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

Good morning, and thanks for taking my questions, and congratulations on the on what sounds like pretty good start from a from a sales perspective. Maria, you went through a number of different areas on in terms of new bookings. What area was the most surprising from your perspective?

And in addition to that, can you just describe a little bit more about what you're doing on the embedded side like how widespread is that on the lower end of the market in terms of percentage of sales and does that have any impact with regards to the economics of the business?

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

Yes. Thank you. And thank you, Mark, as always, for the congrats on the good start. And we feel exactly that way. So I wouldn't say it surprised us, but it certainly pleased us to see that growth did accelerate in the first quarter. And I called out some of the highlights within our small business space. We saw specific highlights within retirement services, insurance.

We were really pleased to see that the Employer Services HR Outsourcing business, as we talked a lot about last quarter, a lot of those big complex deals that have big transformations. We are excited to see those cross the finish line. and certainly continue to build the pipeline there.

And then we were pleased also to see the continued interest and demand for Lyric HCM. So I wouldn't say that it surprised us. I think it pleases us to see the quarter kind of evolved that way. That said though, as everybody knows, we still have the bulk of the year ahead of us as it relates to execution kind of broadly across each one of those areas.

To speak to embedded payroll specifically, it is still very much early days. I think you know we're very committed to our partnership that we have specifically with Pfizer. We're also really excited about continuing to make progress on the embedded offering in general and other partnerships. So it is a big piece of our growth agenda and growth strategy within the down market.

That said though, we just rolled out the opportunity across the back book, if you will, of our partner just in October. So the bulk of, call it, the bookings contribution from Embedded is really ahead of us. It really doesn't contribute thus far in the numbers through the first quarter.

And so we're excited about the sales collaboration and the progress we've made to integrate and scale the offering. We're also really excited to put cash flow central inside of the run offer towards the tail end of this year, if you will. So again, definitely a part of the strategic agenda hasn't really contributed much to the sales results thus far. The bulk of that contribution is ahead of us.

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

Great. And then for a follow-up, just you mentioned in terms of majors NextGen basically comprising 80% of the new sales in the core area within majors. Can you talk a little bit about what you're seeing in terms of the utilization of NextGen with the clients?

To what extent is the client satisfaction rate going up what does that make you feel from a retention perspective as that continues? And any sort of impact from a profitability perspective?

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

Yes, great question, and it is exciting. It's incredibly exciting to finally see the NextGen making progress at the levels that we reflected. So 80% across that core space of the mid-market. Obviously, our goal is to extend the reach throughout this fiscal year to broadly cover the mid-market. And part of that excitement is anchored entirely in what you just suggested, which is that we are seeing faster time to implementation. We are seeing better implementation satisfaction.

We are seeing upticks in overall satisfaction. So as the mid-market has been making these investments into the products, and the platforms, and we've been able to simplify really the experience for the clients but also that experience our associates to service our clients.

Whether that's why they're onboarding them or while they are servicing them, it's definitely making an impact, and that's exactly the journey we've been on, and it's greatly contributed over time as NextGen has been scaling in the mid-market, who those record-level NPS results that we've been talking about in the mid-market.

And certainly, we've talked a lot about the mid-market retention over the last few years. And we're confident that the product investments we're making, specifically NextGen are driving a sustainable improvement in client satisfaction broadly across the mid-market.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

And I think just on the profitability piece, Mark, at the end there, we're also anticipating that this will lift our productivity. Certainly, we observed, as Maria said, not just more smooth implementations, but easier implementations, the ability for more digital onboarding as well as the number of client contacts for next-gen clients is meaningfully lower than on the current gen solutions. So certainly, a profitability opportunity there as we roll it out further across the mid-market base

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

That's great to hear. Thank you.

Operator

Jason Kupferberg, Wells Fargo Securities.

Kathy Chan - *Wells Fargo Securities - Analyst*

This is Kathy Chan on for Jason. Just a quick question from me and maybe a follow-up. So I mean, obviously, you guys talked about U.S. GPC coming in flat for the quarter, maybe a little bit below expectations, and now you guys are expecting the full year guide to be flat.

I guess just diving a little bit deeper, what drove that weakness? And what gives you guys confidence that it won't maybe even decelerate or be down through F '26? Thank you.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes, I'll take that one. So I think we're talking about relatively small movements here, tens of basis points of movement. We were at a zero to one range. We're just really guiding now to the lower end of that range. So it's not a -- I would say it's not a huge shift.

