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ADP - Automatic Data Processing Inc Investor Day

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PRESENTATION

Unidentified Company Representative

Please welcome, Vice President, Investor Relations, Christian Greyenbuhl.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Good morning, everyone, and welcome to ADP's Investor Day. We've got a packed agenda, so let's get started, take a quick look at what we'll be covering today.

To start us off, ADP's President and CEO, Carlos Rodriguez, will open with his thoughts on the momentum that we've been building and enabling through our innovation and transformation initiatives. Then, we'll have Don Weinstein, Head of Strategy, give some perspectives on the HCM market, how it's evolving and why we believe we're at the forefront of transforming the industry. After Don, we'll have Stuart Sackman, who leads our Technology, to provide us with deep insights on what is an exciting, transformative and truly cutting-edge product strategy. Then, our Head of Sales and Marketing, Tom Perotti, will discuss our investments and distribution, which remains a truly unparalleled asset of ours. We'll follow it up with a 30-minute Q&A session, a 15-minute break, and we'll be back at 10:30 for a brief video on our PEO business. After which, Maria Black, who heads our SBS and HRO businesses, will then share you some insights into the HRO offerings, including the PEO. Our Head of International, Don Weinstein -- Don McGuire, sorry, will then touch on our global presence as well as the growing multinational solutions. After which, Debbie Dyson will delve deeper into the investments that we've been making in the upmarket. We'll then hear from Dermot O'Brien, our Chief Transformation Officer, who will outline how we intend to accelerate our momentum through transformation. And finally, our CFO, Jan Siegmund, will wrap it all up for us and describe how all of this translates into our financial outlook.

So the final Q&A session, with some closing remarks from Carlos, and we'll wrap up at around about noon. So we expect that you will leave us at the end of today with a deeper, more complete understanding of ADP and our markets, of our strategic investments and their advantage differentiators and of the steps that we're taking to sustain our long-term profitable growth.

Now for a few logistical notes. Today's speaker information and slide presentations are available on investors@adp.com, and our presentation and remarks will contain forward-looking statements that 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 those risk factors that could cause actual results to differ materially from our current expectations. For those of you in the room, you may have already found our product demos, which are located upstairs. These are some of our latest innovations, and you'll be able to explore them until around about 12:30 today. Please remember, we are going to have 2 Q&A sessions this morning, and we also welcome any follow-up questions that you might have. So with that said, let's get started.

(presentation)

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Good morning, everybody, and thanks for being here with us. When we set this meeting up a few months ago, who would've known we'd be competing with the North Korean summit. But it's great that all of you are here, and we appreciate your attendance. That video really speaks to a lot of things. It speaks to who we are and where we're going. And on the topic of who we are, I think one of the things that you'll benefit from today, which we don't give you often, is a sneak preview into some -- not only some of the things we're doing but into our teams. So I'm really excited to have my team here, some of which are presenting and some of which are available here to answer questions.

In terms of where we are going, I think you'll hear a lot, as you saw on the video, about the global opportunity we have. You'll hear a lot about how the HCM industry is changing, and you'll hear a lot about how we're going to help our clients win the war for talent. It's funny how as a leader of a company, I remember in the days where everyone talked about the war for talent, and then we had something called the financial crisis and 10% unemployment and people forgot about the demographic challenges that have existed all along that are now coming to roost again. So we're going to give you some insights in how we're going to use data-driven insights to help our clients deal with that war for talent.

More importantly, the message, I think, you're going to hear today is one about all of the opportunities we have to take advantage of these changes in our industry and the developments in technology and about our optimism about taking advantage of those opportunities, as long as we're willing to innovate and as long as we're willing to transform. And I think what you'll hear today is that we are willing to do just that.

So today, you're also going to hear about some of the actions, so let me start off with that, the actions that we're taking to drive our momentum forward. We've been under transformation here at ADP for many years now. We certainly were aware of it, and I think we recognize now that we may not have communicated that accurately, publicly. When you look at all of the investments we've been making in technology and change in our infrastructure and our people, I think you'll probably agree that the task has been underway for many years, and in fact, it has. We've been working on migrating and upgrading our clients to new platforms. We've been investing in innovation centers where we now have 1,000 associates. We've changed our footprint in terms of our infrastructure 2 years ago. We launched what we called a Service Alignment Initiative, where we've closed down a number of our older nonscalable locations and moved many of our associates to new, very large-scale locations. And most recently, we announced the voluntary early retirement program, which you'll hear more about later, which we just closed just about a month ago.

