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PRESENTATION

Unidentified Participant

Good morning. Please welcome to the stage ADP Vice President, Investor Relations, Sara Grilliot.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Good morning. Thank you all for joining us for our half day conference. I want to welcome those of you in the room, as well as those who have joined us via today's webcast. We have a packed program, and we are looking forward to discussing our strategy with you as we become fully focused on the Human Capital Management market.

To start us out, our President and CEO, Carlos Rodriguez, will open with his thoughts on our strategic focus and what all-in HPM means to ADP.

Next, we will have our Chief Strategy Officer, Joe Timko, to give you some perspective on the HCM market today. This year we have two of our Senior Vice Presidents joining us from our product development organization. Don Weinstein and Roberto Masiero will highlight our product strategy and focus on innovation. After a 30-minute Q&A session and a break, three of our business leaders -- Anish Rajparia, President of Major Account Services; Mark Benjamin, President of Global Enterprise Solutions; and Maria Black, President of ADP TotalSource -- will speak to you about ADP's HCM offerings beyond software.

Then Ed Flynn, Executive Vice President of Worldwide Sales and Marketing, will discuss our winning distribution model. And finally, ADP's CFO, Jan Siegmund, will describe how all this translates into ADP's expected financial performance. We will then have our final Q&A session and should wrap up shortly before noon. You will leave today with a richer, more complete understanding of ADP and the direction we're taking to sustain our profitable growth.

Today's presentations and remarks will contain forward-looking statements. These statements will refer to future events and as such involve some risk. We encourage you to review our filings with the SEC for additional information on risk factors that could cause actual results to differ materially from those expressed.

A few logistical notes. Today's speaker information and slide presentation can be found by accessing ADP's Investor Relations website at investors.adp.com.

For those in the room, you may have already found our product demo stations, which are over here to my left. These are some of our latest innovations for you to explore and experience. They will be available during the break and again after the conclusion of the program until about 12:30. And remember that we're going to have two Q&A sessions this morning, one about midway through the morning and one at the end to finish out the program. Of course, we will also welcome your post conference follow-up questions, should you have any.

Let's get started.

(video playing)

Unidentified Participant

Please welcome ADP President and CEO, Carlos Rodriguez.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Good morning and thank you for joining us. That's a video that we showed at an event that we had for prospecting clients in London just a few weeks ago, in the month of January. And I think it speaks to some of the changing dynamics in our markets, but also speaks I think to some of the opportunities that we have, and hopefully it conveys in some away the excitement that we have about the markets that we're operating in. And we're going to talk about that a little bit more today.

I think what you're going to hear today is a little bit about our strategy and how we plan on capitalizing on some of these changes that are happening in our marketplace. Despite the fact that we have a number of competitors, we're still incredibly excited about our position in the marketplace.

Today we're going to give you a sense of not only the competitive landscape, which I think Joe will go through, but also what our strategy is and how we plan to execute to take advantage of it.

So let's jump right in. I think to start I wanted to start by laying a very basic foundation around our definition of Human Capital Management because there are many versions and many definitions of Human Capital Management. Different people operate in different segments of our market. And in our case, as you probably saw in this video, we think that times have changed and that we still need to be efficient and accurate in transaction processing, but our purpose is a much higher purpose now when we talk about being successful in human capital management. And that purpose is in helping our clients maximize the investment they have in their people.

I think we all know that, whether it's a knowledge-based business or even a manufacturing business, all businesses need people to operate. And us helping our clients have their people be more engaged and more productive is our mission and our definition of human capital management.

So, when we talk about the part of the market that we want to operate in, we are committed to being in the entire spectrum and the entire continuum of human capital management, all the way from recruitment to retirement.

And in some cases, some others define their markets by size, small companies or enterprise clients. In our case, we define it as the full-spectrum, all the way from recruitment to retirement. So breadth and depth and seamlessness of our offerings are important to us in our definition of human capital management.

As you probably know, if you've been following ADP for a while, we spent almost two decades building out our products, sometimes through acquisition sometimes developed internally. But I think at this point after all of these years we believe that we have the breadth of offering that we need in order to be successful along this entire continuum.

We also, though, acknowledge that to be successful we have to do beyond what ADP has traditionally been strong in, which is our service, our compliance, our support.

We also have to be strong on the technology side, and that is something you've been hearing about from us for the last two or three years. And we're going to talk a lot about that today, and you are going to really be fully immersed in it today through product demos and through the presentations that you're going to hear from Don and also from Roberto.

So let's talk a little about technology and what role that plays in our definition of HCM. No different than other industries, what's happened with the pace of change in technology over the last five to 10 years has made us recognize that great software, usability, and innovation are key to the success of us taking advantage of this opportunity in human capital management.

What you've seen and you've heard from us over the last three or four years is an acceleration of the pace of investment, both in terms of dollars but also in terms of speed of delivering solutions to the market and speed in terms of moving our clients from some of our older legacy platforms to some of our newer products.

Probably the most visible example that we have of our commitment is what we call ADP Innovation Lab, which is here in Chelsea, New York. But it's really only a symbol, because we're investing across the globe, across our thousands of engineers that we have working on all of our Human Capital Management solutions. And I think you'll see some of that today when you see the demos.

We've been focus for many years now on cloud, on mobile, and on big data. And very happy to report that we've made progress on all of these fronts.

We now have nearly 500,000 clients in the cloud. I think we're the largest in terms of number of clients in our space with clients in the cloud. We've gone from zero to 4 million mobile users in just three years. And I believe that we were very early if not first movers in using mobile for people to be able to access the information that helps them run their daily work lives, as well as in some cases their personal lives.

And big data is really in ADP's sweet spot. When you think about the fact that we pay one in six individuals in the US and we pay another 11 million people outside the US, we have the largest data set of employment data, not just of payroll, but benefits administration, retirement plans, talent management. Information that can really be leveraged and used in terms of analytics to help again our clients run their businesses better.

And so the fact of the matter is that we're committed to technology. But one of the things you're also going to hear today is that we are no less committed to what is really the heart and soul of ADP, which is really our differentiation around service and support. So let me talk about that for a minute.

It is our belief that our clients -- and it's somewhat based on what we hear from our clients -- that clients don't want to just buy software from a vendor and then have that vendor disappear. And so our business model for many decades has been and continues to be around helping our clients with solutions that go through the entire spectrum of the product that they need, to effectively run their business from an employment standpoint and a Human Capital Management standpoint, but also the support to help them use those products and answer questions that they have a regarding those products.

And so when you look at what we define as service, really are three components. It's not just answering phone calls in some cases from employees, in some cases from clients about a particular issue or a particular functionality or a password. It's really about providing true support, all the way from implementation through the use of those products to get the outcomes they're looking for from a business results standpoint. It's about also providing compliance solutions across the globe, and it's about providing insights.

From a support and service standpoint, we have global sales and service capability locally and also globally. So we have the ability to help a client in one country with issues in another country, if they are multinational. And we also have resources to help clients in their local marketplace.

From a compliance standpoint, I think we're well known for our differentiated global compliance solutions. And when we survey our clients, that continues to be one of the number one reasons why clients come to ADP and stay with ADP versus a pure software vendor. Because we provide those compliance solutions that allow them to sleep well at night.

And in terms of insights, we talked about big data and analytics. Clearly what clients are looking forward to now and in the future is having people provide them information and insights to help them better run their business, not just to process their transactions.

And so this is really our definition of Human Capital Management. We have heard many people come up with their own definitions, and we spent some time thinking through this. We've been using this for a couple of years now in our own organization to communicate to ourselves internally how we view Human Capital Management. And again, to go back to the very first foundation, it's all about helping our clients manage their most important asset, which is their people, in order to help them drive better business results.

And so, what strategy are we going to use, or what is our strategy in order to take advantage of this definition or this marketplace we call Human Capital Management? And this may seem familiar because the last thing we had, a similar conference, we had a four-pillar strategy. And you'll notice that three of them look very similar and one of them is gone, and I'll explain why that is. One of them is gone because of the spinoff of dealer services, which is now CDK. The other three are actually quite similar.

In the case of the CDK spin, it was a very good business, as I think the market is now recognizing, but we made a commitment strategically to be all-in on HCM. We believe our markets are attractive, and I think you'll hear more about that throughout the day. And we thought it was the right thing for us and the right thing for that management team to separate the two companies.

The three remaining pillars now are very, very similar, but there are a few key words that I just want to highlight here. The first one is in terms of focusing on our core business and investing in our core business, is the word complete, and that implies seamlessness, the words cloud and the word solution, which again I think is differentiated from a pure software sales.

The second pillar that we shared with you a few years ago that we're still committed to is taking what is already I think the best and most differentiated HR BPO in the marketplace and further leveraging it. I think it's a place, whether it's in the PEO or small-market, midmarket, or large market, we have BPO solutions in all segments of our market, growing faster than the line average of ADP's overall revenue growth. And we're very excited about those businesses and you'll hear more specifically about the PEO from Maria later today.

And then third, and we've talked about this for many, many years and I think we continue to execute on this strategy methodically, sometimes through acquisitions, sometimes through organic development -- is our focus on growing and expanding globally as well. The amount of market share that we have outside of the US compared to the US is very, very small. And it screams to us that we have a lot of opportunity in pursuing not just opportunities in specific in country, but also multinational solutions as well for clients that are increasingly becoming more focused on multicountry employees.

And so how do we plan on executing on the strategy? So we've developed an internal framework for executing and taking advantage of this Human Capital Management space that we call simplify, innovate, and grow. And I am just going to take a minute to explain what we mean by that.

So, in the case of simplify, we believe, as we mentioned about technology and innovation, that we need to ramp up our investments in technology and innovation. But we believed and still believe that we can't do that without simultaneously, and in some cases first, simplifying our existing portfolios. So that means rationalizing some of our existing platforms. That means migrating clients.

And you've heard us talk about that over the last couple of years quite a bit. We've made a lot of progress, and I think you'll hear more from other people today. The reason you keep hearing so much about migrations is because it's very fundamental to this framework that we have of simplify, innovate, and grow to pursue this three pillar strategy that we have.

The innovation, we've talked about. We recognize and we know that we need to get better. And I think today you'll see that we've gotten better and at that we've made a lot of progress in terms of our products and our technology. But we also know that we are not going to be able to make those investments without having the foundational start around simplification. Simplification also implies seamlessness and making sure that our platforms operate in a seamless fashion for our clients.

And the bottom line of this framework is that we believe that if we're successful in simplifying and freeing up resources for us to be able to invest in innovation and in technology and in our service organization and our distribution organization and using innovation there as well, that we will be able to reinvest back in our business. And if we can reinvest back in our business, it's going to serve our clients well. If we serve our clients well, we're going to grow. So that's why we call it simplify, innovate, and grow.

And I wanted to give you some sense of how we're doing so far, and we still have work to do, as you already are aware in terms of our client migrations. We still have work to do on a number of fronts, but we are making progress and wanted to share some of the good news with you. We've got now 490,000 clients in the cloud. That's 80% of our clients in terms of client count. Obviously when you look at it based on revenues, given that we're earlier in our transition and migrations in our upmarket and national accounts base, it's a little less from a revenue standpoint. But in terms of number of clients, 80%. We've gone from zero to 4 million mobile users in just three years, which is quite an accomplishment. And we, as I'm always told, frequently show up as one of the most popular apps in our space in the Apple Store.

And even more satisfying is that we have record client retention, which is very nice to see because some of these migrations I think some people thought might be disruptive. But it's turning out that I think clients are welcoming being on our newest platforms.

And what does that translate in terms of results? You'll hear a lot more from Jan on this front so I won't spend a lot of time on it, but we've got good revenue growth and good earnings growth, despite some significant headwinds from interest rates. And Jan will go into a little bit more detail in terms of how it looks going forward versus how we look going backward. But we're very, very excited about the results we've been able to deliver, especially if you look at them excluding the headwinds which are quite significant that we've had from interest rates, which, as you know now, have bottomed out.

We've returned $4.4 billion in capital to our shareholders, in which we're very pleased to have done. And more importantly, the last time we had one of these conferences we said that our goal is to really be top quarter in terms of our return TSR to our shareholders. And I'm happy to report that as of last Friday, we were in the 26th percentile.

So we just missed being in the top quartile, but I think based on yesterday's performance in the stock market, we may have just eked out into the top quartile. So very satisfying. We recognize that some of that is helped from P/E expansion, but we have delivered in terms of dividends; we've delivered in terms of share buybacks; we've delivered in terms of revenue and earnings growth. And we plan to continue to do that and hopefully continue to be in that top quartile.

So let me just finish by saying that I hope today you'll leave with four things that -- four messages that we want you to walk away from, from myself and the other presenters. The first one is that the markets we operate are incredibly attractive, and you'll hear a lot about that today.

You also should hear that we have recognized that the market has become more competitive, but you'll see that we're investing and that we are well positioned to win in this market. I think you'll also walk away understanding, as you probably have for many, many years, that we have the resources, and we have the scale to win. So the ball is in our court. And you'll also finally hear at the end from Jan that we continue to be committed to our shareholders and to shareholder-friendly actions through dividends, through share repurchases, but also through continuing to perform in terms of the fundamental performance of our business.

So, thank you for listening, and I hope you enjoy the rest of the day, and I'm looking forward to answering your questions.

Now I want to turn it over to Joe, who's going to talk a little bit more about the HCM market and give you his perspective on some of the competition. So, Joe?

Joe Timko - *Automatic Data Processing, Inc. - Chief Strategy Officer*

Thank you, sir. Good morning. I'm going take about 15 minutes and talk about our competitive markets, which, of course, to our graphics people evokes competitive swimming. I'm happy to tell you that I only had to dive in the pool just one time to get this. That's not me, seriously. Okay, enough silliness.

I have six slides. And I have three on market trends and then three on ADP's position in the market. And I'll start on the upper left with technology change, and the technology change that we all experience both as consumers and in our professional lives, and how expectations are rising on both fronts and feeding each other.

And I'll give you may be a trivial example. Six years ago I bought a couple of Roku boxes and I subscribe to Netflix. And so I went online and I created a little -- my initial queue of movies, and then I went into the living room and I installed the box. And immediately, 10 minutes later, that queue of movies was available on my TV screen. And I played a movie for a minute, just to make sure it worked, and then I paused and I went down in the basement, and I installed a second Roku box. And when that Roku box came up, I could pick that movie up right at the point that I paused it.

Now, six years ago as a consumer, this impressed me. This was cross-device, cross-platform integration. And in some sense, it contributed to raising my own expectations for what I experienced as a consumer.

And so it goes with HCM and enterprise apps. So, in onboarding an employee, for example, that employee doesn't actually start out as an employee That employee starts out usually as a candidate in an applicant tracking system. There's a lot of information about that employee that, of course, doesn't change: name and address, to name a couple of things. And once that information gets entered once in the applicant tracking system, that needs to be it. That information needs to flow through to all the applications that Carlos mentioned, from recruitment to retirement, and serve that employee in all the ways that they interact with their company. And that's what's happening in HCM, and that's what's happening across enterprise software.