Where we draw our guide from our projection from and our confidence, I guess, is just with our own data. I mean, we -- obviously, we look at a lot of external reports. We have our own national employment report on this sort of stuff. But really, we're looking at the hiring in our own base the patterns that we see.

And I think we feel confident that just given the magnitudes involved that, that is the right guide for now and in terms of revenues and margins, again, not a meaningfully different sort of point from our initial guide, albeit the rounding, obviously has moved to the low end of the range from call it the midpoint, which I think in the previous earnings call, I think we did suggest that at that point, the midpoint felt more likely.

Now we have moved a number of call it, tens of basis points more towards the lower end of that range. We also said in the prepared remarks that we're rounding down to 0% at this point. And we expect that likely will continue through the balance of the fiscal year unless things change meaningfully in the macro environment.

Kathy Chan - *Wells Fargo Securities - Analyst*

Okay. That's helpful. And then just on margins. I think you guys did around flat margins for the quarter and then you're maintaining the 50 basis points to 70 basis points expansion for the full year. I guess how are you expecting the rest of the year to shape up in terms of expenses and the margin dynamic there just so we have that model correctly. Thank you.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes, sure. So we're actually quite happy not that we're shooting for a flat, but we were quite happy with sort of beat our expectations. We alluded to the fact we're expecting some margin decline, mostly due to the fourth quarter of the Workforce Software acquisitions, so the acquisition-related expenses, some integration costs there.

So we actually felt -- we actually ended up a little better than what we expected in the first quarter. That certainly helps. That anniversaries actually anniversaried about two weeks ago. So that drag is element is behind us. The rest of the year, we feel pretty good about where the range is. We have a little bit of ramp in the second part of the year, which we are contemplating.

And again, some of that is due to some efficiencies that we're driving in the business, some of the effects of some of our GenAI investments, but you should expect us to -- again, when you adjust for the Workforce Software acquisition in the first quarter to see something similar in terms of the net result in the second quarter, and then a little bit of a ramp in the back half of the year.

Kathy Chan - *Wells Fargo Securities - Analyst*

Great. Appreciate it.

Operator

Kartik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research. - Analyst*

Yeah, good morning. Yes. Peter, I wanted to start off with you. I think when you originally gave guidance for you yet, at least for FY '26, we anticipated that pricing would be about 100 basis point benefit, a little bit lower than what it had been a little bit after COVID, little bit higher than pre-COVID.

And I'm wondering if your expectations are still the same, considering the environment has changed a little bit, at least economic environment.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yeah, absolutely. No change at all actually in our price expectations. We've not seen anything in the first quarter that makes us feel like that needs to change. We do expect, as you said, Kartik, we're going to come in a little lower than where we were last year on price. Again, our philosophy has not changed in terms of sort of the long-term value proposition, price is a piece of that, an important piece of that, but not the only piece of it.

So, and in terms of call it receptivity in the market and the client base, we feel like our price assumptions are appropriate and not expecting any necessarily anything meaningfully more or less than what we communicated last quarter.

Kartik Mehta - *Northcoast Research. - Analyst*

Perfect. And just to follow-up, Maria, you talked about an analyst AI roll out, especially for the sales force, and how that was helping them become a little bit more productive, and I'm wondering where you are in that roll out. Maybe I'm not sure if you can give a percentage of the sales people that are able to use the AI or what the plans are for kind of full roll out of that program?

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

Yes. Great question. And I love this topic and love speaking about our sales force in our distribution and the investments that we make in them in their ecosystem and specifically their technology. We talked a lot about at Investor Day what we call the zone, which is ADP's tool that we are rolling out across the sellers, leveraging generative AI to make them more productive.

And so that's everything we've talked about in terms of sales modernization over the last year or so, with respect to call summarization, pre-call planning, coaching, things of that nature. I believe at Investor Day, we cited that it was deployed across, I think, roughly 40% of our sellers. That has increased, Kartik. I don't know that I want to be in a position where every quarter we're giving you the update, but it's definitely north of that at this time.

We actually just had all of our sales leadership together across ADP at a meeting. And I have to tell you; I had a chance to see the preview of what's coming with respect to kind of the next iteration of generative AI inside of these tools. And it is it is unbelievable. If somebody used to do this job or the sales job for a living, although I still do. I have to tell you that this stuff is way ahead of its time.