But let me go through quickly a few, what we call, our enablers to our transformation, and then, hopefully, set the stage for what we're going to do to drive the momentum even faster. So just in terms of the things that we've had on the recent accomplishment front. You've seen some of the products here today. The thing that we're most excited about is the -- our ability now to say we actually have live clients on all of our next-generation platform. So what you're seeing here today is actually in production, and we have a number of clients already on those products.

We also have delivered on a number of other new next-generation platforms that you'll hear about from Don, including DataCloud and ADP Marketplace. We already have 15% penetration on our Data cloud products. So the opportunity that we have with data analytics are real, and you'll hear more about that today. But we actually have made significant progress already on that front.

On the distribution front, in terms of recent accomplishments, we've -- and I think we've signaled and you've heard that we were going to redirect our sales force's attention carefully onto new logos, and we've done just that. And we've had a great deal of success and seen new logo growth. And part of the results of increasing the focus through incentives but also just increasing the number of DMs that we have focused on new logos. And as an example, in our mid-market business, we've had a 20% increase in the number of salespeople that are focused on just new logo development.

And when you look at operational excellence, we've talked about upgrades and migrations, but the completion of our migrations in the mid-market is a huge milestone for us. The reason we're so excited about it is when you look at the success that we had in a downmarket, post that migration, we believe that we have an opportunity to create the same kind of success, both for our clients but also for ourselves as a result of the completion of that migration. So very excited that's literally only a couple of months old. We also have, on the operational excellence side, nearly completed our Service Alignment Initiative, already exiting 90% of our subscale locations. We still have some opportunity there. We'll talk about that a little bit later in terms of where we're going to be able to drive some additional momentum, but we've really gotten a lot done on the Service Alignment Initiative. We already have 3,000 associates in our new service locations that's performing very well, delivering good results for us now from a client satisfaction standpoint and a client retention standpoint.

And on the talent front, we have, in the last 4 or 5 years, focused a lot on trying to bring in external talent and refresh our talent. I'm happy to say that 20% of ADP's executives over the -- that are less than 3 years with the company, we have 80% of our R&D associates, both in our innovation labs and across all of our R&D organization, 80% of them that have been hired over the last 3 years have come from the outside, that have filled open positions have come from the outside. So we've made a commitment to bring in fresh talent.

And then lastly, on the recent accomplishments, in terms of our board, we have added 2 new board members, which I'm very excited about working with, with some great applicable knowledge to ADP. And our board and our 2 new directors, as always, are very focused on building long-term sustainable value for you, for our investors. And speaking of building long-term sustainable value, I'm happy to report that we've really got good momentum. Our KPIs are showing really good results. Our transformation that I just talked about, and we're going to talk about today, has really allowed us to accelerate our performance. I think the foundation we've laid over many years, and now we're seeing the fruits of our labor. Last quarter, we had 9% bookings growth, we had 170 basis point improvement in retention. So the trends are very positive. It didn't come easily. There's been a lot of hard work and a lot of investment over the last several years. In many cases we had the option of cutting costs rather than investing, we chose to invest, whether it's in the Service Alignment Initiatives or in R&D, and it's paying off in a big way. The benefits of these investments are certainly allowing us to outpace all of the guidance that we provided at the beginning of fiscal year '18. We have our revenues up 7% to 8%, is our guidance for fiscal year '18. Sales up 6% to 7% and a margin improvement of 30 basis points, excluding acquisitions, where at the beginning of the year, we were guiding towards a decrease in margin.

And finally, what really matters the most, our EPS growth, 16% to 17% EPS growth for fiscal year '18. And yes, we've got some help from tax reform, which we welcome. But a lot of this improvement is actually just fundamental, better work and better execution in the business. And we're not done yet. So let me talk a little bit about some of the things using the same enablers, some of the things we're going to do to accelerate the pace of our transformation, and then hopefully, build on this positive momentum that we have.