Now that seamlessness that I mentioned is also expected, over on the right-hand side, even if the solutions that people are using come from multiple vendors. They expect that sort of seamless integration. We would like to think that we're on that track. We have opened up our platforms via APIs, and that enables two very important things. That enables our clients to integrate our HCM platforms with the rest of their enterprise suite through those open APIs.

And secondly, it unleashes the creativity of third-party developers who can develop applications that exchange data with our core HCM systems and add value to clients. So we're under no illusions that we will be able to offer all the solutions that clients want in every vertical, in every possible niche, and so we are opening up these apps to these third-party developers.

So I will go down to big data in the lower left. We are finding that increasingly in deal situations that we face, particularly in the mid and up market, that analytics and really the insights that come from analytics is increasingly a deciding factor in who wins the deal.

We think we are well situated here. We have, as Carlos said, more employee records than any of our competitors. If you do some math, it generally ends up to be between 3 and 9 or 10 times the number of employee records. That's going to make our benchmarking that much better, more detailed, more nuanced, more insightful. But we're under no illusions: the largest database is not going to be what determines the winner in this space alone.

What we believe, the way to deliver these insights is best done through the natural workflow that the HR practitioner is doing on a daily basis, or the manager is doing on a daily basis, to manage their employees, to develop their employees, to evaluate their employees. We want to embed those insights into those workflows.

Now, competitors that have less data than us are featuring more emphasis on data mashups, combining their data with third-party data. And that's important, and our systems will enable that as well, but we think a primary way, perhaps the primary way, that value will be accrued in this part of our HCM solution will be through these natural insights at the time that the person needs them. So that's what we're about there.

That leads me to healthcare reform. This is right up our alley, of course. This is about removing burdens of compliance and regulatory management from the shoulders of our employers. And our solution does a handful of things. It helps those employers at the margin of that 50 full-time employee boundary determine whether the act applies to them. We help them determine whether each individual in their company is eligible for care, for insurance. We also help them determine whether the plans that they are offering are appropriately affordable based on complicated government rules.

But lastly, and where the real differentiation is, it's about that regulatory management. It's about the paperwork and the forms and ensuring that each and every one of our clients that has a solution remains compliant. And that's where we think differentiation is, and that's very much in the sweet spot of ADP.

So we picked these four bases of competition, if you will, because we find that all four of them are accelerating. They're all becoming more important in the marketplace over the last couple of years, and we expect that to continue for some time to come.

So I have two trends that I want to highlight, and the punchline of this one is really on the right. This is about the changing age mix in the workforce. And you can see on the right in red that by the end of the decade, millennials will make up 50% of the workforce. Half of the workforce.

Now, why are these people so important? Because if you look at their ages, if the Internet was invented for the masses in 1995 or 1996, do the math: these people are the first generation that grew up totally on computers and the Internet. And they are different. They are different in the capabilities that they have to do things themselves. So what they can do and what we often refer to as self-service is so much more than previous generations can do.

They are different. When they choose to interact with others to accomplish things in their professional lives, they have different preferences as to the channels they want to use to communicate. Much less of this and much more of all digital channels.

They are different. They have much higher expectations for the pace of technology change and the pace at which the applications that they use in their work lives will improve. This is a challenge. This is a challenge for all enterprise software. It's a challenge for all HCM providers, and we embrace this challenge. And we are hiring these people. We are hiring them in Chelsea, and we are hiring them throughout our global product and technology organization, our marketing organization, and other places in ADP. So we want to make them, us, and that's part of our strategy.

So, there's a secondary effect here of millennials as baby boomers depart the workforce, and that is there's been a fair bit written about a potential shortage of highly skilled workers. And if that comes about, and it's not sure that it will, we think the value of HCM systems will only rise because of this. Because it's these HCM systems that employers will use to plan their workforce, to attract the right people, to upskill those people and to retain those people. And so we're very excited in some sense about the secular trend and the impact it could have on us in our space.

So the last of two trends here. This one's about globalization of the workforce. The survey on the left is a survey of employers, 63% of whom said they plan to deploy more people outside of their headquarters country. That's 4 percentage points more than the same survey just two years before, in 2013.

So we think this is emblematic of a larger trend for companies, midsize and large size, to expand to expand across country borders. And we think we are really well situated to help those employers do just that. We have our GlobalView solution, which serves multinational corporations. We have ADP-owned entities that cover 35 countries, including Brazil, India, and China, and we have a network of partners that extends our coverage fully to 104 countries. And so, this is a relatively unique in our space. This plank of our strategy is hard for our competitors to duplicate. We're excited about that in the mid- and long-term.

Okay. End of the three pages on trends. A couple of pages on ADP's position. You can see we have four dimensions. We're trying to put ourselves on the competitive landscape, if you will. We've talked about the first one, global presence. Let's do the other three.

So, in terms of the range of companies we serve, we are unique. We serve businesses from one employee to 100,000 employees or more. And that's challenging, but now we are all in, focused on HCM. And this diversification within HCM enables us to participate in all the opportunities across this landscape.

So thirdly, with regard to product breadth, we are a fully integrated, complete suite, in Carlos's words, provider. We are under no illusions that we are a best-of-breed player. We do not seek to compete in a single product category.

This enables us to compete for a large share of wallet from our employer clients and against our competitors, and it also enables us to solve a broad swath of problems, giving them one throat to choke: ours.

And lastly, delivery methods. So we are not a hammer that sees the world only as a bunch of nails. We have different ways to deliver value to clients: software only, software plus what you might call traditional service, and then software, service, and our BPO offers.

So, as Carlos mentioned, we have a suite of BPO offers, and these are basically different flavors of outsourcing various functions in the HR department to the ultimate, in some sense, with TotalSource, where we take co-employee ownership with the employer.

So that's where we're situated. So let's get to some simple numbers here.

On the left-hand side, you see the global HCM market in dollars, and you can see that we're outgrowing the global market 7% to 6%.

In the US we have a little bit better data, and so we always prefer to go to units. And in the US, you can see the Bureau of Labor Statistics says there's about 6 million entities in the US that actually pay a payroll, which is their standard for a real company. And you can see that we're comfortably outgrowing that market 5 points to 2 points. That's a two-year CAGR from 2012 to 2014, and that reflects our particular strength in the down market.

You may also notice that in both of these stacks we have about 10% share, and although we are a leader, in some sense 10% is a rather modest number and one that we're excited that offers us additional growth opportunities. A little analysis there for some perspective.

We did an our analysis in our upmarket, and we looked at all of our deal situations in a year. These situations, some of which we won and some of which we lost, and we look at who we competed against. And if you take our top three competitors, in one half of those deal situations, we did not compete against any of our top three competitors. So we took the analysis one step further and we looked at our top 10 competitors in the upmarket space. And in one-third of those deal situations, we were not competing with any of our top 10 competitors. This level of fragmentation is in some sense, we'd like to think of it as good news for market leaders like us. This is a very vibrant market with a long way to go.

Okay. That brings us back to the three pillars, and Carlos did a very crisp job of summarizing these. So there may not be much left to say, but I would just offer that to you again in a very few words. On the left, complete cloud solutionsl in the middle, a suite of BPO offerings ending with ultimately TotalSource in a sense; and on the right, the global footprint. So those three things -- complete suite, BPO, global footprint -- are the way we present ourselves to the market.

Okay? My task is done. I'm turning it over to Don and Roberto.

Don Weinstein - *Automatic Data Processing, Inc. - SVP, Product Management*

Thank you, sir. Thank you, Joe. So I'm Don. I'm going to kick this section off and talk about our product portfolio. And then joining me almost onstage is Roberto, and he'll talk about some of the really exciting developments that are coming out of our Innovation Labs.

As Joe mentioned, we have the broadest market coverage in our industry. We serve clients of all sizes, from as little as one employee to more than 100,000, wherever in the world they do business. And so that scope requires us to have the broadest portfolio in the industry.

Each one of our platforms serves a very unique market segment, starting from the low end with RUN, where we have an average employee size on the platform of just 10 employees; scaling up to Workforce Now in our midmarket segment; in our large enterprise North America headquartered area, we have Vantage; and then ending on the right with GlobalView, which uniquely serves the needs of very large, multinational corporations.

And in addition to our platforms, as Joe and Carlos indicated, we also offer comprehensive HR BPO services, and we uniquely offer those on top of our own, proprietary platforms so that if a client wants to upgrade to a fully outsourced solution, they can stay with ADP and not ever have to change platforms or service providers.

Let me start with RUN. This is the small end of the market. RUN has been a huge success for us. It is the largest scale cloud-based application in our industry, with 435,000 clients on a single multitenant solution. We are very pleased to share that we're down to just the last few hundred clients left on our prior legacy solution, EasyPay, and we're in the process of migrating them over to RUN on target to be finished at the end of this quarter. So we're now processing all of those clients, plus the new share on RUN. And with each successive release of RUN, we are upgrading all 435,000 clients so that everyone is always on constant current version.

And what we see as interesting is that even in the small end of the market here -- and again, this is a platform where your average employee count is 10 -- we're already seeing penetration and adoption of human capital solutions.

Now, the types of human capital beyond payroll services that we provide in this market are different than some of the other segments. They have to be incredibly simple, targeted, and easy to use, but about 20% of our clients buy an additional HR module from us in this segment. And then if you get to just above 10 employees, that number jumps up to 40%. And as you can see in the accompanying screenshots, RUN was the first platform to adopt our new user experience that was debuted last fall out of the Innovation Lab in Chelsea, and you can see on the demo station to the left.

In the midmarket, Workforce Now continues to also be a very large success for us. It is that complete end-to-end HCM solution that Carlos and Joe were talking about. So we're talking about one platform that provides payroll, HR, benefits, talent, and time and labor management, but again uniquely designed to fit the needs of a midsized company who needs to operate like a large enterprise but with a very small HR technology staff footprint on size. As you can see in this example again, it's built to be like that for end-to-end suite, so we've got a custom branded recruiting site that's geared towards a midmarket company. This is coming out in our next release later this month.

And likewise in the midmarket here, we are making tremendous progress. We are nearing completion of the migration from our legacy client/server product, PCPW, over to Workforce Now. We now have over 55,000 clients on Workforce Now, both in the US and Canada. So we believe that makes it the most widely adopted HCM platform in the cloud. And we expect the figure, the client count, to continue to grow. We have both some organic growth as we're continuing to sell and gain more clients. Plus, there are a few other smaller legacy products that Carlos was alluding to, that give us some additional migration opportunity.

And what's more exciting about Workforce Now is again that continued growth of the extended HCM footprint, that end-to-end value proposition that Carlos was talking about. 70% of our midmarket clients now are buying additional HCM modules beyond payroll. And the other metric we really like to track is if clients are by having three or more modules, because that's where you're really starting to get a big chunk of the suite, and we're up to 50% of new clients coming in buying three or more modules. And both of those are a significant increase over our legacy client/server product. So we feel like our strategy is really working in these segments.

In the large account market, Vantage continues to gain traction as both the broadest and also the deepest HCM suite in the cloud. It encompasses all five pillars again of Human Capital Management -- payroll, HR, benefits, talent, and time. And within that talent management segment, it's all five pillars of talent management. A lot of people will tell you they do talent management in the cloud, but the full scope of talent in the cloud is recruiting, performance, compensation, succession, and learning, all in a single cloud-based application suite.

You can see here as well an advanced preview of some of our next gen talent solutions that we will be rolling out over the next year. We've got some recruiting. We've got the onboarding example that Joe was talking about where you need to have that seamless experience for the candidate all the way through becoming an employee.

And Vantage, likewise, has continued to grow, both in terms of new clients sold but also this average size of the new clients. We're now up to about 4,500 employees on our average new client, and that is an increase over prior year. And likewise, of course, as we grow up in market size segment, we see the continued trend of broader HCM suite adoption. Here we've got -- virtually all of our clients have additional HCM modules, or at least payroll and the core HR. But now we can even break it down more succinctly and see time, benefits, talent, all with very high penetration rates. So the majority of our clients are leveraging most if not all of the suite.

And as we get closer to end of job on the migrations in the low-end in the midmarket, we are, of course, starting to shift our focus here and moving the migration energy into this part of the space. The number of clients is nowhere near what we saw in the other segments. Much smaller client bases. But, of course, these are very large clients, and so they have very sophisticated footprints. So each individual migration can take quite a bit longer.

As Carlos and Joe alluded to, I think healthcare reform has been one of the more interesting challenges over the past year. Anish is going to come up later and talk about what our comprehensive approach to healthcare reform is, both from a service and a compliance perspective. But from a purely product perspective, this has been a great opportunity for us to showcase the power of that complete cloud-based HCM solution. If you dig deep into healthcare reform, you see it requires integrating data across multiple segments of the HCM suite, such as payroll and time and benefits. And you can only solve for some of these challenges if you have that integrated end-to-end suite all in the cloud.

So this enables us to do interesting things, like mashing up workflows between payroll and benefits to test affordability, or mashing up benefits and time to manage schedules and eligibility. And because it's all part of the same suite and the same cloud, you can dynamically -- you can do not just the score carding, but then based on the results, dynamically flow that back into other parts of your HCM such as automatically triggering when somebody becomes newly eligible for benefits. That's not a separate off-line solution.

And then moving on to the global market, obviously again another great success for us. We've got, in addition to our leadership position in the US, we've got the largest cloud-based HCM presence on the global stage. We process payroll for over 11 million employees spanning 104 countries, as Joe mentioned. For our largest multinational clients, we are uniquely able to solve their needs for a consolidated global payroll.

We cover over 99% of the world's multinational employees by taking our GlobalView platform and then extending it with our network of partners, plus our own in-country, best-of-breed solutions. And in this segment, we uniquely serve, I believe, over 90% of the Fortune 100, including all 10 of the top 10 global technology firms who, of course, like Joe indicated, have very high expectations for the types of experiences that their employees deserve.

And so as you look at ADP today, we have obviously a presence in the cloud. We have the deepest HCM presence in the cloud. Almost we're approaching 500,000 clients. We've got 35 million active users. Those users log in at least 5 million times a day or almost 19.5 thousand logins per second.

So we have adopted Agile development and release cadences. We've got multiple releases going out every year of our cloud-based solutions like RUN and Workforce Now and Vantage. And with each release, we are upgrading tens if not hundreds of thousands of clients all at once so that everyone is constantly on the current version.

So when you use ADP, you know that the solution is robust. It's reliable. It's stable. It's secure. It's compliant. But we also know that in order to win in today's market, we need to be not just reliable and compliant, but we also have to deliver those types of exciting experiences that our clients and their employees have come to expect from the broader technology market. And so here to tell us more about how we are staying ahead of the technology curve is Roberto, our Senior Vice President of ADP's Innovation Labs.

Roberto Masiero - *Automatic Data Processing, Inc. - SVP, Innovation*

Thank you, Don. Appreciate it. Thank you. So, I love these numbers. I especially love the last one that in every second 20,000 people are logging into our infrastructure and doing their employee, manager, and practitioner self-service. And happy also to see that the results of our investment in innovation are creating this exciting new user experience on our products.