It's ahead of a lot of the tools and technology vendors that we even leverage we're helping guide their road map, and it is going to be a game changer. And I think the most meaningful thing that I would say is sitting in that room with all of those sales leaders is their willingness to engage in these tools to help change the workflow of how our sellers actually go-to-market and engage and prospects and close and sell and even past the implementation.

And I think that's exactly the types of responsible leaders that we have that are willing to train these tools and make them useful and have those tools impact their sellers' productivity because that's really the end goal.

So I don't want to unveil all those things to you right here on the earnings call. I really look forward to the data we get to show these things to you. live, but they're pretty incredible. And as you can tell, I'm always bullish on the investments we're making into our distribution. As you know, it's a big competitive differentiation for us here at ADP.

Kartik Mehta - *Northcoast Research. - Analyst*

Thanks very much. Thank you for all the detail.

Operator

Bryan Bergin, TD Cowen.

Bryan Bergin - *TD Cowen - Analyst*

Hi. This is actually Jared Levine on for Bryan today. To start here on the POPs, I just want to confirm that actually came in line with your expectations for 1Q. And I guess what drives the confidence that you can accelerate that growth to hit the midpoint of the guide?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. Jared, it's Peter. I came in, yes, broadly in line with our expectations, maybe 10 basis points or so above actually. So we were happy with where the first quarter came in with respect to WSE. Our confidence that we do have a little bit of a ramp, but again, not meaningfully different percentages.

But if you're talking at 10 basis points or 20 basis points, a little bit of a ramp in the second half of the year, which is really a bookings-driven assumption. We're not anticipating in the same way we spoke about with yes, we're not anticipating any ramp through the year in the PEO pays per control metric.

So really, it's a bookings-driven assumption, and we are investing in the team, we feel the team is very well placed to deliver on that objective.

Bryan Bergin - *TD Cowen - Analyst*

Great. And then in terms of the PEO, July 1 enrollment period, can you talk about your performance there? Did you witness any change in participation rates, enrollment rates, or any kind of die down behavior?

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

Yes. Happy to take that. You're absolutely right. We just finished the enrollment period, proud of how the team executed through the cycle. I think there's no secret out there that health benefits are topical and on employers' minds. So continue to see the value proposition of the PEO and specifically how we structure our PEO win out there in the market and really help employers navigate these changing times.

I will tell you, health benefits are and remain the norm for all of the higher wage industries that our PEO targets. Those participation rates that we've seen, they're actually the highest for us that they have been the highest levels, if you will, for the last four years or so.

So we have seen actually a bit of a participation uptick. That's great to see because it does substantiate that we're selling to the right industries and those industries do value benefits as part of their offering to drive their overall employment or employer value proposition. So I think our PEO fits squarely into how difficult it is for employers to navigate and that size today out there?

Operator

Ashish Sabadra, RBC Capital Markets.

David Paige - *RBC Capital Markets. - Analyst*

Hi. Good morning. This is David Page on for Ashish. I was wondering if you could just provide a little color on the acquisition that you made in the quarter? Why it was needed, and what I guess what are the benefits and maybe financial profile if you had one? Thank you.

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

Yes. So perhaps I'll start, if my voice here holds up, I'm so glad you asked. We're really excited. As you know, here at ADP one of our strategic priorities is to lead with best-in-class HCM technology. And that's exactly what this acquisition brings for us.

And so we're focused on bringing the best products and services to our clients. And while we've currently had offerings within this space, this is above and beyond what we've currently been offering, and we're really excited to fold this technology into our existing offering.

I think this acquisition is a great approach of how we're thinking about innovation, how we're thinking about the value proposition to our clients. companies certainly need innovative compensation management software. That's exactly what this is. And so we're really excited to bring it into our portfolio and into our various platforms for both existing and prospective clients. So again, really excited about it, excited to announce it.

And certainly, I'll take the opportunity just to welcome all of the associates of Pequity into ADP. Really excited about the work that we'll do together. And then, Peter, if you want to talk about the financials about?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes, absolutely. The -- David, it's a small company today. So the financial profile is not meaningful in the context of ADP for this fiscal year. We're excited, as Maria said, about the opportunities for the product. it's an acquisition, a strategic acquisition.

But in terms of the financials, not really noticeable in the context of ADP and has been contemplated in the outlook that we've reaffirmed today. So that's all I would have to say on the financial side of it.

David Paige - *RBC Capital Markets. - Analyst*

Oh great. Thank you so much appreciate the color.

Operator

Daniel Jester, BMO Capital Markets.

