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ADP.OQ - Q4 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 fourth-quarter fiscal 2026 earnings call. I would like to inform you that this conference is being recorded. (Operator Instructions) I'll 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 fourth-quarter fiscal 2026 earnings call. Participating today are Maria Black, our President and CEO; and Peter Hadley, our CFO. Earlier this morning, we released our results for the quarter. Our earnings materials are available on 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. This morning, we reported strong fourth-quarter results, including 7% revenue growth, 140 basis points of adjusted EBIT margin expansion and 17% adjusted EPS growth, capping a fiscal year that exceeded our initial expectations and reflects the tangible progress we are making across our three strategic priorities.

Our results this quarter and the full-fiscal year are grounded in the value we continue to deliver to our clients. They trust us to help them find smarter ways to manage work through our hands-on experience and intelligent tools. Every business we serve is wrestling with the same question right now, how do we address this defining moment for work, navigating compliance, reimagining roles, and deploying AI without losing the accuracy and trust that payroll and HR require? ADP is the answer.

While some job displacement can occur during times of transition, our data shows that AI is not eliminating jobs at scale. Instead, it's reshaping how work gets done, what roles look like, and how teams are organized. At the same time, employers are navigating an accelerating wave of new regulations and compliance requirements as they increase their use of AI to enable and support human talent. This is a historic shift that is driving a redesign of the global workforce.

ADP sits at the center of this shift. 77 years of data, deep domain expertise and a global infrastructure built at a scale no one else can match. This has earned us the trust of our clients, the kind of trust that this era requires. What energizes me most about this moment is that it makes the work ADP does more important than ever. The workforce is changing, but the need to manage people, pay them accurately, and remain compliant, is not.

Before I get into our strategic progress, let me share a few business highlights for the fourth quarter and full year. Starting with Employer Services, we delivered more than $2.2 billion of new business bookings in fiscal '26 representing 6% growth over the prior year. This reflects the strength of our solutions and the power of our unmatched distribution capabilities, which remain a competitive advantage for us.

We experienced broad-based new business bookings growth with notable contributions from our small business portfolio, employer services, HR outsourcing, enterprise, and international businesses. Our retirement services business achieved a major milestone of $1 billion in annual revenue for the first time. This business continues to grow quickly and now serves over 210,000 clients, supporting the retirement savings needs of millions of Americans.

Retention and client satisfaction were two other standouts from our full-year results. Employer Services retention again exceeded our expectations and remained strong at 92.1% for the fiscal year. This is the third consecutive year that our overall client satisfaction scores reached a new record high. Clients recognize the exceptional levels of client service we are delivering through the efforts of our associates and investments in our solutions.

Finally, demand for both our PEO and Employer Services outsourcing solutions remains strong throughout the year as employers continued to turn to us for support in an increasingly complex operating environment. These strong results reflect deliberate decisions we made in where we invested, what we built, and how we served our clients.

With continued healthy new business pipelines and increasing adoption of AI tools across our product set, service operations and sales, we enter fiscal '27 confident in our ability to continue winning new deals and create operating efficiencies that will help drive adjusted EPS growth.

Now let me take you through the three strategic priorities driving our performance. I'll start with what we are doing to lead with best-in-class HCM technology. What we have accomplished this year is about more than any single product or feature. It is how we are embedding AI into the very core of HCM. AI is being built into how our clients run payroll, how they are onboarded, and how we service and support them every day. That integration is what makes it real and makes it ours.

Starting with ADP Assist, since launching ADP Assist agents in January, our rollout has steadily expanded across payroll, benefits, HR, and compliance. We now have HCM agents available to nearly all of our more than 1.1 million clients. In fiscal-year '26, 3.1 million unique active users had 12 million conversations with ADP Assist. It is becoming embedded in our clients' workflows, providing real-time savings, and improving accuracy.

We've also seen how ADP Assist can help our clients identify and mitigate risks early on. Providing compliance insights is one example of this. Since January, ADP Assist has serviced 45,000 compliance insights to thousands of clients so they could review and take action on tax and regulatory issues before they become a problem. That means less compliance risk and more client confidence built into our solutions.

We also recently announced the availability of ADP Assist on the ADP Marketplace. This makes it possible to seamlessly connect our solutions with client technology ecosystems through guided natural language conversations and ADP APIs. Access to ADP Assist within the ADP Marketplace helps our clients and their IT teams accelerate development and build integrations that deliver real business impact.

Moving to ADP Lyric HCM. Lyric continues to gain traction in the enterprise market with our number of live clients increasing by 94% from a year ago. Our Lyric pipeline also increased 50% year over- year with new logos representing 70% of these opportunities, and we have made progress in international sales.

This quarter, we closed deals with a digital transformation and IT consulting firm in France, and two clients in the UK, a specialty chemicals company, and a global manufacturer of accessibility solutions. At our Investor Day in June of 2025, we talked about our unified offer of global payroll, global HR, global time, and global service. We saw more evidence of this initiative working in the fourth quarter, where we signed three deals that included Lyric, the ADP Workforce Suite, and ADP Global Payroll. In addition, our global time bookings increased significantly for the year, thanks to the continued positive reception of our workforce software time solution.

Our technology investments are also accelerating what we can deliver for clients. All of our developers are now equipped with AI tools across the entire development and testing cycle, bringing new capabilities to the market faster than ever. The Zone, our proprietary AI-infused service platform is transforming how our service teams work. By giving associates a 360-degree view of the client, connecting data, insights, and interactions across the full client journey, The Zone equips our teams with AI-powered recommendations, case summaries, and contextual insights that improve the quality and consistency of every interaction.