One of the things we did last year is we expanded our lab from our presence in the headquarters in Roseland to the new facility here in Chelsea in New York. And I think it's phenomenal what we were able to accomplish in just one year, and you will see the results of that in the demo booth in there.

In that facility, we have a very design-driven culture. Everything we do, we try to design to be pleasant and engaging to the users of our product. Everything is tested to an extent that we've never done before in the history of ADP. We go through multiple, multiple sessions of research. And one of the great things is that we put a lab for doing those researches and these studies on our new interfaces right there in our facility. So we can invite clients, prospects, to test our software and iterate on the designs before putting it out into the market. We use Lean UX, we use user-centric methodology, and that the environment is open. There's no cubicles. This is not your corporate America. Everybody sits on common tables, and it's all based on Agile in teams, and the objectives are the teams, not the individuals.

And the individuals themselves are different as well. 94% of the people that staff the lab was not ADP -- were not ADP employees. And I would say most of them never even work on an HCM company. They come from the financial industry. They come for the ad agencies, design companies, media companies. So some examples.

Our lead designer, [Serafin], came from MTV. He was a production designer at MTV. So that's how we ingrain sort of this consumer grade interface into our product, bringing people from different perspectives that have a different view of our market and ingraining that into the products.

Martha, our anthropologist. So who knew that ADP was hiring anthropologists and philosophers? But the idea here is to think different, to look at what we're doing from a different perspective, from a humanistic view, right? And understanding how our clients are willing to change some of the flows, some of the processes to become more prepared to the millennials, to become more willing to share, and to get the results out of that, such as the benchmarks.

[Hifeng], our data science, came from your industry. One of the big financial companies out there. And he is the one working on some of the algorithms that crunch all this data we have to produce the actionable insights that are so valuable to change and to improve the results of companies.

And just another example. UK cognitive computing engineer. I didn't even know that that kind of thing existed, but it's awesome. Analyzing the behavior of our users to be able to predict where they will go, to predict what is an exception, to predict what should we do to make and create more value within the Company.

So I think that's awesome. It all started with our mobile. As Carlos said, about three years ago, four years ago, we had very little presence in the mobile space. And we decided to create this one app. This is a great example of an integration solution. This one app that covers 100 countries, 43 different languages, 80,000 clients, and we just crossed 4 million users that on a daily basis come in to clock in, look at their timesheet, vacation, debit card, 401(k), payroll, corporate directory -- all of the employee self-service functions and manager self-service functions from the palm of their hand.

And that's it. I hear some companies say, we're designing mobile first. I think on the employee self-service we can say that we're now designing mobile only, almost. Because once an employee goes and uses mobile, he never comes back. He never uses a desktop again, and I think that's a great trend. And we're up there. Not only we are having it, we have the best solution out there with the most functionality, and we're top three actually.

January is a great month for us. We add a lot of clients or users during January because it's tax season starts. So January and February, 200,000 new users on this application. We're a top three actually, both on the iTunes and the Google store, because of the amount of people that uses our application.

And as we saw throughout the presentation and many of the demo booths out there, one of the things that we're investing phenomenally is our user experience. Not only painting with a different color or using different button shapes, but reevaluating how to create an experience that is more pleasant, more engaging to the user. So it's not only a coat of paint on top of our software, it's really redesigning the experience, coming up with new ways of doing that new hire, that transfer, that onboarding off an employee.

And this UI, as you can see here, is much more consumer grade, visual, and contextual. And it's intuitive. I mean reduced training, reduced calls, reduce the service burden on the companies.

And this is all done on a platform, so we're not coding this line by line. We've created a platform that will allow us to define the software instead of coding it. So you see here one example that you can also see in the booth. This is someone looking at their pay, completely different way of looking at one of the most things, their pay statement, and changing, for example, the direct deposit. Very, very engaging. And that is in the hands now of 23 million people. When they go look at their pay statement, that's what they see.

And we are doing this because we're using Agile in a much, much faster pace. We move from nothing to a product in basically nine months. Since we opened the lab and hired the very first engineer and designer, to the fact that we have a product out there for the clients in nine months, and that cycle is now shrinking because, as people now know our industry, know how to create software faster and use this platform to create the software at a much faster pace.

The other thing that is super exciting is analytics. I think the fact that we're -- I think big is beautiful again and, as I say, to do big data you need big data. So and we're big and we have a lot of data. We have a lot of data to crunch and come up with the benchmarks that are unique to us. Make sure you stop by our analytics demo station because it's incredible the number of insights and actionable items that you can get when you compare your industry and your geography to others and be able to see if that over time, or if that people turnover is just an anomaly of the market in general, or it's something that it's happening to your company, and what kind of actions and re-mediations you can do if you see such indexes changing.

This is the most exciting thing -- everything is exciting for me -- but again, this is probably the most exciting one. Which is the fact that to build all these things and to integrate all those modules, we use these APIs, these application programming interfaces. Last year at the beginning of the year, we made them public. We documented our APIs, the same ones that serve our mobile and analytics and everything else, and we broadcast that to the community. And we have now clients integrating directly with us, doing single sign-on and data flow between the applications seamlessly.

And we not only did that, back in October of last year, we launched ADP Marketplace, and it's also in one of the demo stations there, where we are inviting our partners to innovate with us. So we want all of our partners to be seamlessly integrated and provide the added value so there is niche solutions for industries, for countries, that now can play as if they were part of the ADP and become this most powerful ecosystem of best-of-breeds.

So the idea is let's move from this age of information to the age of wisdom, where we can take the value of the data and make it bigger than that data I just put in. A lot of our systems we put data in, we get that same data out. I think ADP have now the capability of enriching that data because we have enough to be able to create more value from the benchmark of all other companies in the same industry. And also the understanding of while the behavior of the user changes the way we design the system, our APIs now not only convey the events, the things that are happening in the company, but we enrich them with context. We know the device, we know your location, we know what kind of device you are using, what time of the day it is. All of that has been conveyed to our cloud. Crunching those numbers, we understand and can predict what the user needs or wants to do. And with our algorithms that learn from those events -- and you guys are probably used to that. You know how much algo trading changed the financial industry. We think the same is poised to happen on the HCM industry as well, and we're prepared for that. We have people that are at this time creating those algorithms that create insights automatically, opportunities to use it, tell them what they need to do. Don't get in the way, but push the information to the user when it is relevant, and that is happening today in our lab.

So exciting times. Analytics, the new user experience, the marketplace, mobile, all of that available today. Make sure to stop at the demo stations. It's exciting times for ADP. Thank you, Sara.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Thank you, guys. So we're going to take a few minutes now to have a short Q&A session, and then we'll have a break so you can check out the demo stations over to the left.

Carlos, you can come join me up on stage. And as you all know, we're on webcast today, so please wait for the microphones to come around to address your question.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Thank you. Thanks. And I remember Roberto was talking about being surprised that we have an anthropologist. I never thought I'd see someone on stage at ADP that has sneakers and jeans, so it's definitely a new day for us.

QUESTIONS AND ANSWERS

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

Hi, Carlos. Mark Marcon, Robert W. Baird. Could you go through some of the market dynamics? In terms of you pointed out I thought what was a really relevant slide with regards to the 10% market share, both globally and domestically, and how you are growing faster. Can you just give a little bit more context in terms of what you're seeing from a competitive perspective? Because there's a number of investors who are familiar with some of your more well-publicized competitors that are growing fairly rapidly as well and have a little bit of an impression that maybe you're losing share. So can you fill out a little bit of who may be losing share to you and not growing as quickly as you are? Where are some of those fragmented areas that you are able to grow from?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Sure. And I have to my management team here to help me. I brought reinforcements to help me answer some of these questions. This is also Joe's slide, so he may be willing to chip in and help me.

But I think to address your question, the 10% obviously -- Joe is a strategy guy, so he makes the slide look as good as possible, and clearly when you take the entire HCM market, our market share in payroll is much higher than 10%. I think we've been transparent and clear about that. So I think what Joe is trying to depict is that we really are now viewing ourselves as an HCM player.

And when you take the entire HCM market, so you add things like talent management, benefits administration, time and attendance, all of the things -- applicant tracking -- and you take that globally, it turns into a very large market where we have only 10%. But the fact of the matter is that varies by segment of the market and by product, if you will.

So, taking it by segment for a minute to address your question directly, in the low end of the market, I think Joe was very clear that 5% unit growth is in large part a result of really an amazing success in our low-end through our product RUN, who has been growing quite rapidly.

So we've had outsized success in the low end of the market because that's where we have 435,000 units. As Don mentioned, it tends to drive our unit growth. But the fact of the matter is, when you look at our midmarket and our up market, we believe that we are in those segments in the midmarket and the high-end of the market also gaining share.

Now, the challenge in those markets is a challenge of size, which is that our size, for us to actually move the needle -- like we get excited about tenths of a point movements in market share or single digit movements in unit growth. But that's okay. That's exciting to us because we are trying to add $1.6 billion in new annual recurring revenues in terms of bookings every year, which I think is more than most of the competitors who claim to be taking market share from us combined.

So I think it's just a matter of relativity, that if you are $100 million in revenue or $500 million in revenue or $1 billion in revenue, it's just different in terms of the growth rates and the dynamics that you face versus what we face. But we're quite satisfied with the progress that we're making in each of our segments.

I think it's also fair to point out that a couple of people asked a more direct question, which is it seems like everyone is doing well in this market. You guys say you're doing well; everybody is doing well; who's losing? So I leave that to smarter people and analysts.

So clearly there is some shift going on in the marketplace where people are moving from doing things one way to doing things another way. We believe they are shifting to our way because we know we're winning. As you know, one thing we are is we're pretty transparent and pretty straightforward. And so it is what it is. We're doing well, and our business is growing, and we're winning our fair share. And I think when Joe talked about the competition, there really is no -- regardless of which competitors you're referring to and which segment -- there really isn't one individual competitor, as Joe said, who is really either problematic or a real opportunity for us.

And again, that has its goods and its bads because it means it's a fragmented market. We mostly interpret that as good. So when I look at our losses, for example, I don't see -- which we don't disclose in detail and publicly -- but I will tell you that in none of our segments is there any one competitor who takes -- who's responsible for more than 10% and significantly less than 10% of our losses. And so I think that gives you a sense of the fragmentation of the market. And I think by the way the same thing applies in new business bookings. There is nobody who we are having a field day with.

And again, some of our competitors again because of their size and where they're starting from, when they are fishing from our pond -- which is a big pond, particularly when you get down just to payroll -- I can see how they would get excited. But we're going to try to make them less excited.

David Togut - *Evercore ISI - Analyst*

Thank you. David Togut with Evercore ISI. Carlos, as you think about extensions of your business into other areas of Human Capital Management, have you considered the possibility of entering the employment and income verification market? Equifax has build a very successful business there, but at the end of the day, who has better information on employment and income than ADP?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Nobody does, obviously, so that's a great question. And I think -- is Doug Politi here on my team? So, I should have let Joe actually -- I said I was going to let him chip in, and I will. So I'm going to be better now going forward. So I think Doug I think has some good information around what we're doing in terms of employment verification and with Equifax because it's a very relevant question.

Doug Politi - *Automatic Data Processing, Inc. - President, Added Value Services*

Yes, so we're actually partnering with them and providing them the data from our systems around doing that. So it's exactly the intent is to be able to take advantage of we have the great data. They actually have a very strong network, particularly on the financial verifier side. And so the two of us teaming up together where they have distribution around the verification aspects, we have the employment data, and the combination of those two for us is growing very quickly.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

I think the question is also good in the sense that we have -- again, as we think very far forward, we think about other opportunities where we look at helping the employees of our clients in addition to our clients as a potential future opportunity. And I think this is one of those opportunities where you see that obviously. Whether it's employment verification or a bunch of other areas, which I won't get into, I think we have an opportunity to really provide solutions and services to the employees of our clients as well.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Sara Gubins from BofA Merrill Lynch. Sorry, my voice sounds a little bad. With more companies that need to make changes in their platforms now actually changing out a platform as opposed to upgrading a legacy platform, particularly in the larger client market, could you talk to us about where you are in thinking about the strategy for migrating clients onto Vantage? How you are approaching them, if you are, and how you think about what that timeline around that might look like?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

It's a great question, and I'll let Mark add a couple of comments. But I think from a starting point, I think Joe said it well, or I think maybe it was Don, that it's obviously going to be a very different challenge for us to migrate clients in the upper end of our market versus in the low end of the market. The clients are complex, they are larger, and more importantly there is a great deal more inertia.

So we -- our clients ended up being perfectly happy that they are on RUN in the low end of the business, but we didn't have a lot of people calling us, telling us that they wanted to migrate. So it was something that we did proactively.

We're going to have to do the same thing in our upmarket space, and it's just not going to be as well received, in some cases, by the clients.

Now, when you see what Roberto just showed you and what Donald is talking about in terms of product capability standpoint, we believe that some of this that we will be able to use the pull strategy in order to get clients to line up to migrate over to our Vantage platforms. But we're just trying to be realistic about the fact that large enterprises, of which ADP is one of them, moving platforms for HCM is not going to always be at the top of their agenda. So we're going to have to sell them, and we're going to have to convince them with great products and solutions that are going to hopefully add value to their business.

So, we are now redirecting from a dollar and resource standpoint efforts that we had underway in the low end of the market. And as we continue to make progress in the midmarket, it allows us to free up even more resources to go after the upper end of the market. Because it's all about balance, and we're trying to continue to invest in innovation, continue to deliver the kind of results that we want to deliver from a revenue and earnings standpoint, but we also are committed to making these migrations happen. So having additional resources helps a lot.

We are also considering using not just internal resources but also getting some help in terms of external resources to help us. And again, not prepared to talk about that publicly, but you should take away that we are using every possible avenue to move as fast as possible, but to do it in a very careful, judicious manner, and we have to do it in partnership with our clients.

I don't know if, Mark, you want to add anything to that?

Mark Benjamin - *Automatic Data Processing, Inc. - President, Global Enterprise Solutions*

So, Carlos covered really I think the entire complement of the question. The one thing I'd add is that ADP has been focused on the low end with RUN and, of course, the midmarket with Workforce Now. So as we redirect the resources and the expertise inside ADP, we'll move to the upmarket. We've been focused on Vantage really on the new business sales basis for the last couple of years, where it was a brand-new product then. And as we've really broadened that portfolio and that suite of HCM, and we feel as if we're getting very close to that pull. You see some of the technology that is in Vantage today.

So we think we're getting close. We've already begun the early stage analysis around a migration effort in the upmarket US market. So I think there's more to come, but it's complex. The clients are very happy with where they are with ADP, so I think just stay tuned.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Our national accounts base folks are as excited about migrations as our low-end space was when we first talked about it. But the fact of the matter is, from a leadership perspective, if we continue to drive better retention and higher attach rates to new modules, this is a big win for ADP. And the trouble is it's hard. It takes time, and it takes money.