Daniel Jester - *BMO Capital Markets - Analyst*

Great. Appreciate all the color on the demand environment so far. Maybe I'll just tackle it from a little bit of a different angle. Anything that you'd call out with regards to the difference between sort of the U.S. and international markets? I know last fiscal year; there's maybe a little bit of choppiness on the international side but just wondering kind of what you're seeing in that mix. Thank you.

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

Yes, sure. Thanks, Daniel. And choppy is one word. I think we like lumpy better than choppy, and that's not atypical for international for us. It's generally these are large complex deals. They do have a bit of a lumpy pattern to them. And certainly, while we did see a little bit of a softer quarter with international in the third quarter, we also saw incredible strength in the fourth quarter with international.

So international this quarter, Q1 of fiscal '26 were again a bit softer for us, but that's mainly, again, back to kind of the lumpy nature of it. It's not a typical on the heels of what was an incredible finish. The pipeline is solid. They're executing well, and they continue to remain laser-focused on executing throughout this fiscal year so that they can reaccelerate that growth for the finish.

Daniel Jester - *BMO Capital Markets - Analyst*

Great. And then maybe to go back to an earlier topic of conversation on the Workforce Now NextGen. For the 20% of new bookings to choose not to take it. Is there any commonalities in terms of why that is or friction that you're seeing? And should the expectation be for that segment of the market at some point this fiscal year, that gets to 100% or how should we be thinking about that? Thank you so much.

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

It is a fantastic question, one that I like to ask myself very often. The real answer is I don't know that we will get to 100% at the end of this fiscal, because there are clients in that space. Certainly, the mid-market is a space that does a lot of acquisitions, things that at nature adds locations. So clients will always want to ensure they have kind of one offering, if you will.

So the bulk of that 20% are clients that are or call it, knockouts and some capacity. The most common knockout is a client that's adding a location or adding a company to their existing portfolio. So that's kind of where it stands.

Operator

Tien-tsin Huang, JP Morgan.

Tien-tsin Huang - *JP Morgan. - Analyst*

Just a couple of questions. One, on the PEO side, thinking about WSEs and how that's tracking and your benchmarking versus your peers. How would you to rate your performance there? I'm curious if we're seeing some pretty wide variance in where that's coming out. So it does feel like ADP is doing well from a share side but just wanted to hear your impressions of that.

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

Yes. So I think overall, we feel really positive about the momentum in our PEO. We did see PEO bookings growth continue through the first quarter. Although listen, it moderate a little bit based on kind of the finish that PEO had in the fourth quarter. So there was a tiny bit of moderation, but it's still the growth continued through the first quarter.

We actually were just down all of us last week down meeting with our PEO business and spending time with their leadership and their management. And they're squarely focused both on bookings, they're focused on driving retention, which improved slightly last year, and we continue to see slight improvement. And that is really what is going to drive that WSE growth.

I would say in the context of others, I think we're winning. We have a winning hand structurally. We have a winning leadership team, really impressed with how they're aligned towards execution and how focused they are specifically on growth and WSE growth. So I don't know, Peter, if you have any comments with respect to RWCs and versus the others. But I think certainly, we feel as though we have a winning hand in the context of the other PEOs.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. No, I would just say Tien-Tsin, I think you know this, everyone has a slightly different accounting convention for many of these things in the PEO landscape. So in terms of what we measure and how we measure our business, as Maria said, I think we're really happy. I answered the question earlier.

The first quarter was slightly ahead, but not meaningfully, but slightly ahead as opposed to the alternative, which is always good, so slightly ahead of our expectations on WSEs. And as we both said, we expect -- we have a winning team there, and we are expecting more booking success through the year that will drive the number up a little bit, but not markedly. We're still squarely in the 2% to 3% range.

Tien-tsin Huang - *JP Morgan. - Analyst*

Okay. Good. I'm glad to hear it. Just my quick follow-up. I had to ask you here for you, Maria. It's nice to see you at the Fiserv Customer Conference, the reporting results right now as well and stock is down quite a bit because through quite a bit of change, cultural shift.

So just the commitment on -- obviously, our view being at the event shows the commitment, but could this alter some of the maybe the targets that you're expecting from the partnership, given they're going through some restructuring there? And I don't know how much insight you have on that, but I thought I'd ask you on the call. .

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

Yes. No, I appreciate the question and thank you. Listen, it was an honor to be there. I think it's almost exactly one month through the day that I was on stage with the CEO of Fiserv. We are very committed to this partnership. We're very committed to the sales collaboration, sitting up on that stage and looking out into a sea of analysts, but also potential clients, partnerships, banks.