At the start of fiscal '26, 10% of our service population had access to The Zone. Today, that number has grown to 48%, exceeding our end-of-year target. For those associates using The Zone, 96% of their service work is taking place on the platform. Additionally, as we scale The Zone, we saw a 4% decrease in contacts per client in fiscal '26. When you view this against the backdrop of the millions of client contacts we have each year, this is a strong indication that our service teams are beginning to spend less time on administrative tasks and more time on tasks that add value to clients.

The Zone is now embedded in how ADP serves our clients every day and provides a scalable foundation to support stronger client engagement and retention. There's no question that products and platforms matter, but our clients also want something even more fundamental, a trusted partner who can help them execute high stakes, HR tasks amid the complexity of this workforce shift. They are looking to ADP to unlock value by helping them streamline core HR processes. That is what our second strategic priority is about, providing clients with unmatched expertise and outsourcing solutions.

AI is accelerating how businesses build, manage and deploy their workforce. As organizations pair AI capability with expert human judgment, they need HCM partners with operational capabilities, process expertise, and technology to execute it, payroll updates, compliance navigation, regulatory filings, people infrastructure across every jurisdiction, every workforce model in every business size. All of that requires ADP.

A large global auto manufacturer has recently expanded their relationship with us as they undergo a large-scale AI-driven workforce transformation aimed at optimizing labor allocation and creating a more efficient global operating model. As part of this initiative, the organization is introducing new workforce structures, evolving compensation framework, and navigating complex regulatory requirements, including country-specific labor laws, payroll regulations, statutory filings, and reporting requirements across 13 countries.

On the small business end of the spectrum, we recently supported a dentist office in Las Vegas who was experiencing high turnover after they hired quickly to keep up with rapid growth. Our experts helped them revamp their recruitment process with intentional hiring strategies, structured behavioral interviews, and improved onboarding programs. This strategic shift ended up reducing turnover by 40% in just a year.

I spoke last quarter about ADP's structural advantages in the AI era, and this is what our structural advantages look like in practice. We are not a passive observer of change. We are the partner helping our clients execute it. Our massive data foundation is another significant advantage in creating deeper value for our clients through our research partnership with the Stanford Digital Economy Lab and using ADP's payroll data for millions of workers across roles, industries and geographies and millions of job postings, we are mapping how AI is actually reshaping work in the near real time.

We can break down work into granular tasks that describe what people do, not just job titles and measure how the amount a worker is paid to do a specific task changes over time. This is a level of visibility no other HCM company can match. By understanding the changes in the wage premium of specific tasks, we can see how the economic value of certain tasks evolve over time, likely influenced by AI and automation.

Additionally, we cannot only uncover what tasks are valuable, but what work is actually growing or shrinking in practice. Why is this important? This powerful workforce intelligence can help our clients navigate the workforce redesign and reskilling brought by this shift.

The work is in its early stages, but here's an example. An initial look at IT workers shows that tasks like design, development, and analysis command higher wage premiums than tasks like testing, documentation, monitoring, and technical support. This suggests employers value and will pay for the tasks that require deeper thinking and human judgment.

As I said earlier, with this research continues to confirm and what our client data shows is that the workforce is evolving, not shrinking. It is being redefined at the task level. And for our clients, it means that the stakes of getting HCM right have never been higher. This is what ADP service model is built for, the challenges and opportunities of workforce redesign create complex HR compliance situations where human judgment is irreplaceable.

Our associates are trusted advisers who navigate those situations with expertise that goes beyond what an AI agent can deliver. AI handles what can be automated. Our people handle what cannot. That combination is what makes the execution reliable, accurate, and compliant in every jurisdiction for every client.

Trust is a core tenant of ADP's brand, and we are deepening it through our commitment to responsible AI. Our AI governance infrastructure is grounded in principles of human oversight, privacy, bias mitigation, explainability, and data quality.

As regulators across the world, including the EU and several US states, move to create guidelines and policies to manage AI practices, our governance infrastructure is more than a compliance check box. It is a genuine advantage for ADP clients forged through the relationships and experience we have built with these institutions over decades, bringing me to our third priority, benefiting our clients with our global scale.

ADP scale is an advantage that becomes more valuable as work becomes more complex. The regulatory landscape is fragmenting by country, by state, by city, by municipality, each with its own requirements and nuances. ADP makes workforce management executable across more than 140 countries in numerous local jurisdictions. That breadth is the foundation of the value we deliver to each client from the small business running payroll for the first time to the global enterprise managing a 30-country workforce transformation.

Earlier, I covered how we're approaching The Zone for service. In addition, about half of our sellers are now equipped with it as well, helping them approach every sales conversation with better intelligence and greater precision and that is showing up in the outcomes. We saw a record-high seller productivity in fiscal '26, and we believe The Zone was a key contributor.

I want to close with something I feel strongly about and something I think gets lost in the noise of the AI conversation. There's a lot of commentary right now about what AI means for HR, for the workforce, and for the future of work. But is this the right discussion? I see it differently. I believe, and our data shows, that the world of work is evolving in ways that are beautifully and fundamentally human, AI is taking on the routine what is left. The judgment calls, the complex decisions, the moment when a real expert needs to guide a business through something unprecedented.

Those moments are becoming more frequent and the value of human expertise is compounding. The conversation should be about how we address this defining moment for work. The fact is HCM remains alive and well. The need to pay people accurately, treat workers fairly, stay compliant, and navigate change has never been greater.