George Mihalos - *Credit Suisse - Analyst*

Great. Thanks. George Mihalos, Credit Suisse. Carlos, international came up several times in the opening remarks. And just was hoping you could delve into that strategy a little bit more specifically. Over the next three to five years, is international more a function of following your clients in their multinational strategy or penetrating new markets and going after local clients there? And maybe somewhat related to that as to the latter point, do you think you're going to have to step up your M&A activity as it relates to international operations?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

It's a great question that is broad, but it is important because it is a big opportunity for ADP. And it's one that we've been pursuing for a couple of decades now. And we're very, very well positioned today in part as a result of acquisitions, but also organic investments over many, many years.

So, in terms of over the next three to five years, as always, the context is important, so today our international business is very heavily tilted towards Europe. And we all know what's happened to the economic situation in Europe. So that tends to dampen people's enthusiasm, but not dampen my enthusiasm about the future opportunity for us.

And the dampening comes as a result of obviously a difficult economic environment where pace or control are slightly negative to flat, difficult sales environment. Retention fortunately has held up pretty well, but it is generally not an incredibly unattractive situation economically. But it's large in comparison to what we have in other parts of our international business, i.e. places like Brazil, China, and India, where we actually have through acquisition over the last five or seven years or so -- and Brazil further back, but China and India over the last five years -- have entered really through acquisition, but with very, very small acquisitions.

So, again, this goes back to the issue of size and ADP, that when you're at $11 billion in revenue, when you have a business that's growing -- even if it's growing 50%, 60%, 100% -- if it's $3 million or $4 million in revenue, it doesn't always show visibly to all of you. But I believe that there is tremendous opportunity for us outside the US and internationally down the road. And we're still committed to pursuing that strategy.

I think that the other thing I just want to mention around international is that we have a set of what we call multinational solutions, which are in many cases serving international markets, but for companies that are headquartered in one country and have employees in multiple countries, whether it's two countries or 10 countries.

You heard a little bit about that earlier today. That is an exciting, differentiated opportunity today for us where we are doing incredibly well. And you'll hear more about it today, but that -- if you add our multinational solutions into our in country international solutions, all of a sudden the growth rates start to look a little more unattractive, despite some of the drag from the growth rate in Europe. Which, by the way, is still positive, which we are very happy about, but it is below the line average of overall ADP.

So I think, the last part of your question, I think you will continue to see us focus. Like what we talked about in terms of our product set, we actually have a pretty large, global footprint in terms of breadth. So we are in many, many countries already, in some cases with just a toehold, in some cases with very large scaled operations. So there probably will be some M&A along the way, but we're also quite happy and quite comfortable with the footprint that we have and the presence we have and the number of countries that we have.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

We have time for one more question now, and we'll have a longer Q&A session at the end if we don't get to your question now.

David Grossman - *Stifel Nicolaus - Analyst*

It's David Grossman. Nice to see you. So, I have a quick question. You did a great job of summarizing the penetration rates of incremental modules with your new products. Can you help us better understand how that may impact revenue per client and your growth rate going forward? Is that something that helps you sustain your current rate of growth, or do you think over time that is something that actually could accelerate the underlying growth rate of the business?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Well, you're going to hear a little bit more later from Ed Flynn, who's going to talk about distribution, and he'll talk about the blend of what we're getting in new business bookings from a pure new logo standpoint, unit growth, and also from higher attach rates of additional business.

And so, as you know, for several decades, ADP has been pursuing the strategy of doing both. We want to grow our market share and grow our units and also grow what we used to call affectionately beyond payroll or the additional solutions.

So were quite good at it and have been doing it for many, many years, and it's a very viable and successful strategy. My only priority is to make sure we do both, not one at the expense of the other, and not just only one of them. So, I think for us to secure the next 30 to 40 to 60 years of a 65-year-old company, we have to be able to grow our market share, we have to be able to grow our units, and we also want to be able to have higher attach rates.

But to answer your question specifically, it's obviously incredibly exciting that the new investments we've made from a technology standpoint are -- and creating these seamless solutions across the HCM spectrum -- are naturally leading to higher attach rates. And it makes sense because I think logically any client or prospect would prefer if they can, if they get the solution they're looking for from one vendor that provides more value than they would get from individual point solutions, that's the way they would go. And that's really the crux of our strategy is to make it so compelling that people won't even consider not buying the entire suite of solutions.

And I think you saw -- I am not going to go through the results again -- but you saw the results I think speak for themselves, that it's working. And we think that things like the Affordable Care Act are helping with that and will just continue to accelerate that because you need to have all aspects of Human Capital Management -- benefits, administration, time and attendance, and payroll and HR -- all connected in order to effectively comply. But these issues around big data and analytics are also going to drive we think higher penetration rates, because having all that information real-time available in one place, rather than having to get it from multiple places, will give companies better information to better run their businesses, to better utilize what is their most important asset, which is their people.

And so having tools that allow you to track productivity and help you in further engage your employees I think have a lot of appeal to I think the prospects that we are trying to sell to. And if we can really deliver on those two things, on that value proposition, I think those penetration rates we expect will hopefully continue to improve.

So I think we're going to go to a quick break.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

We are. So thank you, Carlos. Thank you for your questions. We are going to take a quick break until about 10:00 am. Remember our demo stations are available. All the products Don and Roberto talked about are available to see over here to my left. So we'll see you again at 10:00 am.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

We have another Q&A.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

We do. We have another Q&A later, so I saw a lot of hands. We will be sure to address your questions at the end of the program.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Okay. Thank you.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Thanks.

PRESENTATION

Unidentified Participant

Please welcome back Sara Grilliot.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Looks like everyone has been really excited about that demo stations, which is great. If you could make your way back over, we're going to get started here in another minute.

So next up, we have our trio talking about HCM beyond software. So we have Anish, Mark, and Maria that are going to come up and give you this presentation. We have three more presentations. We're going to have a final Q&A at the end, so you'll have a chance to ask more questions, ones we didn't get to earlier. And then at the end, you'll be able to go back and enjoy our demo stations again until about 12:30, so still some time left to get that in.

So with that, I'm going to welcome Anish up. Thank you, Anish.

Anish Rajparia - *Automatic Data Processing, Inc. - President, Major Account Services & ADP Canada*

Thanks, Sara. Good morning. How's everyone doing? All right? A little stretch to your legs.

So, as you can clearly see from Don, Roberto, the demos and this video are investments in Human Capital Management SaaS platforms and innovation are and certainly will be a differentiator for us in the future.

However, in addition to that, hopefully what Mark and Maria and I want to talk to you about today is that beyond delivering our deep product expertise, we have fully integrated service across a wide range of payroll and HR functions to help our clients execute on their business strategy.

We believe that our knowledge, expertise, and the compliance offerings, as Carlos showed on the very first slide around service, are our great strengths and really complement our product and technology. And we see our Human Capital Management service and expertise as huge differentiators for us. So over the next few slides, Mark, Maria and I plan to highlight for you ADP's key areas of differentiation from the perspective of knowledge, compliance, and service.

So you can see here, ADP's HCM expertise has the ability to create leading solutions and compliance services that address a company's people and regulatory challenges. One of our key differentiators is our ability to share knowledge and resources with our clients. This goes beyond providing software. ADP provides this expertise in a number of ways, depending on the business needs of their clients.

Some examples of this include clients will ask us questions like, how do I attract and retain top talent? What are some of the best practices that firms like me use? What retirement plan should we offer our employees? And what fits best with my business?

So from recruitment to retirement, ADP has the HCM capabilities to help our clients.

So, first, our deep HCM knowledge provides us with the ability to help employees manage complex tasks. This could be anything from how to increase productivity, how to improve employee engagement, and then, of course, meeting regulatory and legislative requirements.

We provide expertise that many companies would hire a consultant for. For example, our HR business partners. which we have in our BPO businesses and our PO business and even in our helpdesk, offer solutions that act as an extension of our clients' HR department and can help clients with best practices around things like performance management, employee terminations, wage and hour questions, and even benefits inquiries.

We also have a team of licensed insurance and retirement services professionals that help clients with the selection of worker's compensation, health insurance, and retirement plans.

On the talent front, ADP works with its clients to ensure their processes are aligned with their business.

Recently we worked with a large US clothing retailer that was changing its business strategy. We met with the client to talk about their HR and talent challenges and help them with a talent process redesign to successfully execute their new strategy. The talent redesign included things like assisting them with retraining their current staff, developing candidate profiles to attract the right candidates for each position, and identifying new performance management processes.

As a result of the project, the client improved the skills of its staff and experienced higher satisfaction from both their managers and their employees.

So, as you can see here on this left-hand chart -- up here on the right-hand chart, sorry -- it is clear that the burden of increasing regulation is driving the need for HCM solutions that assist with compliance.

Compliance complexity is really a top concern for most businesses and especially many of our employer clients, especially given the DOL violations that are found in these companies. Hence, it is no surprise that businesses of all sizes turn to outsource for expertise and for help. ADP has knowledge and resources to quickly react to changes in legislation.

For example in 2011, President Obama signed into law the Temporary Payroll Tax Cut Continuation Act of 2011, extending the 4.2% social security tax for employers.

ADP's payroll systems were able to react quickly and make the appropriate payroll tax changes, but we supplemented this with our people, including more than 1,900 ADP Associates focused on tax compliance, and a tax center of excellence that works with our climates to streamline the resolution of agency notices.

On an annual basis, there are more than 10,000 tax types in the US, and we monitor 15,000 proposed taxable changes across these 10,000 jurisdictions.

Last year alone there were only a handful of meaningful changes enacted. But still that resulted in 27,000 transactional changes required to maintain compliance.

Additionally, we work with more than 250,000 agencies and over 2 million payees on wage garnishments.

So, as you from heard from Don and Joe, ACA is a great example of how we try to bring together knowledge and expertise, compliance, and our technology solutions to help our clients manage regulatory complexities. It is one of the most significant pieces of legislation since the Security Act in 1935, and a majority of employers feel unprepared for this.

In 2015 it is expected that ACA will impact more than 19% of the entire US economy, and ACA shared responsibility reporting requirements will touch millions of private employers and tens of thousands of not-for-profit and government agencies.

The key ACA pillars that you've heard about -- applicability, eligibility, affordability, and regulatory management -- all of these areas have their nuances, where expertise on top of the technology solution can help. However, regulatory management requires active communication between employers, employees, exchanges, and the IRS. It is the most unknown right now and likely will be the most challenging.

Notably, the impact of the Affordable Care Act varies significantly from employer to employer, depending on the composition of their workforce, full-time versus part-time, employment practices, and the richness of their current benefit plans.

Our healthcare compliance offering is a comprehensive ACA management solution, which is comprised of knowledge and insight about the law and how it impacts different types of employees and employers. Compliance and regulatory management, especially with evolving rules and upcoming notices and enforcement, and, of course, industry-leading technology that will provide complete, accurate, and actionable information. No other partner can offer the depth and breadth of services like ADP.

I think the following video will highlight for you and demonstrate how we market ACA to our clients. And then Mark will come up and share with you a little bit about how knowledge and our compliance applies in the global and multinational domain. Thank you very much. Enjoy the video.

(video playing)

Mark Benjamin - *Automatic Data Processing, Inc. - President, Global Enterprise Solutions*

All right. Thank you, Anish. So you've heard about the value that we deliver to our clients here in the US, but as you'd imagine, we have clients that also come to ADP to help pay out their human capital on a global basis. We essentially do business where our clients do business today.

To do this, we've been building our expertise and skill at ADP for over 30 years. We operate in over 100 countries today and speak over 20 languages to our clients each and every day. We have 5,000 global sales professionals, of which 500 are dedicated to serving the multinational and international markets.

Certainly we've been strong globally in payroll for many years, but over time we've broadened our portfolio to include solutions around HR, around benefits, around time labor-management, around talent recruiting, and money movement, just to mention a few.

Take, for example, a business in Germany looking for a payroll and timekeeping solution. ADP would provide German-speaking professionals on the ground to help the client employees to understand German regulations in the market. In cases where we don't have a presence or a necessary domain expertise in a country, we use our partner network we call the Streamline.

For example, if we don't have a physical presence in a country, we'll insert a Streamline partner to assist with the client need. We hold our partners to the strictest of standards, much like we hold ourselves each and every day. Our clients tell us our global presence not only makes them more efficient but gives them the confidence they need to operate human capital on a global basis.

In every country, much like the US, there is a complex regulatory environment that's growing each and every day. Here I've highlighted just a few, and let me speak to two of those specifically. In France we have DSN, and in Brazil we have eSocial. These are simplification or costs or corruption reducing measures put on businesses in these countries. The requirement to interact with their governments on a more frequent and electronic basis is critical. ADP interprets these changes and then re-engineers the process and tools required by our clients to operate in these countries. And then, of course, we also train them.

ADP benefits from these changes as well because companies look to outsource more as the regulations grow more complex and frequent. There are some further, I would say, megatrends around regulation today. One around data privacy. In the 1970s, there were only a handful of countries that had data privacy laws in place, and now today there are over 90 countries that have their own rules and regulations around data privacy.

In addition, and you've heard Joe mention the global mobile workforce, PWC reports a 50% growth rate by the year 2020 in global mobility assignments of multinational companies. Having software doesn't necessarily mean you're compliant; you have to have the expertise to interpret the laws and make the appropriate changes.

Our expertise can be delivered to clients in a spectrum of formats, depending on their needs. One side of the spectrum is our software solutions. That's certainly not software alone. However, clients just need less day-to-day interaction. For example, our talent management suite. Our clients would use that solution however to interact with ADP to gain best practices around their industry or for technical support.

In the middle, what Joe referred to as our HCM solutions -- such as Vantage, Workforce Now or RUN -- essentially we become the back office administrator for our clients.

Clients will provide us payroll-related information like hours and earnings, benefits, 401(k), and so on. We take that information at ADP, and we process and calculate and determine, for example, how much should go to an employee versus a 401(k) vendor.

We then also route the money to all the necessary parties that handle those payroll needs. We are there to support the practitioner of our client through every step of the process.

And on the other side of the spectrum sit our HR BPO services, of which there are several at ADP. In this model, we not only take over that back office, but we actually become the payroll, HR, or benefits department of our client.

In addition to that, we also become the front office, interacting with our client employees on a daily basis. The good news here is we use our own HCM solutions to provide the services, so our clients get market-leading products and superior service. Plus, it's good for ADP because we know those solutions are highly scalable.

It's important to note that our service offerings have a technology component to them, of course, and we offer these in a software-as-a-solution only; no license or selling of software.

So to give you a flavor for how our clients interact with ADP, I've brought one along with me.

(video playing)

So obviously our client feedback is critical here at ADP. We also follow the industry agencies that measure us against our peers and the relative markets we serve. So, as you'd expect, ADP is widely recognized by many of these agencies, and I've brought two here today.

So one, in 2014 Gartner rated ADP as the highest leader in their payroll BPO Magic Quadrant. And the other chart shows, really walking away from payroll for a moment, IDC's ADP ranking of leader in HR BPO MarketScape Report. So, as you can see, just two examples, and, of course, Everest and other agencies rank us in their studies and market trends.