What I have to tell you is what we are doing with Fiserv and other embedded partners by serving up run in the platforms that they live and operate as a game changer. And we see that, by the way, we also see it inside of our own ecosystem of distribution.

One of my favorite examples that I heard this quarter was a CPA that we've worked closely with for years, and our down-market bring us a client of theirs that is currently leveraging Clover, and we have the ability to put again, ADP inside of that Clover relationship with that client, and it made things much easier for the small business, which is the entire goal but also much easier for the CPA.

So we're serving the ecosystem as well. And giving that client and the CPA the ability to kind of see their end-to-end cash flow. And so that's really exciting. I have to tell you the work that we've done from a technical perspective is great from a sales collaboration is great. From a marketing perspective, is great. There's no shortage of commitment to it. That said, though, we did just roll it out across the back book.

I mentioned that a bit earlier, I think, when Mark was asking about it. And so the bulk of the opportunity is still in front of us. It's very much early innings for us, but there's no lack of commitment.

Tien-tsin Huang - *JP Morgan. - Analyst*

Thank you.

Operator

Kevin McVeigh, UBS.

Kevin McVeigh - *UBS AG - Analyst*

Great. Thanks so much. I know you talked about the impact of the one processing day. Can you just remind us of what that sensitivity is in terms of what the impact is Q1 to Q2?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes, I don't have the number to hand, Kevin, but it's not a big number. I've got Matt, I'm looking at Matt here around $10 million.

Matthew Keating - *Automatic Data Processing Inc - Vice President, Investor Relations*

It's a modest number. It's not going to be, you'll see it a little bit but not much. When.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

When I was talking about it earlier, I'm talking about in terms of the revenue growth rate, I think the main driver in terms of the second quarter revenue growth rate is versus first quarter is the fall off of the acquisition, the anniversary, I should say, the acquisition effect.

We might be talking 10-ish basis points something like that for the processing day, but I don't recall the exact number, but it's not a meaningful number. It's just something you may observe in the growth rate cadence from Q1 to Q2.

Kevin McVeigh - *UBS AG - Analyst*

That's very helpful. And then can you just remind us because it was great to see that the increase in the float on both the client funds and the extended strategy. But obviously, the balances are pretty meaningfully different in terms of the principal, right?

Just remind us why -- because both went up about $10 million. Is that just purely the difference in rate or timing? It's just -- it's a pretty interesting phenomena.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Yes. So our yield expectations essentially haven't moved. Yes, there's slight moves within the 3.4%. But we did have a marginal adjustment, if you like, to the forward curves back in late July when we produce our initial guidance to when we produced this reaffirmation now, but it's really a balance driven thing. So we saw, as you'll see, I think, in the reporting we did for the first quarter, we saw very strong balance growth in the first quarter.

A lot of that is driven by continued strength in wage growth. we have contemplated both in the client fund interest in the some moderation to wage growth in the rest of the year, which is why we're guiding to 3% to 4% as opposed to the 7% that we delivered in the first quarter. But the $10 million is really coming from the balances from the denominator, not so much from the movement in yields.

Operator

Dan Dolev, Miziho.

Dan Dolev - *Miziho - Analyst*

And I was on a different call. So apologies if the question was asked. Can you maybe touch again on that pays per control, lower pays per control, that would be helpful. We're getting a lot of questions about it. And apologies if that was addressed.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

That's okay. Dan, I'll take that. Again, we've you could say we've narrowed our range to the low end of the range. So again, we're talking about probably tens of basis points of movement in our projection on the full year, not meaningful amounts of revenue, not meaningful amounts of margin. it's there, but it's not particularly meaningful.

Really, it's come from the data we see in our own client base in terms of hiring levels. I should add to that in the context. We're also seeing very low levels of layoffs in the base. So it's a very static situation. It felt like a move to the lower end of the range we previously quoted is appropriate just given where the macro is that were to change.

Obviously, our assumptions may evolve through the fiscal year, but right now, I don't think it's a big surprise that hiring is tight. And as such, we've just narrowed our expectation within the range that we previously guided towards the low end.

Dan Dolev - *Miziho - Analyst*

Got it. And hopefully, I'm not redundant at again because I should be on the entire call. But on these recent announcements, whether it's Amazon or whatever, is that changing the calculus or it's already included in your expectations?