The organization that get this right, that invests in the right partners, the right infrastructure, the right expertise are the ones that will come out of this moment stronger. That is the world ADP has built for, and I have never been more optimistic about the role we get to play in it.

With that, 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 detail on our fourth-quarter and fiscal 2026 results before covering our fiscal 2027 financial outlook. This morning, we reported strong fourth-quarter results that included 7% revenue growth, 140 basis points of adjusted EBIT margin expansion, and 17% adjusted EPS growth. These results capped a fiscal year performance at the high end of our updated guidance ranges from last quarter, with 7% revenue growth, 80 basis points of adjusted EBIT margin expansion, and 11% adjusted EPS growth.

Both our Employer Services and PEO segment's revenue growth came in at the high end of the guidance range, bringing total fiscal 2026 revenue to $21.9 billion. In FY26, we successfully delivered on our financial commitments while continuing to invest in the future growth of ADP, advancing our AI transformation across our products and our client-facing operations.

I will now review our segment results in more detail. Starting with Employer Services. ES segment revenues in Q4 increased 7% on a reported basis and 6% on an organic constant currency basis, with favorable FX contributing close to a point of revenue growth. As Maria shared, we were pleased with our finish to the year for both ES new business bookings and ES retention with both metrics coming in near or at the top of our prior FY26 guidance ranges.

Hiring trends in our client base remained consistent with ESPs per control growing 1% in the quarter, while ES segment margins continued to perform strongly, expanding 90 basis points in Q4. For full-year fiscal 2026, ES segment revenue grew 7% on a reported basis and 5% on an organic constant currency basis. ES margins increased 60 basis points for the year, which included approximately 20 basis points of acquisition-related drag from the Workforce software acquisition that anniversaried in early Q2. This margin expansion stem from both operational productivity improvements that we are continuing to realize across the business and the contribution from client funds interest revenue growth.

We continue to be pleased with the productivity gains that we are realizing as a result of the investments we are making in AI, in service tools, and in product innovation. As I mentioned last quarter, we are only in the early innings of what we believe this can deliver in terms of operational efficiency improvements, a superior client experience and overall business growth for ADP.

Turning now to the PEO. PEO revenues grew 7% in the fourth quarter with PEO revenues, excluding zero-margin pass-throughs, growing 5%. Average worksite employees increased 2% in the quarter to $775,000, primarily driven by continued growth in PEO new business bookings, while PEO pays per control growth saw some improvement in Q4.

PEO margins contracted 100 basis points in the fourth quarter due mainly to faster growth in zero-margin pass-through revenues and higher workers' compensation and selling expenses. For full-year fiscal 2026, PEO revenues grew 7%, PEO revenues excluding [zero-margin] pass-throughs, grew 5%. Average worksite employees increased 2% and PEO margins contracted 110 basis points.

PEO new business bookings growth was solid in fiscal 2026 while PEO pays per control growth saw a slight deceleration versus the prior year. We saw a healthy improvement in PEO retention in fiscal 2026, driven by record client satisfaction levels. Given continued elevated healthcare insurance costs, we were very pleased with the client satisfaction and retention results we were able to achieve, which bear testament to the enduring value proposition of our PEO offering.

I will now share our fiscal 2027 outlook, which assumes a broadly stable macroeconomic environment. Beginning with Employer Services, we expect revenue growth of 5% to 6%, driven by the following key assumptions. We expect ES new business bookings to grow by 4% to 7%, reinforced by our investments in sales force head count growth as well as AI-enabled productivity tools like The Zone.

We anticipate another year of broad-based contributions with bookings growth across our portfolio from small business up to our enterprise offerings, both in the US and globally. For ES retention, we forecast a 10- to 30-basis-point decline from our unchanged 92.1% fiscal 2026 results. We are encouraged by our continued strong retention and record client satisfaction results. However, we think it is prudent to start the year contemplating some small pullback in retention based on the near record levels we are operating at across our business and given the potential for out-of-business rates to increase in the down market.

The contribution from price to ES revenue growth came in broadly in line with our expectations in fiscal 2026. Our forecast is for similar levels of ES revenue growth contribution from price in fiscal 2027. Importantly, we continue to employ a value-based pricing philosophy, prioritizing the lifetime value of our client relationships above short-term outcomes.

With US pays per control growth remaining at 1% in the fourth quarter and for fiscal 2026, our outlook assumes a flat to 1% growth for fiscal 2027. This outlook is consistent with the US labor market trends that we are observing and with the findings of ADP Research Institute and Stanford Digital Economy Lab that continue to indicate that AI is reshaping how work gets done at the task level, rather than reducing overall head count at scale. We expect FX to move to a slight headwind to revenue growth in fiscal 2027 after it provided about 1 point of tailwind ES revenue growth in fiscal 2026.

And for client funds interest revenue. First, it is important to remember that our client funds interest revenue forecast reflects the current forward yield curves, which are likely to continue to evolve as we move through fiscal 2027. We expect that our average yield will increase from 3.4% in fiscal 2026 to 3.7% in fiscal 2027, which contemplates the market's current expectations for between 25 and 50 basis points of Fed funds rate hikes over the course of fiscal 2027.

We also expect that our average client funds balances will grow 3% to 4% in fiscal '27 compared to the 7% growth experienced in fiscal '26, driven by some moderation in wages growth. Putting this all together, we expect that our client funds interest revenue will increase from $1.35 billion in fiscal 2026 to a range of $1.54 billion to $1.56 billion in fiscal 2027.