So now that I've mentioned HR BPO, let me transition over to Maria to talk to you about our fastest growing HR BPO, the PEO.

Maria Black - *Automatic Data Processing, Inc. - President, ADP TotalSource*

Okay. Thank you, Mark. To understand a professional employer organization, it helps to start with understanding the traditional employer model. In our traditional model, a business owner is faced with a set of complex functions and tasks all related to managing their workforce, from traditional HR and payroll to more complex things like worker's compensation risk management and, of course, healthcare compliance reform.

As we can see from this picture, each of these functions often present a set of additional subtasks that require the employer to have to deal with multiple third parties. This creates complexity for the employer, as well as takes time and energy away from them in focusing on their business and the key elements day-to-day.

Under the PEO model, all of the HR functions and their related tasks are outsourced to one single strategic provider. Instead of having several HR partners, the business owner only has one, the PEO. And through co-employment, the PEO handles all of the employer's Human Capital Management needs from HR and payroll to benefits administration, worker's comp risk management and, of course, compliance.

The PEO is a partnership that drives a compelling value proposition to our clients. As you can see, the clients benefit first and foremost from having a dedicated human resources business partner with expertise across the full spectrum of HCM challenges and is available to support the clients when they need it. This expertise includes things like risk mitigation and compliance support, and it also includes access to advanced HCM tools and technology. Clients benefit from getting access to our Fortune 500 caliber benefits, which in most cases are more comprehensive and provide greater flexibility than those that were previously available to them.

Finally, the client no longer has to deal with the administrative aspects of HR and can enjoy the leverage of economies of scale.

This is a snapshot of our Human Capital Management dashboard. I share it here today as it provides a great example of how we are delivering value and the value proposition to our clients. The HCM dashboard is an impactful data visualization tool that allows client administrators to view real-time information to help spot trends, gain business insights in order to make informed decisions about their business. At ADP TotalSource, we are taking this even one step further by creating new ways to link our service with the data and information that we provide to our clients.

We have click-throughs on several of our dashboard widgets that enable our clients to ask for additional help and support in certain areas. For instance, a client can click on the wage benchmarks widget to request information and additional services around compensation analysis. We in turn help the client determine how they stack up against some of their competitors and what changes they should think about making in order that the compensation structure is in line with both their HR, as well as their business strategy. That's really the whole story: data analytics and insights leading to a higher value add TotalSource service interaction.

Delivering this kind of expertise and this kind of value is what has enabled TotalSource to establish itself as the largest PEO and the market leader within the PEO industry. That's something we're very excited about, and it's an exciting time to be a PEO.

The PEO industry is growing overall, and it's growing faster than the general HCM market. It's largely in underpenetrated, and TotalSource continues to gain market share. This is due in part to ADP's world-class distribution model, which TotalSource is able to leverage for lead generation, in addition to our own dedicated sales team.

And with that in mind, I'm going to turn it over to Ed, who will take you through ADP's distribution model.

Ed Flynn - *Automatic Data Processing, Inc. - EVP, Worldwide Sales and Marketing*

Thank you. Good morning, everyone. Down the home stretch here. Now we get into some numbers, and if my numbers don't excite you, Jan's definitely will.

A quick update on sales. As you can see here, we've laid out our global distribution of the sales force. Of course, we've mentioned several times today that we are in well over 100 countries, and we have 5,500 sales folks. And by the way, those are quota carriers, bag carrying, accountable sales associates across the globe.

And as Maria just mentioned, one of the big advantages that we have with this kind of scale is the ability to not only career path people across the globe and within our sales organization, but also to fuel each of the business segments with cross-selling opportunities and leads. It's a huge, huge advantage for ADP.

So we've laid out for you here several years of growth, but what I really want to point out is how we do it. We try to grow every single year through a combination of productivity improvement, as well as headcount growth. And throughout this morning, you've heard Carlos and everyone mentioned the investments we've made in product and client migrations. Those two things are really, really critical to growing our sales force productivity.

The way to think about the 10%, both in the past and in terms of our future intention, is that roughly half of our growth will come through headcount additions. The other half will come through productivity lift.

The one thing that we don't mention very often is that when we arm our sales force with state-of-the-art solutions and technology, they get very excited. They stay longer, and the longer they stay, the more productive they are. So it's a very powerful combination of things.

So, a few attributes of our sales force. I think many of you know us well, so I am going to focus on just a couple of areas here. The entire ADP ecosystem is extremely supportive of the sales organization. And so I like to say that when we line up our sales force with really good products, good implementation, and great service, we are differentiated and very tough to beat.

A couple things I will go into some detail here. The segment agnostic sales approach really refers to the fact that we have incredible operating flexibility with our sales force. So, for example, in our small business segment, they have the ability to sell our Workforce Now product, which is our major account platform, when they do encounter more sophisticated clients.

Likewise, in our national accounts space, if they encounter clients that have simpler needs and want an easy to install solution, they can sell our major account platform. So there's tremendous scale and advantage in terms of having that agnostic approach. And it's different than what we've done in the past. To have ADP sales folks be able to move between platforms and products is a huge advantage.

We have a history of evolving our sales force. I think a lot of people think ADP is feet on the street. While it's true that we have a very large salesforce, I'd also point out that we've always tried to be on top of the way our markets want to do business with us. So, for example, in the small business space, you're aware of our history with CPAs and banks and franchisors. But, in addition to that, we try to deploy expertise in the way that our clients want to interact with ADP.

A very good example is our inside sales group. We cut across all of ADP's platforms and virtually all of our technology with our inside sales group. So, as Carlos was mentioning earlier, the ability to sell share of wallet, if you will, and sell additional applications to clients is greatly leveraged by that inside sales group. And finally, earlier today both Roberto and Don spoke to the ADP Marketplace.

And to really keep the story simple for you here, what we did is we launched last fall at our HR Tech Conference. It was extremely well received by both clients and partners. The simplest way to think about this is we make it easy for clients to shop for and adopt pre-screened, pre-integrated applications that already work with the ADP core solution. We have over 100 partners who have expressed interest. We have a little more than 20 applications live now. That's both external partners and ADP solutions, and the early going has been really positive for us. We're actually generating sales, although it is early days.

Going forward we think, as Roberto pointed out, we think this will be a unique differentiator for us and give our clients the ability to shop effortlessly for the applications that they want to use with payroll.

And finally, in closing before I switch to Jan, we think we're positioned in the marketplace. We continue to really focus on execution, and we are a company culture that focuses very adroitly and very acutely on all things execution with our sales force.

On top of that, we have a reliable and trusted brand. We have fantastic global coverage that is hard to match. You saw earlier our exciting future technology roadmap. I think when you talk in terms of our sales force and their enthusiasm and their excitement when they see that future roadmap, it's tremendous.

And lastly, the key message I want to leave you with that's a little different this morning is, we try to do business with our clients the way they want to do business with us.

Thank you. And with that, I will turn it over to Jan.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

Thank you, Ed. As you hopefully have seen, today's Investor Day tried to span the arc to demonstrate to you the long-term viability of our business model and our long-term, positive growth prospects, and ways of how we're planning to achieve it: through a lot of focus on innovation, better use of technology, leverage of our core strengths in service and compliance, all executed by a wonderful sales force that Ed leads.

So in all of those changes, a lot of things have changed in ADP, but some things remain strong and the same. And so I wouldn't be a good CFO if I would not emphasize that to start us off. Clearly we are focused on HCM. Focus is a good thing, and with the spin of our division Dealer Services into CDK Global, we are even more focused and enthusiastic to drive success across the HCM spectrum. The benefit of ADP being a global company that serves small and large clients across a wide, diverse client base I think offers a very diverse diversified revenue stream, even though we're focused on one industry segment.

We have been investing into innovation, but driving really strong organic growth prospects, in particular leveraging our global operations. The earnings have been predictable, as you all know and love, and we have paired our earnings growth through revenue growth with a consistent margin expansion.

Our business has great characteristics with low capital requirements. ADP spends approximately $200 million in capital a year to drive and sustain our business. And we pair low capital requirements with a very disciplined approach to acquisitions that have historically augmented our revenue growth and have built our capabilities.

We invest into our business and our excited about the fruits that our investments of R&D have given, and you have seen those today all along. Standing commitment to return excess cash to you, the shareholders, remains, of course, a priority to us. And I will give you little bit of overview to how we are planning to do that in the future in a few minutes.

Our balance sheet remains strong, even though you notice that with the spin of CDK Global we retained a new credit rating of AA as part of that transaction. We continue to be, of course, the strongest competitor in the market space with the strongest credit rating, but we also recognize that the new credit ratings offer us more flexibility on our balance sheet to drive future growth.

We have delivered 40 years of annual increases in our cash dividend and see that as a strong commitment of our shareholder-friendly actions.

The fundamentals are solid, as you can see here in the summary of our key results that you are well familiar with. We have experienced over the last few years extended periods of lower interest rates, which has dampened our revenue growth and had also a serious impact on our margin, as I isolated to you. But we have delivered consistent and sustainable revenue growth of approximately 7% during those years, and that includes about a $120 million drag from reduced client fund revenues due to lower interest rates.

Which pre-tax margin expansion for the underlying business, above and beyond the pressure that we received from the interest rates, declines through to driving business process improvements throughout the Company. And as you can see, if you isolate this and subtract it away, we added about 1% of margin, excluding the pressure from interest rate.

We returned about $2.4 billion in cash via dividends and $2 billion via share buybacks. And as you can see here, I included some numbers on FY15. Sara reminds me this is not an update on our guidance. This is just a repeat of the guidance that we gave you with our second-quarter call.

As you can see, we guided during that call to expect continued -- we confirmed our guidance on the EPS for 12% to 14%, and margin expansion accelerating to 75 to 100 basis points in the light of actually the interest rate environment turning more favorable or growing out of the interest rate pressure that we have experienced for the last few years.

So what can you do, expect from the future? You can expect us to remain focused on HCM. You can expect, as we have said repeatedly, high single digit recurring revenue growth and consistent operating margin expansion. We will reinvest into our business and to drive the acceptance of these new technologies and innovations for our entire client base. So we will continue to focus on migrations. We will return our excess cash to the shareholders and driving with our ambition top quartile S&P 500 total shareholder return.

So let me take you a little bit through the process here of how we're planning to deliver this revenue growth. It's a large company. We have lots of different competitors, products, and market to serve, and sometimes it is a little bit complicated to isolate of what is truly driving from the business perspective the revenue growth. And in the morning, you saw a lot of the examples for this, but I will try two charts to help you understand in a little bit more detail of how we're going to -- what revenue growth composition we are expecting to see.

So this is a new presentation that we hope will help you to link our three strategic growth pillars that Carlos described in his initial presentation to the sources of revenue growth from us. And as you can see, the strategy aims for a balanced portfolio approach. So we are not dependent on a single success story for one of our growth pillars, but each of them will contribute significantly.

So, the HCM solutions, the Workforce Now, the RUN, the Vantage deals, all will contribute about 40% according to our plans in the longer run to our revenue growth. And not to be underestimated -- and you saw it in the presentation from Mark, Maria, and Anish -- our HR BPO solutions, they are growing faster and significant faster than our ADP line average, and a significant contributor to the long-term revenue growth of ADP.

And a part of our strategy for the last couple of decades has been not only to grow market share and unit count, but also leverage that revenue expansion that we have from an original pure payroll player to now a fully integrated HCM provider, plus BPO, is quite significant, and you'll see it contributing about 40% of our future revenue growth coming out of these HR BPO related products, of which you can follow, of course, the PEO as a publicly reported segment and its characteristics. But as we mentioned, all business units -- from small, medium to large -- have similar HR BPO offerings in their coffer.

And you'll see about 20% of our revenue growth being driven by our global presence. The growth in that component, which includes the best-of-breed outside US countries, but most importantly the success of our multinational solutions. 20% contribution is a smaller part in our growth strategy, but the revenue growth is quite accelerated as the base of multinational revenues and international revenues is small, with 20% of our total revenues. Yielding our long-term goal that we have communicated of high single digit revenue growth that I describe here as 7% to 9% revenue growth.

Now, how does this translate into how do we achieve this? And obviously ADP has many sources of revenue growth, and the next chart will try to put it into a framework that relates it, the 7% to 9% revenue growth, to our publicly disclosed and guided numbers.

First things first: the most important revenue driver for us in the long run is our ability to gain and sell to new clients, expand our relationship with existing clients, and lose fewer clients. So, the ADP-controlled component of our long-term revenue growth is quite significant.

The contributions from new business bookings, that's the result of Ed's sales force, contribute 14% to 15% each year to our business. And these are all recurring revenue numbers. So this $1.6 billion, roughly, number that we have been guiding to for this fiscal year is reflected in the blue box. It doesn't mean that he is growing 14% to 15%. It means just $1.6 billion is roughly 14% to 15% of $11 billion. We're losing at record level retentions a certain number of revenues every year, and the delta is what we call the net new business contribution of 6% to 7%.

And the more successful we are to accelerate our new business bookings growth and our continued success in high retention rates will drive this delta up, up or down, depending on our performance. We had a very good run, as Ed has shown you in his chart, on our new business bookings, growing 10% in the past years, and our guidance for this year at the quarter call was also raised to around 10%.

And then you have the factors that many of you think of ADP as supplemental factors. So we have our -- we participate in the growth of our clients. For the sake of this model, we have assumed, like, I think a 2.5% pace for controlled growth, which is kind of in line with the general growth of the economy. We have assumed that client fund interest, since it's a longer-term model, stays flat for a while. So we're just anticipating that growth of client funds from interest revenue growing in line with our client fund balances. They may be 5% or so.

And then we have a price realization of short of 1%. You know that we historically have indicated a contribution of about 1% to our revenue growth. For the future, what we want to demonstrate to you is that we still have price elasticity in the market, and we can use pricing tools proactively as a strategic tool at ADP, but we also want to demonstrate our ability to achieve long-term revenue growth in the high single digits, without over-leveraging our pricing power and staying competitive. So that is the indication and the message that we're trying to send as we present this overall waterfall to you.

Acquisitions would be incremental to this. This is an organic waterfall chart. As we have seen in the last couple of years, we had made fewer acquisitions. But as they are lumpy in the future, that would be incremental revenue to the 7% to 9% revenue growth.

An important factor is clearly interest client fund interest revenue, so let's have a look of how we can talk about it. And again, today we're trying to offer you a different visual of how to think about the impact that the current rate environment and the future rate environment will have on our client fund interest revenues.

So, on the chart on the left side, we are listing to you the forward yield curve for the three and a half and five year agencies, which we typically use in order to offer you insight into the development of our future client fund revenues. So these yield curves are finicky friends, and they move on a daily basis. So we picked one fairly close to this day, and you can see the yield curves that we see. And we pair it basically with the embedded yield of our client fund portfolio that will vest in each of these years.