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Not really. I mean these things they make news, obviously, they're headline worthy, but we have a really large base, 1.1 million clients and 26 million workers paid in the U.S. We pay Amazon, in fact, and that's a small fraction of very small fraction of the number of workers we pay for Amazon. So these things are contemplated in our guidance.

Again, what we're seeing in the wider macro data is certainly reduced hiring levels, but also, as I said a moment ago, very much reduced layoff levels to sort of lows we haven't seen in a number of years. So the whole hiring situation is relatively static, and we believe contemplated in our guidance.

Dan Dolev - *Miziho - Analyst*

Great. Well, great quarter again. Good job.

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

Thanks John.

Operator

James Faucette, Morgan Stanley.

Mike Infante - *Morgan Stanley - Analyst*

Hi. It's Mike Infante on for James. Maria, it'd be great to get your perspective on the stable coin topic potentially being used as a mechanism to pay employees. We can obviously sort of debate the magnitude of adoption. But how do you think about your intention to support that as a rail? And how do you think about some of the regulatory compliance or tax constraints that would have to be cleared in the interim. Thanks

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

Yes, it's a great question. We think about it a lot. We think about it from exactly what you're suggesting, which is from a regulatory perspective. So I think that's the big piece that we are keeping a keen eye on is with respect to the regulatory environment.

And ultimately, once that clears how ultimately we will be able to support our clients as they navigate that as an offer in terms of a payment should that happen. So I think those are the questions that we are keeping a keen eye on both in Washington as well as kind of through the banking environment.

But certainly, as it relates to the banking side from our end in terms of real time and rails, we are preparing ourselves for all possibilities as these things evolve. And from a strategic perspective, that's an imperative for us to always make sure that we are in a position to support how client employees want to get paid. And certainly, if things evolve, we'll be at the ready to do it.

Mike Infante - *Morgan Stanley - Analyst*

Thanks for that.

Operator

Zachary Gunn, FT Partners.

Zachary Gunn - *FT Partners - Analyst*

Hey there, thanks for squeezing me in here. I just want to go back to last quarter, there's some commentary around the full year guide, assuming a continued moderation in the macro. I recognize is tightening the range on pays per control more around basis points. But I just wanted to see if that -- if the guide still has some level of moderation baked in or if we've seen the macro move towards those expectations? Thanks.

Peter Hadley - *Automatic Data Processing Inc - Chief Financial Officer*

Thanks. I think -- I mean, I think we have seen a little bit of that. The main metric I'm talking about is pays per control. So again, we said we expected to -- well, sorry, we rounded down to 0% in the first quarter, which was a little lower expectations. So I think we have seen some of that flow through.

But again, I would say, consistent with what I've been answering some of the earlier questions, I don't think these are material moves away from where we really envisage things. You can obviously see that our guide has been reaffirmed.

And hopefully, you can tell that we feel confident about our ability to deliver on that guide, particularly when it comes to revenues impacted by things like pays per control. We have our float income going a little bit in the opposite direction. So I think we have the macro contemplated. Of course, things can change outside of our control.

But that maybe none of us are aware of yet, but that's not our base case assumption. I think our base case assumption really is very similar to what we said three months ago. We're just sort of refining at the margins a little bit some of the metrics like client fund interest and like pays per control, call it, either within or very close to edges of the range as we previously shared.

Operator

Thank you. I now have to turn the call back over to Maria Black for any closing remarks.

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

Thanks, Michelle, and thank you to everyone this morning, for your interest. I have to say the last few weeks have been a time that I've been thinking deeply about all of our stakeholders, all of our investors, our analysts, the community or associates, and I've been thinking a lot about who ADP is in our fabric and at our core, and I want to take a minute to really thank our associates for their undying commitment to our clients.

It's really it's really incredible to watch our values-driven culture come to life. One of those value-driven culture attributes is, as a company, we provide insightful expertise. So with that, I want to take a minute to genuinely thank and acknowledge ADP Research, and the team over there, who has been tirelessly and diligently innovating and executing over the past several weeks to bring to life a weekly estimate of the ADP employment, National Employment Report, known as the NER Pulse that was made available to all of our stakeholders at the same time yesterday.

So, this weekly measure is going to bring to life really the mission that they've had at ADP Research all along, which is about making the future work more productive through data-driven discovery. I have to say that we really mean it when we say that we're always designing for people here at ADP, it's in the fabric of who we are, and I'm incredibly proud to be ADP Red.

Operator

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