Meanwhile, we expect that the net impact from our client fund strategy will increase from $1.31 billion in fiscal 2026 to a range of $1.545 billion to $1.565 billion in fiscal 2027. We expect ES margins to further expand in fiscal 2027, driven both by operational productivity improvements that we are continuing to realize across the business as well as the continued contribution from client funds interest revenue growth.

Moving on to the PEO segment. We expect PEO revenues to grow 5% to 7%. An PEO revenues, excluding zero margin pass-throughs to grow 3% to 5% in fiscal 2027. Our outlook assumes average worksite employee growth of around 2%. We anticipate continued healthy PEO new business bookings growth, while PEO retention and pays per control growth to be relatively stable with FY26 levels.

We expect PEO margins to show some further contraction in fiscal 2027 with [zero-margin] pass-throughs growing faster than overall PEO revenues. Adding it all up, our consolidated revenue outlook calls for 5% to 6% growth in fiscal 2027 and we expect adjusted EBIT margin expansion of 70 to 90 basis points. We expect our effective tax rate to be around 23% and fiscal 2027 adjusted EPS growth of 9% to 11% supported by continued healthy share repurchase activity.

In fiscal 2026, we repurchased 8.6 million shares or more than 2% of our shares outstanding for $2.1 billion. Absent major changes in market conditions, we expect share repurchases in FY27 continue at the elevated levels seen in recent quarters as we continue to deploy the proceeds of our May 2026 bond offering as well as excess cash generated from operations to share repurchases.

Our current $6 billion share repurchase authorization provides a runway to sustain this level of activity. And as we explained on last quarter's call, this deliberate return of capital to shareholders comes in addition to our long-standing commitment to growing our dividend and to the levels of investment that we are making in our business to best position us for success in the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Marcon, Baird.

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

Congratulations on a strong year, particularly impressive in terms of all the strategic improvements and the client retention and bookings coming at the top end of the range. With regards to some of the strategic initiatives, Maria, you mentioned bookings were strong. They ended up coming in at the top end of the range. Prior to releasing the results, you were still looking at a fairly wide range. I'm assuming that the fourth quarter was particularly strong. And I'm wondering if you can talk particularly to Lyric and international.

I went to the Payroll Congress and also to SHRM, when I talk to your salespeople, they all indicated that there was a lot of interest in Lyric. So I'm also particularly interested in terms of what you're seeing with regards to win rates as you're going through some of these RFPs.

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

Sure. Mark, and thank you. I appreciate the congratulations. We are incredibly proud of the quarter when we put together, the year we put together to kind of start on the new business bookings side. We're proud of the $2.2 billion that we delivered Employer Services bookings that does put us at that 6% growth and at the top end of the range. You asked about the fourth quarter, it was strong, particularly in the month of June.

We definitely saw 9,000 sellers, as I mentioned on the last earnings call, at the ready and ready to execute. And I want to take a moment and really congratulate them just an incredible run through the finish line and certainly the sellers and the sales leadership in order to a record-high average sales productivity, really incredibly excited to see that because it speaks volumes to everything that we've invested in. Everything from the seller tools and technology that I've spoken about to the ecosystem around them, to marketing initiatives. But also into product. And that kind of takes me to the question around how the market is receiving our various products, specifically Lyric.

You asked about Lyric, you asked about international. The Lyric story actually expands both of those markets. I made a few of those comments during the prepared remarks with respect to some of the deals that we saw across that finish line in the fourth quarter in terms of international deals and really involving that kind of trifecta story between global payroll, global HR, and global time. So excited to see the momentum there. But I think what you're referring to specifically that you probably would have heard from the sellers at SHRM is probably the thing I'm the most excited about with Lyric, which is, I've spoken a lot about the receptivity of Lyric as an offer in the market and that it is the most modern platform that's out there.

Clients are recognizing this, and they're turning to ADP for this. And when we did the review with the Lyric sales team in terms of just the volume and the throughput of wins in the fourth quarter. The thing that excited me the most is that every single one of those conversations was anchored in an AI discussion. And that again, to me, as a direct reflection on how ADP is meeting this incredible moment during this evolving time in the workforce.

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

That's fantastic. Any commentary with regards to what you're seeing just in terms of win rates and how those have improved? And finally, as we're looking at fiscal '27, the guide range for new bookings is similar why to last year. Just wondering what the key areas are you expecting SMB, international, and enterprise to kind of be the leaders there in terms of driving as you aspire to get to the top end of that range?

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

I'll comment quickly on the win-rate side. We are definitely winning more than we were winning with our previous platform. So these investments have moved the needle. I don't know that I want to go through the entire product portfolio and start giving specifics around win rates. But rest assured, we pay very close attention to win rates because that is ultimately what guides us as it relates to how the market is receiving these offerings, how well they're hunting, and the land of competition. And we are definitely winning more.

And again, there's tremendous momentum behind Lyric. As that new platform, we did see tremendous momentum in the win rates in international. International for me is an interesting place because I think I've spent the last four or five years on earnings calls talking about everything happening around the world and just how complicated the international space is.

And I have to say that the consistency of performance in our international space is incredible. Again, these are the largest, most transformational complicated opportunities, and they're turning to ADP, four out of the five last quarters, international has contributed significantly to the growth in bookings.

So I think overall, that kind of gives you a picture around the win rates. Maybe, Peter, if you want to kind of comment on the bookings guide as we step into '27.