So, in 2015 for example, we are guiding to a net impact from our client fund strategy of about a positive $5 million to $15 million. But we also told you that we have rate pressure being out compensated by balance growth, and that's kind of -- you see it here, our maturing securities in 2015 have a higher embedded rate than our reinvestment rates and hence we have that rate pressure, but our balances grow faster and outgrowing that rate pressure that we're having from the maturing of those securities in this year.

But in 2016, as you can see, if we trust these forward yield curves, we are at that turning point. And then in the future, hopefully client fund interests will be less of a rate pressure item and will contribute positively, and we give you a little bit of a scenario here. I took the precise numbers out because the yield curves switch so much it would be probably too imprecise.

But, as you can see, we are -- and 2015 is the turning point; client fund revenue turns positive and accelerates as the future rate environment will increase. But for the next few years, a positive impact on our overall revenue growth and even more so on our overall earning growth.

We utilize in this chart a 5% balance growth to approximate a long-term growth scenario that might be helpful for you. Growth has turned positive, and in this year, as I said, with a $5 million to $15 million net impact from the client fund strategy, we have seen that turn around from that long run of pressure.

So, that will help hopefully in the short run, but decomposing the sources of our margin expansion will be the next launch service there. If you follow our revenue model of long-term revenue growth in the high single digits, 7% to 9%, the next question would be, how and what are the sources -- how are we achieving revenue expansion? What are the sources of our margin expansion?

And I'm trying to help a little bit. It's a little bit less precise than a German would know, but the factors realistically shift a little bit every year. So this is a longer-term perspective that I'm offering you over multiple years. But to isolate, these are the factors that we are thinking internally also about. Clearly scale and productivity is a key factor for margin expansion. This includes our internal BPI initiatives.

This includes the simplification of our operation driven by, for example, retirement of old and legacy platforms and so forth. There's natural scale in our business just because applications scale well as our clients grow. It's going to be the primary driver. We are laser-focused on leveraging that scale to drive margin improvement.

On the other hand, platform migration, as Carlos tried to -- or indicated this morning, and that we get many questions about it. For the next few years, you should not expect the actual investment of our client migration costs, the resources that we put in in order to migrate those clients, to be a driver of margin expansion.

Quite the opposite. We are committed to invest these resources for the next few years, as you heard, primarily focusing on our mid and upmarkets to drive accelerated migrations in that space. So we don't see migration effort in the next few years, the direct migration costs, being a contributor to margin expansion.

And so is the product mix. This is important. As you think about our HR BPO business, you could think that we have margin pressure by the fast growth of our HR BPO components, but as a matter of fact, those HR BPO solutions have been driving margin expansions on their own. And so they have been to many and many years a contributor to margin expansion. So overall the product mix that I showed you in the revenue growth chart is not going to be driving positive or negative contribution. They're just going to be growing their scale in line with the green bubble here, the scale and productivity factor.

What can be a pressure point, and we fully disclose this element, is the growth of our pass-through revenues that the PEO is taking in. Fast growth of the PEO often -- perhaps the revenues even outgrow the fast growth of the PEO due to health inflation and other factors. And so they are zero margin revenues that flow through our P&L and clearly have been putting pressure onto our overall scale. And if you build a little model, you can really isolate that pressure very clearly.

In the near term, client fund impact is kind of in line with balance growth, which is not going to be a huge impact on the margin side. We're seeing the turnaround, as I said. It's certainly no drag, but in the longer run, as we hopefully will see an improved interest environment, we will gain scale from high-margin interest revenues falling through in the P&L.

So overall I think we expect for the longer term a margin expansion of 50 to 75 basis points, considering all these various factors together, which really summarizes our overall growth outlook.

But before I go there, let me talk about how we are using cash, and this is a story that is largely unchanged. As you heard, our priority of using our cash flow remains with the priority to drive the long-term success of our business. We are reinvesting into our business product sales while we have low capital requirements for that business.

THOMSON REUTERS

We have done historically acquisition. We would call them tuck-in acquisitions. For your modeling, you should assume approximately $200 million to $300 million of annual cash outlays for acquisitions. And what is left over goes back to our shareholders, and we have a proud history, of course, of 40 years of consecutive dividend increases, and continue to aim for a payout ratio of 55% to 60%.

We view share repurchases as a good, long-term tool to return excess cash to shareholders, allowing for flexibility in the cash flow, and have returned approximately -- or retired approximately 1% of our share count in the long run annually through return of cash through share buybacks in a disciplined and continued manner. As we say, we guide that we aim to at least offset our stock compensation-related dilutions, but we have gone beyond historically that number.

We benefit from an extraordinary strong balance sheet. We need one because we have a money movement operation that moves more than $1.4 trillion every year on a global basis. And as you are familiar with our sophisticated, extended ladder client fund strategy, we do access commercial paper market on a regular basis. And for that, we have short-term borrowings via our $7.5 billion A1/P1 rated commercial paper program. And so we benefit from a strong balance sheet on rates for that.

But we recognize with a AA rating we do have leverage capability, and that's also an important message for today. And if we were to add permanent debt to our capital structure, we would use it either to fund acquisitions or incremental share buyback purchases and cause some higher end discussions, but clearly ongoing discussions with no decisions made at this point in time.

Our M&A strategy warrants a few words. We have historically employed a thoughtful and disciplined approach, targeting HCM applications. We have a fairly full product set today, as you can see, but future expansion into new technologies or geographies that we don't cover yet could be considerations. And clearly you have seen the slowing of M&A activity, and I think I've said in some of the investor meetings that there is a kind of natural trade-off between putting more money into R&D and developing your own solutions versus acquiring third-party solutions that would add more complexity to our product portfolio. We are in a phase where we're excited about our organic R&D developments.

So overall, I think no change in our program. There will be future acquisitions, clearly, but the hurdle rate, if you like, is a little bit higher because we are excited about our own innovation capability.

So what to expect for the future in conclusion? I mentioned 7% to 9% revenue growth and a consistent margin expansion of 50 to 75 basis points, contributing approximately 4% of our earnings growth, which gets you to 11% and 13% pre-tax earnings. If we continue our return of cash to shareholders through share buybacks, which we plan to, you would add a percent of earnings growth to share buyback, and our dividend yield oscillating between 2% and 3%, getting you to a top quartile S&P 500 -- if the SMP behaves accordingly, also -- but that is our longer-term goal and business model that we are aiming to execute for.

We hope that helps you to isolate and think about our ADP model going forward for the next few years out. And what it means to be all-in in Human Capital Management from the financial point of view. So thank you very much. Sara?

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Thank you, Jan. You can stay up on stage because we're going to do a Q&A session. And Carlos, can you join?

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

Hope Carlos gets the questions.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

So, as promised, we're going to have a longer Q&A session here at the end. So, again, we have the microphones coming around. So Carlos and Jan, have a seat, and we'll get your questions.

QUESTIONS AND ANSWERS

Editor

and-a

Lisa Ellis - *Sanford C. Bernstein & Company, Inc. - Analyst*

Hi, it's Lisa Ellis from Bernstein. One of the aspects of the business you did not talk too much about is your service delivery model. Can you just give a bit of an update on -- I think it's the vast majority of your headcount sits in your service delivery organization. So what does that look like today with the new, modernized products? How do you see it evolving over time? What's the type of expertise and what's the model behind the service delivery model?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Sure. It's a great question because on one of the discussions we've been having internally over the last year or so is really how do we leverage some of the innovation and investment we have in technology and in our products to really improve our service and our service delivery. Let me start, though, that by saying when people actually look at us from a service standpoint, they sometimes are including all the way from implementation of the client to the end.

We tend to segment things internally, but either way when we speak externally about service delivery, we're usually talking about all the way from starting a client to them providing ongoing support, compliance solutions, all the things that we've talked about that we define as our service capabilities. It's a little bit different from other competitors who may be selling only technology, and then they hand it over, or the client hires a third-party integrator, which is a perfectly acceptable strategy. It happens do not be our strategy.

So when you talk about where our headcount is concentrated, we actually have quite a bit of headcount also focused on new client implementation and new client startups, what you would probably define as part of service delivery.

So we have this implementation phase, and then we have the ongoing support, service, compliance; hopefully also some analytical and big dated capabilities to provide insights as well.

So our business model I think embraces the ability to provide value-added services and support, if you will. One thing that we've been very focused on -- Jan used the term BPI or we call it Business Process Improvement, which is really Lean Six Sigma. So people have been doing this for decades in other industries and other businesses, and we tried to get religion around this over the last two or three years. And we believe we're starting to get some traction.

And what happened is, as we've looked at these implementation and service delivery portions of our business, we're finding a lot of opportunity. So besides opportunities around migrations, we think there's opportunity from a resource standpoint and from a quality standpoint in our service delivery organization.

For example, when we look at a pie chart of a number of value-added questions or phone calls or interactions, whether they are by chat or by email, that we have with our clients and we compare it to non-value-added ones, we believe there's a lot of opportunity to do some very basic BPI initiatives and tools.

And in some cases through again rationalization of tools and service infrastructure and cross sharing of learnings and information, we think that there's an opportunity to drive down non-value-added activities and really focus our folks and our resources on more value-added activity.

Now, that has two implications. It has potential margin implications, but it has potential also quality implications in terms of making our clients happier.

So it's an actually great question because we are highly focused on that, it just so happens, and highly focused particularly in the last six months or so on how we can now use all the efforts that we have on innovation for a client facing -- so for usability at the client level and for the practitioners. How can we now bring that in to leverage some of that great innovation and some of that technology to help our service delivery organization deliver better solutions to our clients?

So I don't know if you had anything to add, Jan.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

Those improvements are already included in my margin expansion prediction of 50 to 75 basis points.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

That's a surprise that you said that.

Jim Macdonald - *First Analysis Securities - Analyst*

Hi. Jim McDonald with First Analysis. You talked about on the HR BPO, you talked about the PEO. Could you talk a little bit about where you are in your health and worker's comp brokerage and whether you have made any changes there or plan to make any changes or increase risk in those areas?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Sure. Jan definitely wants to address that one from a risk standpoint, but we really haven't changed our approach over many, many years. In the spirit of full disclosure, I ran that business for quite a while in ADP, and I actually came with a company that was acquired by ADP, that was a PEO. And so I know that business well. We have through multiple changes in CEOs I think followed a very, very similar approach. And our view of the world today, which could change, is to really make sure that we have an arm's length relationship between what Jan manages, which is the risk at that corporate level, if you will, of our worker's compensation program, where there is some risk-taking.

So we have a captive, which is a very standard approach to managing workers compensation so that you have the benefit of a tax shield, but it is managed separately from the PEO itself. In other words, our corporate company or Jan sells or prices the cost of worker's compensation to the PEO, and the PEO treats it as a pass-through to the client. That's very different from a typical standalone PEO, I believe, and it's a way of making sure that we are managing those risks appropriately and that there is a true check and balance, if you will, in the system.

On the healthcare side, we have traditionally, for a long, long time, been fully insured where we use a variety of carriers. So think about UnitedHealthcare, Aetna, and many, many others because healthcare is very, very regional. And we typically purchase those products on behalf of our clients at scale, so we have advantages from administrative costs and also from a commission costs because we end up using a broker. But obviously what we pay in terms of advice and help is a fixed fee versus in the market, there usually is a percentage markup.

And we then pass those revenues through, if you will, to our clients, and we earn our fees on providing services on healthcare, worker's compensation, HR, payroll, all the things that you've heard about our retirement plan. So we don't markup healthcare, if you will, and don't take risk on healthcare. It does mean that it's the wrong thing to do. We just don't do it that way.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

I'll make two comments. In addition to the good corporate governance I think that we have in place, of course, we employ a number of reinsurance and other contracts with the insurance industry to mitigate the long-term exposure for ADP. So it is quite controlled. And an element that ties back to the distribution strengths that Maria talked and Ed talked about I think, the broad base distribution and leads that we get into the PEO lets us have a kind of a luxury to be very disciplined in the underwriting process. And a large number of leads don't qualify because of the risk profile that we accept into our book of business, which is primarily a white-collar type book of business. So the risk profile itself of the clients that we include into our PEO offering is a very controlled and very stable risk profile, which, in addition to these factors that Carlos mentioned, controls the risk in the book of business.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hi, guys. Gary Bisbee from RBC. The offerings have evolved and broadened in the last several years. How has the sales process changed? Either is who you are selling to evolving? I assume there's more focus today on upselling additional offerings than just winning new customer logos, and as maybe even the skills of the salespeople need to be different, and ultimately has the go to market pitch strategy approach changed with the evolution of your products?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Ed's over there raising his hands because he wants to answer the question, so I'm going to let him make a couple of comments. But clearly it's changed in terms of -- and our sales force needs to change. And I think Ed touched on some of the things that we've done without revealing too much competitively. But the progress we've made with our inside sales organization, the progress that we've made with the digital marketing tools, is I think significant and I think a reflection of our acknowledgment that the market is changing from a sales approach standpoint.

So the other thing that has obviously evolved quite a lot is the buyer, and you saw in that very first video at the beginning of the meeting where people are looking for more than just a transaction process or that could provide accuracy and efficiency, although that is necessary, it's table stakes.

And so the need to have a sales force that can go in and talk strategically to a client, in some cases even to a small client -- for sure you have to be able to do this in the PEO and our BPO markets -- to talk strategically to the client about how to leverage and maximize what they're getting out of their most important investment, which is their people, and we keep saying the same thing over and over again. But this is just the truth, and it's happening not just in the United States. It's happening globally, that people recognize that this is a leverage point.

So your ability to attract and retain the best people and have them engaged and productive is competitive differentiation for them. And our job is to help them with that. And a sales force that can't communicate that and can't find the leverage point and the opportunity for that client is not going to be successful.

So I don't know, Ed, if you want to add anything to that.

Ed Flynn - *Automatic Data Processing, Inc. - EVP, Worldwide Sales and Marketing*

No, that was extremely well done, Carlos. Just one or two quick points. I think one of the interesting things that's happened is we think that about 60% of the information that a client or prospect is looking for in the investigation process is uncovered online, and that's pretty astounding if you think about it.

So we've directed a lot of energy at our digital marketing presence to make sure that we make good intelligence about ADP's offerings available online to both clients and prospects, and that's why both Carlos and I emphasized our inside sales group. It's typically traditionally associated with simple low end sales, but in fact we are leveraging our inside sales across a very broad spectrum of applications and clients. It's growing very nicely, and I don't want to share much more than that, other than it's a huge strategic focus for us.

One other comment. The days of manipulative selling are over. We have absolutely shifted to a consultative model, and I think what you'd experience up market is that we've assigned quarterbacks to our larger enterprise sales process so we have a single person coordinating all the activity in our large enterprise account space.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

We should have these meetings more often because it's the first time Ed has ever said that I had anything well done. So, great. Appreciate that, Ed.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

But to round it out, Gary, your comment around how do we generate our 8% to 10% new business bookings growth, I think it is a fair balance between attracting new clients and selling more revenues to existing clients. And there's no digital science to it, but if you think about it as balanced 50-50 roughly, it's probably a good way to think about it.