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

Sure. Thank you, Mark, for the question. No, I think on the guide, the number is such a large number now as you can appreciate, $2.2 billion going into another year. Obviously, with bookings, we started again at zero every July 1 and continue on. You can rest assured, we're obviously striving to maximize the outcome every single year. But at this point, I think from an investor perspective, we feel it is responsible and prudent to guide to a range and 3 percentage points, I think. Not overly large in the context, particularly as what Maria was talking about, we have more and more of these large-deal opportunities.

If I look at FY26, the three largest contributing units in terms of our bookings growth from [a dollar] growth perspective, were Lyric, the Workforce Suite, and our global payroll offering. So that can really be a relatively small handful of deals as to where we land in the range and I can assure you, as we were coming up to June 30 here this year, all hands are on deck to land the number, and I'm sure that will be the case again in FY27.

Operator

Jason Kupferberg, Wells Fargo.

Jason Kupferberg - *Wells Fargo Securities LLC - Analyst*

Maria, I wanted to start with -- you gave some interesting examples of how ADP. It sounds to me is almost acting in more of a consulting and an advisory role in certain cases. You talked about a global auto company, increasing their relationship with you, for example, like is this an emerging new revenue stream? Or is this just more of a differentiator that enhances your traditional competitive position and the stickiness of your client relationships?

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

It could be a bit of both, Jason, to be candid with you. I would say that we've always played a formidable role in helping guide large transformational work at the client site. They've always turned to ADP because we hold the key to what everyone else wants to find out in that consultant environment, if you will, or the consultancy side of it, which is we know what all the other clients are doing. And I think that's not new to us, right? So clients often turn to ADP.

The simplest way to think of that is a client is trying to figure out an HR policy such as a PTO, they're turning to us and saying, hey, what does everyone else do? And what do others in our industry do? So I don't know that the consultancy piece and leaning on ADP's data and expertise is necessarily new. What is new is the offerings by which we're able to meet this moment as it relates to kind of the shift in the workforce. And I think that is only amplifying our ability to help our clients navigating.

So as jobs evolve and roles converge and tasks start to change within given jobs, this ability for us to help our clients path across and help them with things like thinking about upskilling, reskilling, role convergence, that is an evolving space for us. But I think it does make things stickier. And I do think it's allowing us to get into some of these more complicated, transformational, complex environments.

Piece of that, we've spoken about already this morning, Lyric, our global offer. As you think about the connectivity between time and global payroll and global HR, in and of itself, the other callout I made during the prepared remarks in terms of a big bookings contributor is that employer services, HR outsourcing, that's also -- as well as the PEO a place that we do above and beyond just kind of the tech solution. It's the most comprehensive of all of our offers, where we really help our clients guide these HR policies, these transformations.

And so I think it's always been there, would be my answer, Jason. But undoubtedly, as the world is getting more complicated, clients are showing up at our door and leaning on ADP to help them navigate. By the way, it isn't just clients. When it comes to this data that we have and what we're doing with it, we're also serving the general public with our research. I think we're all well aware of the National Employment Report. Obviously, I talked about the work with the Stanford Digital Economy Lab. But whether it's economists, it's the government, it's the private sector, it's academics, and our clients are all leaning on ADP to help them navigate this time.

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

I think, Jason, just as a revenue element of your question. So we do have discrete consulting revenues. We've had those for a number of years, professional services revenues, we call them here. The other aspect or another aspect, if you like, of how we deliver this type of work, particularly in enterprise clients is through the blueprinting work we do in implementations as we configure and help configure and advise our clients as we're going through the implementation process through an extensive blueprinting exercise with -- and to establish them from the get-go in terms of best practices. And again, as Maria said, we use the wealth of our experience across our more than 1.1 million clients to deliver that. And again, those services are typically charged for as part of the implementation as well.

Jason Kupferberg - *Wells Fargo Securities LLC - Analyst*

Okay. That's helpful. And Peter, just a follow-up question on the guide for F27. So if we look at the ES guide, excluding float, it looks like 4% to 5% growth. I think that's a little lower than The Street expected. Float guide is actually ahead of, I think, what The Street was anticipating. And the 4% to 5% would be a little bit below, I think, the 6% we saw in fiscal '26. So just curious whether there's any drivers or call-outs there because obviously, bookings did come in quite solid in F26.

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

Yeah. Sure, Jason. Yes, I think the two main things that are shifting, if you like, between FY26 and FY27 for US revenues. So we did have some contribution in the first, because it's a while ago now, but in the first quarter, early in the second quarter from the workforce software acquisition before that anniversary. So there was about 30 basis points or so of revenue growth contribution from that.

We also had some pretty strong tailwinds last fiscal year in -- when it comes to FX, and we're expecting, as I think I mentioned in my prepared remarks, some slight headwinds on FX this year. So the float is continuing to be very durable and perform strongly on this basis of strong balances, good wage growth, and obviously, move through the interest rate curve that our laddering strategy delivers for us.

But I think on the underlying drivers, call it, ex float, ex FX, we're not really anticipating any slowdown. Obviously, we provide a range of outcomes with respect to guidance that investors can rely upon, but no obvious slowdown factors when I think of other drivers like as you mentioned, bookings, retention, pays-per-control price, those sorts of things. We're not contemplating any meaningful change, but at the beginning of the fiscal year and obviously, things can develop and evolve as we go through the year.

Operator

Samad Samana, Jefferies.

Samad Samana - *Jefferies LLC - Equity Analyst*

Good to see strong close to the fiscal year. Just maybe as I think about the bookings composition in fiscal '26 versus the assumption for '27. I'm just curious if you think about FY26, it sounds like SMB is strong. How are you thinking about the different components of the portfolio in that FY27 guidance? And where do you think -- are you -- do you think the same factors will go to strength in fiscal '27? Are you expecting a different composition, especially with Lyric ramping?

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

Yeah, good morning, Samad, thanks for the question. I mentioned in my prepared remarks, we're anticipating sort of broad-based contribution in FY27. I feel we had broad-based contribution in '26 as well. Maria called out a number of areas we can't call out necessarily every area to become a little monotonous perhaps.

But generally speaking, we had -- we were very pleased with the broad-based contribution across the board, is real strength in some of the down-market offerings, retirement services, insurance services, in particular, ES, HRO. If you remember this time last year, we've had a little bit of a softer finish on ES HRO that really rebounded very strongly, both in Q4 and throughout [FY27] -- '26, sorry. We're expecting similar in '27. So the assumptions at this point in time really are a continued broad-based contribution across the portfolio.

Samad Samana - *Jefferies LLC - Equity Analyst*

Great. And then maybe just as a follow-up. I know at the Analyst Day last year, you guys gave the long-term framework with a certain pricing assumption, right? And what the contribution of pricing would be? How was that in fiscal '26? And are you able to capture that? Do you believe that you'll be able to capture that amount that you guys thought that you would at the Analyst Day? And is that the underlying assumption for fiscal '27?

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

Yeah. No, of course. We actually finished the year a little ahead. So at Analyst Day, if I remember correctly, we were talking around 100 basis points of revenue growth contribution to ES from price. I mentioned last quarter, we were more at 130 basis points. We came in slightly ahead of where we were expecting, so call it, a little north of 130 basis points in FY26 and our outlook for FY27 contemplates similar to FY26. So again, a little ahead of what we were talking about, what is that, 13, 14 months ago at Investor Day.

Operator

Bryan Keane, Citi.

Bryan Keane - *Citibank Cameroon SA (Douala Branch) - Analyst*

Maria, maybe you could just give us your latest thoughts on how AI will evolve in the pricing model and how ADP gets paid, and maybe some revenue opportunities AI provides for you guys as we go into the future here.

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

Absolutely. Thanks, Bryan, and good morning. Happy to talk about AI and monetization and obviously, welcome Peter weighing in as well. I think the first thing I would say, because I spoke a lot about AI during the prepared remarks, would be that AI is in the fabric of everything we do at ADP at this time. So it is definitely fueling from a revenue perspective.

Sales productivity, it's fueling call volumes coming down, it's fueling efficiency as a result of that. And so I think it's contributing to bookings, it's contributing to retention, it's contributing to EBIT. It's in the fabric of everything we do. I think that was the summary of the message that I tried to lay forth during the prepared remarks. So I think we're really optimistic about the impact.

As it relates to monetization, I would say some of that monetization comes through things like bookings and further retention. As it relates to discrete monetization, I don't know, Peter, if you want to make a couple of comments around how we're thinking about it through next year or in the out years. But I think it's, call it, early days as some of these things continue to bring value and evolve for us.

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

Yeah. Some of it, Bryan, is we capture, we believe, through our pricing. I was just talking to Samad a moment ago about pricing. So value-based pricing methodology, we deliver incremental value features, functionality, we take price for that. We have other elements of the business such as our marketplace and API Central, where we had consumption-based pricing for API calls and and interactivity between agents on the marketplace and ADP.

So it's a bit of a mixed bag between discrete pricing and items, so to speak, on the line items, so to speak, on the invoice versus sort of inherent in the pricing equation we have with our clients. But certainly, monetization is obviously important and something that occupies our thoughts as we're continuing to deploy these technologies and build our strategies around them.

Bryan Keane - *Citibank Cameroon SA (Douala Branch) - Analyst*

Got it. And then just on the flip side, you talked about productivity and then obviously, lowering the cost of delivery. What is that -- how is AI going to help drive future margin expansion? Is there room for further push on the margins as a result of some of these processes and tasks being automated?

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

Yeah, absolutely. I mean we spoke about that last quarter, as we lifted our guide, and we're pleased to deliver at the high end of our guide for '26. I think that's implicit also in our guide. There's obviously many things going on in the margin, float clearly is one of the contribution from AI, and productivity. Not just AI, there's also product innovation and things we're doing, some of the tools we're deploying, which again, as Maria said, our AI infused it's in the fabric of what we do to the sales force and to our operations teams.

So it's an important element in terms of contributing to the margin. I think we're -- as I mentioned in my remarks, we're still in the early innings. So I think more to come with that. But I spoke at length about it last quarter and would reiterate what I said then now, which is, we definitely see a path to this delivering an accelerated level of margin delivery.

And I think we've started realizing that in '26 and we're out of the gate a little higher than where we thought we would be maybe a year or so ago in FY27, if I referenced back to Investor Day and we'll see what comes beyond that. But we're certainly bullish and excited about the opportunity on many fronts, margins being one of them.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - *JPMorgan Chase & Co - Analyst*

You're executing really well clearly here. I'm just curious, Maria or Peter, just thinking about the fiscal '27 outlook, a lot of questions already, but it's very similar to what you initially guided in '26 except for it looks like slightly lower employment growth and a little bit more margin expansion. And I know you answered this a little bit with Jason's question, but how would you see the key differences in composition or maybe visibility of fiscal '27 growth or this year versus last year? Where do you maybe see a little bit more execution risk and changing your priorities, that kind of thing, Maria?

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

Yeah, absolutely. You're absolutely right as it relates to the guide for '27 being broadly aligned to the guide for '26, minus some of the things that I think Peter already discussed in terms of assumptions around workforce software, things of that nature.