Ashwin Shirvaikar - *Citigroup - Analyst*

Hi, this is Ashwin Shirvaikar from Citi. When you say all-in on HCM, and there seems to be more discussion of M&A as well, are there pieces of the puzzle that are missing? I know Jan went through some of the financial criteria, but are there pieces or product extensions, service extensions, missing? If you can talk about some of those and how that would affect the 50 to 75 basis point margin profile as well.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

It's a good question, and just to answer the first thing you said there, there was no intention to signal that somehow there's more focus on M&A. In fact, I think if you look at it over the last few years, the contribution to our revenue growth that we've gotten from M&A has been declining. I think it's back to the trade-off that Jan mentioned about internally developed R&D versus acquisition, which are both acceptable ways of following a strategy. We've chosen to try to really chart our own path mostly internally, in part also because we have a broad product set already.

So it doesn't mean that we won't do M&A or that we're not interested and that it won't complete our product set. But if the order of Jan's slides confuse you there, there was no intention to signal that we intend to ramp up on M&A. We clearly have a very attractive market, both domestically in terms of the product suites and the solutions that clients want, and we also have a very attractive global market where we have very low penetration outside of the US.

So it would be irresponsible for us, given the capital that we have available, to not keep our eyes open. But we are highly disciplined because if in one part we're telling you that we're trying to simplify in our organization that it's imperative to do so in order to be able to innovate and focus on technology to then grow our business. Clearly every time we do an acquisition it would have to be very, very well thought out how that acquisition is going to be integrated and how those clients and that business is going to be put into the overall platform strategy at ADP, rather than having it as a standalone, new, additional solution, which is okay that we did that over the years, because we are building out our product suite, it's not okay anymore.

So the one thing I can tell you without any doubt is that we're not going to do an acquisition and leave it as a standalone entity. That acquisition is going to be integrated quickly and put into the roadmap that we have from a product and technology standpoint.

What that means, if I'm so committed to doing that, that in addition to most of the acquisitions in our space being expensive to begin with, there's also the additional expense of then doing what's necessary to not have that product or that service or that company act as a hanger on, if you will, as an additional separate entity within ADP.

So that would create further pressure from a margin standpoint. So I think it's safe to say that if we -- when we do an acquisition, which we will, and when you hear us talk about them, it's safe to say that they will put pressure on us and that we will have to find ways to overcome that in the short term.

Now, we're not going to do an acquisition if we don't believe it's not adding value to ADP. But in the ensuing quarter or 12 months, it's hard to imagine an acquisition that doesn't put margin pressure on us.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

That captures it.

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

It's Mark Marcon with R. W. Baird. A question on the margin expansion. Jan, you went through the impact in terms of client fund balances really kicking in in a material way when we get out to 2017 and 2018, which we can see from the forward curves. You gave us the margin expansion guidelines for the long-term. In the medium-term, until we really see much of an impact from client fund balances, how should we think about that 50 to 75 basis points of margin improvement?

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

Yes, we -- as you might expect, I will say we will give an update on FY16 in August, so I'm not prepared to give you a more concrete number than you see on the chart. And you can figure out with a ruler a little bit of what it means to it. But I'm also a little bit hesitant on purpose because these rates have been very volatile in the last few months, really from very disappointingly low to still very low. So I think you have to apply almost your own little interest rates or your own interest rate forecast to it.

Historically I can share these forward yield curves have been too optimistic relative to future increases in them, and so they had been delayed. So I think it's a little -- we have to be thoughtful about how we do it, and in August I will give you more concrete (multiple speakers).

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

So, as you can imagine, I have a more optimistic view of what might happen. So, I was specifically told not to say this, but --.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

Thank you, Carlos. (laughter).

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

But I think there is a way to communicate it where -- with information that you already have. And so, in 2007 and 2008, the yield curves did not show Fed funds at zero or the 10 year at 2.1% or 2.2%, wherever it is, or having gone down to 1.4%. So it's clear, which is why we are laddered and why we are conservative and we're careful in our guidance, that rates can stay the same. You believe it's the new normal. They can further decline, if there's a crisis in Europe or in the Ukraine. Or rates might go up, maybe someday to back to where they were before.

So, on the optimistic side, because I'm supposed to -- I'm a former finance guy, and so I worked really, really hard over the years to try to become optimistic. And there is a scenario where you go back to what our yield was in 2008, and you apply that either to the balances we have today or to the balances with a growth rate of 5% over the next three or four years. Because it would take time for that yield to come back up to that level, and then you just do the math for yourself.

David Togut - *Evercore ISI - Analyst*

Thank you. David Togut with Evercore ISI. Jan, you've signaled increasing balance sheet flexibility now that you have a AA credit rating, and I think Carlos you signaled a very detailed process around M&A and how you think about that, which really leaves us with share buyback. How do you think about potentially a larger share buyback with the increased financial flexibility you have, and how much debt could you assume and still stay comfortably at a AA credit rating?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

I'm going to let Jan answer some of the mechanics of that, but let me just maybe answer philosophically.

First of all, share buybacks is not the only way to return excess capital -- so M&A and share buybacks are not the only two ways to return excess capital to our shareholders. So we have I think other avenues that I think are available, and I think you can come to your own conclusions on that.

But philosophically the same approach that we have -- we are becoming, if it's not obvious, more aggressive in terms of our investments in technology and R&D and product. And we're trying to move faster. We're trying to do a lot of things.

What we're not going to do is we're not going to lose the discipline we have, as Jan started off his presentation of our business model. We have an incredible, rich history of delivering. You don't have 40 years of increasing dividends without having consistency.

We would apply the same logic and philosophy to our share buyback program, in the sense that you never have seen and you never will see, I don't think, ADP try to time the market or do anything dramatic, if you will. It's not what we do with our portfolio in our float, and it's not what we do in terms of our decisions of reinvesting back in our Company, which is what share buybacks are.

And so what you're going to see is we're probably not likely -- you can never say never, but we are not likely to ever stop buying our shares. Maybe for a week or a month or three months we will, but we believe in our Company. If you believe our story and you believe the attractiveness of our markets and you believe our ability to drive margin, we believe our Company is going to be worth more in the future than it is worth today.

Having said that, we also acknowledge that the price of our stock is higher today than it was three years ago. And so if you are a Warren Buffett, you have to stop and pause and think about that.

So, balancing all those things together I think would lead me philosophically to convey that we are believers in the long-term growth of this business and long-term value that we can create. If we can really generate 15% TSR -- that 14% to 17% return the way that Jan built up, which is a very simple way of looking at it: revenue, margin improvement gives you EPS growth, dividend yield of 2% to 3%, and share buybacks around 1% to 2% or 1%.

If we really can do that over the long-term, this Company is going to be worth a lot more in 10, 20, 30 years than it is today. And hence we have to be opportunistic in terms of our share buybacks.

I think philosophically we don't want to try to time that, but we also want to be careful, and when I think relative to the market or relative to other measures around net present value of cash flow or other factors, when we think it's cheaper, we're going to buy more. And when the market is itself in a different place, we might buy less.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

And more pragmatic for you folks, as you think about what does it mean, the leverage discussion, is number one the intent was really to signal that we are shareholder friendly, and that includes the balance sheet. So, as AAA was not the Holy Grail, we arrived at a credit rating that we think is appropriate for the Company, and we recognize with that move that we have to have a comprehensive discussion of what we want to do with that balance sheet. And that process goes -- I think what Carlos is saying -- employees all told of how you use it, and it's a comprehensive discussion that touches all components of how we would return cash to shareholders.

But that process has not been ended. It has clearly begun in the Company, and I think over the next short time or so -- short in the foreseeable future, we are going to have to -- we want to make decisions around it. I think that is as much as we can say, and I don't think we're today in a position to talk about the dollar or volumes that are involved. But it's more a signal from management that we employ the same shareholder friendly view that we do as we return our cash flow to our balance sheet, and that's going to be the core message.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

And currently, two finance guys, just so we're clear, we understand Finance 101 in the sense that you happen to be with us when we had some of these discussions with some investors, that we understand that a more optimal capital structure would reduce our weighted average cost of capital and hence drive our valuation higher. So we're aware of that, and we obviously are looking at options, but I think we have nothing to report.

We're actually very happy with where we are. We have what I call a rich man problem, in the sense that we have a really great problem, which is we're trying to figure out how to optimize a balance sheet that has optimization capability. We're trying to drive higher margins where there's margin opportunity, and we're trying to grow in a market that has growth opportunity. So, I'm like the luckiest guy in the world.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Thank you. Thanks for putting up those slides around growth forecasts and the main contributor to them. Could you talk about how the 40-40-20 is different than what you've seen in the last couple of years?

And maybe the same question for the following slide, where you broke out the net new business contributions, pays per control, pricing, et cetera. Thank you.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

Overall the waterfall chart has shifted a little bit because we don't have the fourth arm anymore, and dealer services was a contributor to the long-term growth of ADP. So if you rebalance everything, they are actually markedly succinct. If anything, international and global is maybe in this expectation slightly lower because of the lower growth that we are anticipating for Europe, and also the base is smaller than that we originally, maybe five years, had anticipated because Europe has been growing slower. So Europe has been the factor, and it was slightly higher on the global side than it was historically, but very consistent. The first two growth drivers were always the big away whammies for us to grow the business.

And if you follow us closely, and you do, just compared to four, five years ago, the big success story is that this net new business column has expanded. Because we had more than 10% new business bookings growth and record retention, so that delta between it has grown year over year. And that wasn't the case. I think our net new business contribution in 2008/2009 was close to zero.

And so that is really -- that expansion describes the execution story of ADP that we hope to continue.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

And to be more specific, the numbers are clear in terms of the way Jan laid them out, and I'm not sure that it was completely conveyed in Ed's section, that that really is the key to ADP's and my predecessor and his predecessor, and all the predecessors have understood this. So this has been a business model for decades that works very well. And when we execute well in our new business bookings and in our sales, we get faster revenue growth. That allows us to hopefully have more scale, makes it easier to generate the kind of margin improvements that we're looking for.

But what may not have come through today very clearly is the linkage of all these things, which is, if Ed is going to try to get half of his growth in new business bookings from productivity, the productivity has to come from somewhere. And it could be from pushing harder, from hiring better people, from doing a lot of things, but we are convinced that it's going to come from having more competitive products in the marketplace.

And this goes back to the linkage of our focus on technology and innovation, because we can't prove that over the last three or four years -- because this has really been also coincident with an economy that's been improving. And so we can't tell you scientifically how much of our sales execution recently -- which has been great; 10% compounded annually -- is related to new products and to innovation. But we think it's an important factor, and we're not going to take our foot off of that pedal, and we're going to take that through the next -- if there is -- another economic cycles that either goes down or plateaus.

Because it's a change in philosophy that happens to be my philosophy. And so we have an incredibly rich history around our service delivery organization and capabilities and around our distribution and our sales. And it was my belief when I came into my job that what we needed to do was elevate our product and our innovation to the same level because they are an integral part of being able to deliver on this new business growth and by the way also in providing good service delivery to our clients.

So I just want to establish that linkage, because Ed's job -- at the risk of stating the obvious, Ed's job and our 5,500 sales force's job is much easier when they have great products than when they don't. It's that simple.

S.K.Prasad Borra - *Goldman Sachs - Analyst*

S.K.Prasad from Goldman Sachs. There seems to be inherent reluctance for M&A. So when you think from an organic point of view, and especially around the new HR cloud products, how will you apportion your investments across products, functionality, and actually developing an ecosystem? You talked about APIs, opening up APIs, and getting more developers to write applications on that. So any color on that, that would be great.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

I'm not sure if they are different questions, but I will answer the inherent opposition, I think you said, or whatever it was about acquisitions. I think you're not the first person who asked that question. You're not the first person to think that. And I take offense, for whatever that's worth, in the sense that I think confusing discipline with lack of desire are two different things.

And so, it remains to be seen whether we will have the discipline when something is a good fit and advances our strategy and is at the right price. It remains to be seen whether we'll be able to pull the trigger or not. But those are the moments that I've been waiting for, and we haven't seen any of those moments, other than in some small pockets of opportunity. We've made a few international acquisitions, and we've made some tuck-in acquisitions. But I think you shouldn't confuse discipline with lack of desire or willingness.

So my team would know -- and they may not believe me, either -- that I think having the capital available that we have is a big advantage from an acquisition standpoint.

And so we have the ability -- not everyone has the ability -- to do acquisitions as long as they advanced our strategy, not to just increase revenue growth and not just to add another platform.

So, the other part of your question in terms of our organic strategy, I think it's where are we investing our resources to create really ecosystems or what part of cloud. So ecosystem is something that is a term that is relatively familiar to a lot of people in other industries and a lot of players in the technology space, that is becoming more familiar to us.

So when Roberto talks about the strategy that he's pursuing and the things that we are doing in the Innovation Lab, ironically yesterday he came and made a presentation to our global product and technology organization, and the discussion was all around the ecosystem.

And so we hope that, whether it's from an employee or a practitioner or a client standpoint, that over the next five, 10 years, I think ADP will be viewed as an ecosystem where people are solving workday issues for themselves in terms of employees, and also practitioners where they have access to multiple solutions, some of which might not necessarily be built by ADP but are integrated seamlessly into ADP through our APIs.

So I think you're going to hear more about ecosystems for us over the next several years because we are absolutely believers that that is going to be the road to success for us from a growth standpoint.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

If I add the practical element to this, between $600 million and $700 million of R&D spend in ADP, and we have talked that we're planning to grow this revenue in line with our revenue growth, indicating our focus as an investment. In parallel to those investments, the hard work that the R&D organization is doing by implementing productivity methods like Agile, which gives you a higher output, and emphasizing innovation activities versus maintenance activities, we have really achieved a significant increase in resources dedicated to the innovative part of the R&D business, if you like. And they will benefit from the retirement of platforms as much as our clients benefit from it, because they can focus on more scale to it. And today we really did share the highest growth areas that we are investing in R&D we shared with you. Those are our core strategic platforms. Those are our investments into the associated user experience, and our big data, big growth areas for us that do that.

And we have also saw about $600 million, $700 million -- that kind of order of magnitude -- growth in line on the expense side with revenue. And in addition, we have also mentioned occasionally there are next-generation R&D efforts that we do capitalize on our balance sheet, and you see those in addition to software items. And as they become more significant, we may give more detail, but it hasn't really changed the dynamic of that balance sheet item significantly at this point in time. But we have made those investments in the next generation products as well.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

And I think just one more comment on that, back to linkages of our strategy, when Jan talks about the size of our R&D investment and it growing in line with revenue growth, to some people that might not seem exciting. But I think the signal there is it's not a place where we are looking to get margin improvement. So we're committed to investing in -- 7% to 9% of $600 million and $700 million is more than many of our competitors' entire R&D costs. So I try to remind my organization internally of that.