I think generally in line with how we thought about stepping into '27 is how we feel about '26. I think the macro backdrop feels largely aligned as it relates to whether it's on the bookings side, the retention side. It's hard to even remember what was happening a year ago. But I would say, generally speaking, we feel optimistic stepping into the '27 with respect to a constructive backdrop to execute against the plan.

I think in terms of any of the assumption differences, I don't know, Peter, if you want to talk about where we see potential opportunities or risk as we step in. But broadly speaking, I would say the feeling sitting here at this table is that we feel constructive and strong stepping into '27 and largely in line with how we felt stepping into '26.

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

Yeah. I think obviously, there's some movements I was referencing them earlier. As you said, Tien-Tsin, on things like FX and the inorganic contribution and what have you. But in terms of relative confidence, if you like, or certainty visibility on the outlook, I think probably the one thing that that makes me feel more comfortable now than maybe a year ago is the bookings finish that we had in FY26, strong bookings finished. Obviously, some of that is already live through the down-market-type business, but our backlogs are in a little bit better position as you go sort of into the mid- and up- market, where they were a year ago, ESHRO, again, stronger backlog than where we were a year ago.

So yeah, it becomes then obviously an execution play. And obviously, we need to continue that growth. So there's still plenty to do. But I think maybe a slight nod to a little bit more relative certainty in terms of our ability to execute this year than maybe where we were 12 months ago, mainly as a result of that bookings finish.

Tien-Tsin Huang - *JPMorgan Chase & Co - Analyst*

Good, good. Yeah, look, stability is the hallmark of ADP. So glad to hear it. Just maybe my quick follow-up just on the -- with workforce software being anniversaried. Any thoughts on M&A appetite to do deals? Or is this more of an organic year given the trust and comments that you shared?

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

I think I'll start by saying, and I welcome Peter's thoughts as well. Listen, we're always open for business. We're always looking. We're looking at things always across the entire portfolio. We're really excited about how we've executed. It's hard to believe it's been almost two years. But when I look back at everything we've accomplished with respect to workforce software from integrating the sales go-to-market motion to integrating the offer to now winning significant deals in this space, as I called out during the prepared remarks.

We know that this call it the inorganic can be a great growth contributor. And I think we've built tremendous muscle here at ADP on the heels of what was and is the largest acquisition to date. So I think we're always open for business. That's not to suggest we have any well-laid plans, but rather whether it's things such as workforce software or it's other things that we've done in the past, like the roll-ups of in-country partners, things of that nature that we tend to do in a given year.

We're always reviewing things. We have a deal pipeline at all times. And so I think I would say we're always open for business. I think Peter, maybe if you want to comment about how it is that we approach that pipeline and the things that make sense to us and don't make sense to us.

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

Yeah. No, I would fully agree. I think the success of the integration of workforce software as we now refer to Workforce Suite would say the me engine and again are not foreshadowing deals, but would say to me that there's no need for us. And we've not designated this year as an organic only year. I think we would only ever do that if we felt that we were in the midst of a deep integration project on a recently completed deal.

So as Maria said, I'd say we're open for business. Deals need to make sense, obviously, strategically, most importantly, and then secondarily, from a valuation perspective as well as compliance and fit with ADP and fit with culture. And as she mentioned, we are always actively looking. We are quite picky in terms of what we think would makes sense for ADP and selective, and we'll continue to do that. But certainly, as Maria said, open for business.

And just on the -- the last piece for me, I guess, is in terms of our ability and our balance sheet, as you know, a very strong balance sheet and capability to fund most of the type of deals that we'd want to look at. So definitely open for business.

Operator

Dan Dolev, Mizuho.

Dan Dolev - *Mizuho Securities USA LLC - Analyst*

Maria, Peter, congrats on a great year. Just wanted to go back to the AI software question. I think earlier in the year, there was obviously a lot more worry about software pricing, et cetera. And I think we discussed how strong the moat is around ADP, both domestically and internationally? And how localized everything is, can you maybe share some of the conversations you've had with clients and just to kind of make the point on the resiliency of the software offering, et cetera. I think that would help a lot with investor conversations.

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

Thanks, Dan. It's -- I'm glad you asked. It is a great conversation. This dialogue that we have consistently been having, whether it's with investment community, our associates, the broader market or certainly our clients around ADP's structural advantages is an important one. And we have many as it relates to the things that are durable through the shift in the work environment and the workforce.

I think the first thing that I would say is that our results substantiate the reality of those structural advantages. And so if you look at the bookings result, you look at the overall results of this quarter and also of the fiscal year, I think they speak volumes. So to me, words matter, but so do the results, and I think the results in and of themselves really prove that structural advantage that ADP has at this time.

The few that I would call out, if you will, the first is our data. And so we often talk about AI is only as good as the data that it's built upon, and certainly, we've talked today and throughout the prepared remarks around the strength of our data, spanning 1.1 million clients across the entire workforce as it relates to the segment. So whether you're a small business or the most complicated enterprise customer with 1 million employees that you're paying on a given payday. We span the entire market, 42 million wage earners across the globe, one in six wage earners in the US that we pay.

So this is incredible data. And it's not just that data, as I mentioned in the prepared remarks, it's the wage data by task that is a clear separator for ADP. And again, we're leveraging all of this data to ingest AI into the fabric of how we service our clients into the fabric of how we service or how we bring efficiency into our company. So that's kind of the data piece.