In addition to that, every time that we retire a platform and we rationalize our products, that is potential R&D money that gets redeployed to some of our newer platforms. So Jan mentioned that, but I want you to get that visual that if you're growing the number and you are shifting from older to new, the leverage and the power that you have is fairly significant in both absolute dollar terms and also in percentage growth terms.

Jason Kupferberg - *Jefferies LLC - Analyst*

Hi, Jason Kupferberg from Jefferies. In the past at some of these meetings, you guys used to talk about the percent of your addressable market that was still insourced versus the percent that was outsourced, both in terms of payroll and beyond payroll, which were more the terms of that day. But any updated thoughts in general, just to help us frame some of the opportunities? Because clearly it seems like the HCM piece, beyond payroll, is where the big opportunity is. But any numbers we can wrap our minds around as far as penetration rates from an outsourcing perspective that you guys track internally?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

So I'll let maybe Joe address that a little bit because it's in his wheelhouse, but probably part of the reason why we didn't raise it this time is that we raised it over a number of years. And when you look back to all the different presentations, it didn't change very much. And so, every X number of years, the theory has been this is the year that there's going to be a dramatic shift. And there, over decades, have been shifts. For example, from manual payroll and small business to using either software or an outsourcer.

But this shift, whether it's in midmarket or in the upmarket between in-house, on-premise software and outsourcers, has been not easy to measure in terms of whether there's really a major change there. And then when people categorize SaaS as a software product, it matters whether you call it a software product or you call it outsourcing. And I think that it matters what it is, is. So if it's software delivered in the cloud, it's still software, even though they very cleverly call it service, software as a service, it is still software. It just happens to be hosted.

By the way, it's something that we've been doing for decades as a business model and also quote-unquote renting our infrastructure and building on a per click or a per month basis. We've been doing this for a long, long time. It doesn't really change the dynamic of whether you are applying compliance, support, insights; it doesn't necessarily mean that.

So, there's a lot of moving parts if you consider the hybrid players. So is a SaaS player now an outsourcer, or is a SaaS -- and the way we used to describe it -- or is a SaaS player still a software player? So we don't want to play those games of making those decisions as to what is where, so it's become harder I think to ascertain.

But it does feel like when you look at the overall growth of the industry compared to the growth of the economy, and you include our own success and our own growth there, it does feel like something is happening in the sense that people are looking for solutions and help that are different from how they had handled it traditional. I don't know if, Joe, you want to add anything to that.

Joe Timko - *Automatic Data Processing, Inc. - Chief Strategy Officer*

I think in some sense Mark had a slide where he said we deliver software only and software as a service with a more richer service than a BPO at the outside. And I feel in some sense like this distinction has outlived its usefulness in a way, because there's been so much rapid technology change, so much improvement in the software as a service solutions from us and our competitors. And that is oftentimes paired with service, whether you get it holistically from us or whether you get it from a business partner with one of our competitors, that you folks might characterize as a pure technology player.

So the overall footprint of activity in their clients also includes services, just not from the brand of software that they're getting. So I've seen surveys since I've been at ADP where we ask clients to characterize, are they looking for an outsourced solution, and if so, who would they consider, or are they looking for a software-only solution? And they put the same players in both buckets. So they are confused themselves in some sense by the basis of this question.

And so, I don't think it's a distinction that's all that meaningful anymore. We intend to compete successfully with competitors of all shapes and sizes, and I think they intend to compete with us that way. That's the way I would say it.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

And I think that -- this is not to pick a fight, because I think everyone I think acknowledges the same thing, which is that the one thing that is clearly shifting is on-premise software to a hosted or SaaS model. And the good news is we were always on that model, so we need to adjust and continue to adjust, and we have.

When you look at RUN, Workforce Now, and Vantage, these are true SaaS solutions. And so, frankly, we're well-positioned because of our business model. We don't have this issue where we have to move from a licensed, premise-based software model and how that revenue is recognized to a SaaS subscription model, because we were always that way.

It doesn't mean that we didn't need to make adjustments in terms of our technology and our infrastructure, but it's not really a business model adjustment. But I think everyone -- every player from the ERPs to the people who are selling software solutions to small companies -- I think would agree that the world is definitely shifting off of on-premise software.

Jason Kupferberg - *Jefferies LLC - Analyst*

To that point, just a question about the economics of the next generation cloud-based products that you have. As I look at the pure plays in the space, their financials are dramatically less attractive than yours. They are all pursuing landgrab at a loss type model. I think their customer acquisition costs tend to exceed the revenues per customer.

So, as you go all-in on cloud HCM and you get more and more into that neighborhood, how do you maintain the very attractive economics of your legacy business going up against guys that are willing to lose a lot of money to pursue the same customers?

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

I would say that we have already ample examples. We transitioned to RUN, which is a pure cloud-based platform. And actually even the service and compliance components for it in a theoretical model, it actually is probably contributing ever so slightly to better margins. So it's a little cheaper to run on our systems and has favorable fundamental economics compared to what we had, our legacy solution.

So, there's a benefit in it, and we have many examples of components that are more software like in the HCM bundle. And while it's hard to be precise about the isolation, the margin characteristics are very similar of those products compared to what you have experienced maybe in our flagship payroll products.

So we have made sure that the products scale and that will drive the direct costs and service supply costs in there accordingly. And so net-net, the margin impact has not been negative.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

And I think that the only thing I would add is that -- and I think that's absolutely true. We don't know for sure, so want to make sure that just because we don't see anything that we appear to be agreeing. We don't know for sure that some of these business models aren't going to work out, and they aren't going to be successful. But we appreciate the constructive criticism of some of our competitors, because there probably is some of that behavior going on. That the focus might not be what our focus is, which is to create an enduring, long-term value creation machine for our shareholders.

So if you are more interested in your multiple or an exit strategy, you're different from us. And so that does create I think an interesting dynamic. But I think as Jan said, this Company over many, many decades has gone through multiple transitions of technology, business models, and economies, always taking advantage -- and you might want to call it a fast follower, or I think today we're moving even faster than what would be traditionally considered to be a fast follower -- but it's not a bad strategy.

And by that, I mean we are leveraging -- we had a SaaS, if you will, business model for many, many decades. And over the last five, seven years, as we saw the evolution of what was happening with technology -- specifically with new SaaS technology, cloud-based technology -- we applied it, and we're applying it now to our advantage, to further leverage our business model and create more value.

So the key for all of you and for us is, are we aware of what's happening in the market? Are we embracing the positives and not allowing ourselves to be dragged into the hype? Which I think is maybe the part that you were talking about.

And I think we'll let you guys be the judge of that, but the good news is the Company has a very, very long and rich history of taking all the good and not getting sucked into some of the bad.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hey, guys. Gary Bisbee. Just one follow-up. On the analytics, I know it's a real early days with that product, but you seem to have a truly unique, due to your scale, set of data to draw on there. And I guess a two-part question. Where are you in terms of the evolution of the product and the offering today being what you envision for it, number one?

Number two, how are you thinking about pricing it? I look at a lot of businesses that have what I call quote-unquote high value-add data and analytics wrapped around them, and they can have margins significantly in excess of yours.

So would the strategy be to achieve that value that this may provide over time, or is it more a differentiator that will continue to drive this retention higher amongst your big customers? Thank you.

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

So before Jan downplays it, I'm going to let Don talk a little bit about it. Actually, this is Jan's favorite topic, so I'm going to let him talk after Don.

Don Weinstein - *Automatic Data Processing, Inc. - SVP, Product Management*

Yes, so just two quick comments. You asked about where are we, and you saw the demo station. We have a product in market today and we've been in market for over a year, and we're continuing to extend and enhance. And we've got a very ambitious roadmap for that product, but it's real, it's live. We've got hundreds and hundreds of customers who are using it and looking to grow that into thousands with adoption.

In terms of how do we think about that product, it's a great question because it's one that we spend a lot of time existentially, should we be trying to fully just to monetize the data and the analytics? That's a potential path for us, but we've spent some time recently with the executive team talking internally about our strategy for that product. And related to this notion of being all-in in Human Capital Management, we're not trying to be a data provider. That's certainly something that could be a nice complement, but our focus is on leveraging the analytics and the data to drive more core Human Capital Management solutions and penetration. And also increase the retention of our existing clients.

We may, as we develop some very advanced capabilities, we may price some of those, but we tend to keep it pretty small. Our main focus is on driving share and adoption in client value add as part of a broader HCM suite. But we are extremely ambitious about and energized about what that can mean for us. And I think the early returns we've gotten from clients has validated that strategy for us.

Jan Siegmund - *Automatic Data Processing, Inc. - Corporate VP and CFO*

So, early days. Clearly this is going to be a multiyear journey. It's just starting to gain momentum, and we're experimenting with our pricing strategy as we distribute our analytics and our, if you like, big data, benchmarking components of this product. And it can be just layered on as an incremental per employee, per month type of charge to clients, but it may be also integrated in a full suite of solutions that differentiates that HCM suite as really different and unique in the marketplace.

So we're trying to be smart about it and ultimately want to generate the most value for us and good value to our clients, so the balance between creating adoption, not being too greedy, but leveraging and getting a return for the CFO on the significant dollar outlays and R&D that we have in this play also. It's classic ADP: we are a rational, balanced company that is willing to explore. So there is really not an ideology behind it, and that's what you see here.

I want to mention that we do have a variety of data usages. I think Don mentioned our wage verification strategic alliance that we have and that we leverage also today with third parties.

So, I think there's a number of long-term opportunities that we can explore, but currently you should think it more I think priority. Differentiation and competitiveness is our main excitement for it. Some revenue increment for it.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Just time for one more question.

Kartik Mehta - *Northcoast Research - Analyst*

Kartik Mehta from Northcoast Research. Carlos, as you move to this open platform, is that changing at all your win rate on the ability to cross-sell products? Especially in light of some of these other companies who want landgrab, who want customers, who might be looking for an exit strategy?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

I think from an evolution standpoint, I think when we say that we're moving to an open strategy, might be a bit ahead of ourselves, if we gave you that impression. So I think what we communicated with the marketplace is something that is -- I think we launched and announced at HR Tech, which was I think in October. So we have a grand five months worth of data to be able to answer your question.

So, as Jan just said about how we operate in terms of our non-ideological business hats, we are looking carefully at which people want to be in our marketplace, how we integrate with those players, how we monetize that marketplace.

And I think it's just too premature to give you any kind of data around that because we don't really have any answers yet. But I will tell you that we look very, very hard at how other people handle their marketplaces, and there is a constant tension between being completely open and maximizing the openness versus being a very, very careful about do you allow, for example, a competitor to be in your marketplace, and do you allow yourself to be that open. And I think we're still looking at those balances in terms of balancing those things out.

I can tell you that my hat right now is more -- which is not a popular position internally -- is to be more open rather than not. But we're going to also curate that openness very, very carefully because there is -- if we were to see, for example, someone who is doing something that was anti-competitive, irrational, whatever -- there are situations where salesforce.com and everyone else out there, no matter how open they are, I think always have the right to reserve on who they do business with and who they integrate with.

But right now we are, as an example, not through the marketplace, but we have partnerships with Oracle, SAP, Workday. People might not know that in their daily lives, but we do. And so we have already connections to a lot of so-called competitors because we need to solve our clients' problems, and we can't tell our clients what they need or what they want. We have to convince them and use a pull strategy and have our HCM strategy convince them that we are the sole vendor for them for all things HCM.

And until we've done that, and we probably will never do it with every single client and every single product, we have to be open so that we can provide our clients what they're looking for in the marketplace.

So, I wish I could answer your question more directly, but it's just too early, and you'll hopefully standby for more information over the next year or two.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Thank you all for your questions. Carlos, did you have any closing remarks?

Carlos Rodriguez - *Automatic Data Processing, Inc. - President and CEO*

Yes, just real quickly. First of all, I think -- the last time we had one of these conferences I think was in 2012. And part of the debate that we've had over the last couple of years is, when is the appropriate time to have these conferences? And I think our conclusion always was we should have them when we have something to say. And hopefully -- and not just provide updates, because we provide updates through our normal communication in terms of guidance and earnings calls.

So hopefully today you saw that we have a lot to say because we made a lot of progress. What we wanted to communicate today was a better understanding of our strategy to all of you in terms of how we look at our business, our definition of the Human Capital Management space, and also the competitive environment. Because we understand that whether or not it's a landgrab, there is a lot of competition. There always has been, but it does feel particularly acute over the last two or three years. And that might be cyclical, it may be secular; we're not 100% sure. But we wanted to be transparent and have you understand that.

We also were hoping to have you understand the linkages and the connections between our product, our distribution, and our service delivery. And that is a very, very important thing to a walk away with here -- from here with, which is our commitment and our understanding that what has happened over the last five to 10 years from a technology standpoint has driven us to really make product a very, very central part of our way of executing our strategy. And it's connected obviously to our success in sales, and it's eventually connected to our success in our service delivery.

And the last thing on service delivery I will say is that service delivery always reminds me of clients because it's a daily impact with the clients in terms of adding value to them. And at the end of the day, everything that we are doing, which we have always done at ADP, is to add value to our clients. And even if we've been evolving over the years to be more now strategic as a partner rather than just focused on transactions, it's still really to help our clients be successful in their business.

I think if we do that, we are going to accomplish the final thing that I'll leave you with, which is our commitment to our shareholders. We are committed to this approach, which we raised for the first time the last time we had this conference, which was this top quartile TSR. I think ironically it led to some confusion potentially. Today I think Jan laid it out very simply in terms of what our intention is around TSR.

We obviously can't control markets, and we can't control the economy, but now you have a model to take away to understand how we think we're going to be able to drive top quartile TSR.

And I think I have to, though, say something about that commitment in deference to the history of the Company and to all of my predecessors, because having a 40-year track record of increasing the dividend is no small feat.

So when I asked some of our folks in Treasury to give me a list of how many companies there are who have had an increased dividend for 40 years, it's not easy to come up with. So there is the dividend aristocrats, which are companies who have increased their dividend for 25 years or more. But once you get past 35 years, it gets actually hard to find the data, if you can believe that.

So I would just leave you with that as a symbol of ADP's commitment long-term, because dividends go in and out of favor in terms of excitement, but they are a sign of commitment to shareholders. And I would say that if there's a group of companies that are called the dividend aristocrats, we should be in a group called a dividend royalty. Because I think 40 years should be a new group that gets to -- hopefully somebody will develop that list and create an ETF that we can participate in.

But I'll just leave you with that thought because we, as always, have a lot of ideas about our strategy, about innovation, about how we're going to move forward in terms of our growth of our Company, but we're grounded in reality. And I think 65 years of success I think proves that, and 40 years of an increasing dividend I think could be no better way than to finish the meeting and as a thank you to the folks who have put their confidence in ADP by investing their money or their clients' money in ADP.

So thank you, again, for joining us, and we appreciate your time today. Thanks.

Sara Grilliot - *Automatic Data Processing, Inc. - VP, IR*

Thank you, Carlos, and thank you all for joining us today. Thank you for your questions. The product demo stations will be open until 12:30 pm, so you're still welcome to come over and explore the products.

So thank you for joining. Have a great day.

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