The other is the domain expertise. Again, as I mentioned earlier, clients want more than tech. They want more than just the data. They want to know what to do about it. They want to know how to create that blueprint, as Peter mentioned. They want to know how to go through a transformation. They want to know how to navigate with human judgment and human complexity rationalization, how to navigate an HR issue, a payroll issue.

And so we have this in droves across ADP's 67,000 employees, the deep domain expertise that we have and process intelligence and HCM is unparalleled. The third is our -- in my mind, is our distribution. I think our distribution is shining as we speak. Again, I noted to the 9,000 sellers out there. That is a piece of our distribution, but our distribution and our reach and our scale is so much more than that. It's the reach across all of those clients. It's the ecosystem around our sellers, be it CPAs, banks, brokers, system integrators, our distribution is, again, a complete competitive advantage and structural advantage at this time.

I think the other is trust, and maybe I'll end with that because I could go on and on about our structural advantages, but highlighting the one that I think matters more than anything right now. It is trust. And ADP is proving itself to be that trusted reliable source the clients and again, economists, academics, everyone is turning to. And part of that is because we've been doing this for a very long time, and we've built a brand and a trusted brand. But it's also everything I mentioned in the prepared remarks around our approach to responsible and ethical AI.

It kind of comes hand-in-hand with the three letters of ADP in terms of how we think about our responsibility to the world and our responsibility to the workers and their data. And I think trust is everything right now in this world that is evolving so quickly with respect to AI.

So I think all of these things categorically put ADP at the front of that HCM software category. And that is why I'm so optimistic about our future. But I think in general, on behalf of the industry, I would say that HCM in and of itself is unique in the land of software. And it's great to be at the tip of the spear of that category.

Operator

Daniel Jester, BMO Capital Markets.

Daniel Jester - *Bank of Montreal - Analyst*

I appreciate the update on The Zone and beating your expectations in terms of the ramp out there. If I remember correctly, I think it was only in something like 20% of the service employee base in March and so to get to almost half in a couple of months, is a big acceleration. So maybe can you just share about what that ramp looks like, the change management you're doing internally? And as we think about fiscal '27, should we expect 100% penetration? Or how should we expect the ramp?

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

Absolutely. We have high aspirations for The Zone, and I appreciate the commentary around the progress we've made. You're absolutely right. So whether it's The Zone that's deployed across the seller ecosystem or The Zone that's across the seller ecosystem, both of them made meaningful strides. By the way, it's one Zone, actually, just to be clear, but we are deploying them with purpose in each of the each of the groups. And so it is about going broad and deep and measuring at every level the efficiency and the, call it, the motion of work in the before and after.

So we have made significant progress and that progress has yielded efficiency service quality that has led us to that record NPS, the retention results that are incredible this year again. And so I would say to you, we've made significant strides, and we're very pleased with it. And that is exactly the intent as we step into fiscal '27. Our goal is to be broadly deployed across the entire ADP landscape with respect to sales through fiscal '27 and with respect to the US service population throughout fiscal '27.

So we have high aspirations. We have a high bar, but we're also thoughtful and methodical and measuring to ensure that we are getting the return on the significant investment both in certainly, the AI tools, but also in the change management because this is ensuring that on the other side, things are better for our associates and better for our clients. And that's exactly what's happening. That's why we're so excited to talk about it and call out the efficiency, and we will continue to measure that as we step into '27 to make sure that we continue to deliver those incredible client satisfaction rates.

Daniel Jester - *Bank of Montreal - Analyst*

And just maybe a quick follow-up on that. Since you've had -- you commented about record productivity and you talked a little bit about how much this has improved the sales and the service process for your customers. Has this translated to a change yet in terms of how you're thinking about head count investment maybe over the medium term?

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

Yeah. Thanks, Dan. I'll take that one. So again, we -- I mentioned earlier in the prepared remarks, our 67,000 associates we finished last year being FY25, also at 67,000. So we've had some questions prior to that about sort of the growth we've had sort of coming out of the pandemic. We've leveled off in terms of our head count in FY26 at the same time as continuing to invest and add the head count in certain targeted areas such as sales and marketing, such as product and technology.

So the counter to that, so to speak, is some of the head count efficiencies and reductions that we've been able to achieve in service and operations. The Zone is part of that, some of the AI tools in addition, either delivered through or in addition to The Zone are a part of that. And so we don't really have head count numbers that we guide to a necessary target to be resource against the business opportunity in front of us.

But my general expectation, if you're looking for some sort of perspective is would be probably relatively flat overall, but with additions in targeted areas and efficiencies being realized through head count in other areas.

Operator

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

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

Thanks, Michelle. So I want to close by thanking our 67,000 ADP associates. Every single thing that Peter and I reported today, everything that we talked about today is because of our ADP associates. This is truly their story. I'm just the lucky one that gets to get on an earnings call to Peter and share it with all of you.

The performance in fiscal '26 is one I'm very proud of. It's a visible outcome of something that is often referred to as invisible, which I believe is ADP's biggest strength, which is our culture, our people and our culture. And our culture is anchored and fueled by the same founders fire that started this great company back in 1949, which was really anchored in making sure that we solve real problems for real people and real businesses. And that's exactly what our associates are doing and continuing to prioritize as they put our clients first.

And so I'd be remiss if I didn't thank them for their incredible run through a great fourth quarter, an incredible fiscal year. In times of transformation, I have to say that people, the human element, and culture are more important than they've ever been. And that is the power of ADP. That's the power of ADP's people, anchored with great innovation, and it's truly what we're built for. So thank you to the ADPers out there listening, I truly, truly I'm honored to represent all of you.

Operator

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