You're going to hear today about a commitment to accelerating further the rollout of our next-generation platforms. Now that we have clients on those platforms, it's all about getting them to scale and getting them to market, so we can take advantage of those platforms competitively. You will hear about what we're planning on doing to take advantage of some of the acquisitions we've recently made, like WorkMarket, where there's a very large addressable market of, we think, 30 million to 55 million gig workers out there. Also on the product side, you'll hear about our payments and financial wellness solutions, which we call Wisely, which we obviously are leveraging the acquisition of Global Cash Card, and I think Don will talk a little bit more about that and how that adds to our ability to be flexible in terms of our solutions to our clients.

On the distribution side, which you're going to -- you see from us is a stronger commitment to digital commerce, which we have our ADP Marketplace as a platform to be able to take advantage of that. We already have 250 apps available in the ADP Marketplace, and we actually have 6,000 paid subscriptions. So from 0 to where we are today, we're excited about the progress, but we think this has the potential for exponential growth as well.

And also on the distribution front, in terms of our channels, we have about -- 3/4 of our business in a downmarket today comes from channels. And Tom, our sales leader, I think you'll hear from him today, has really done a great job of not just expanding the channels to brokers and private equity but across mid-market and upmarket as well because of the success we've had in a downmarket. But he's also had a great deal of success in opening the channels across all of our different BUs to share the fruits of that success and of that upside.

And then finally, on the operational excellence side, I think what you'll see is a continuing acceleration of our scaling of our Service Alignment Initiative. We have -- we're very excited about the results we're seeing in our new locations with client satisfaction and other measures -- and other metrics that we have exceeding kind of the line average at ADP. So we intend to accelerate now that we have a good foundation, we have about 3,000 associates in the new location, with 5,000 associates in all 5 of what we call our One ADP strategic locations.

You're also going to hear today about a number of other initiatives. We have things that we're working on around procurement, where we think we have some efficiencies that we can extract. And I think something maybe new and different that you'll hear today is that we've created a transformation office led by Dermot O'Brien. You'll hear from him today and you'll hear about how we intend to take advantage of a more formal approach to executing and to holding ourselves accountable around all of the initiatives and all the opportunities that we have in front of us as a result of this transformation.

And then lastly, on the board front. Even though we've added 2 new directors, we're not going to rest on our laurels. I think the board is committed to continuing its own transformation. The board has just recently announced, so I think we put that out in an 8-K, that we've rotated the committee chairs, and I think that shows our commitment to an ongoing thought process and refreshment of our board. We already have a lower average tenure -- lower average age than a typical Fortune 500 company, but I think the board understands that it needs to continue to refresh itself and to focus on the future as well.

And the good news is that all of the accomplishments we've -- and all the foundation that we've laid, I think, is translating into really strong momentum. And the question, of course, is so what does that mean, what is that translate into? What it translates into is our ability to take what we gave as our margin target in September '17 for fiscal year '20, and accelerate that a full year earlier. So we're now saying and guiding to 21% to 22% margin in fiscal year '19, which is a full year earlier than what we said back in September '17. And I think that reflects the conviction that we have in our strategy and our commitment for the pace of the execution of the initiatives I just talked about. We also know, though, and we've learned the hard way, and I certainly have, during my own tenure and also working for other leaders in ADP, if you push too hard, you can damage the business. We have 90% retention in our business, which means that on average, we lose a client, it takes us about 10 years to get that client back. So we have to push hard, we have to move with speed, but we also have to be careful because our retention rate is an incredibly important component of our overall financial model.

We've worked incredibly hard over the last several years to refocus on the client experience as we're doing all of the other transformation efforts and it's paid off. With years of investment and service and technology, we now have tangible results to report in the form of big improvements in our NPS scores, which is our measure of client satisfaction. So that's fantastic to see. The results in our Service Alignment Initiative are incredibly encouraging. We have better NPS scores and better KPIs, better client satisfaction, in our new locations and in our line average. So we're incredibly excited about accelerating our Service Alignment Initiative to take further advantage of that.

And so the good news is, and we have a lot, I think, that we can talk about that is going to help us accelerate our strategy to grow. And before I turn it over to Don to talk a little bit more of our strategy, let me just give you a little bit of a refresher on our strategy. We've talked about these 3 pillars, which we introduced really after the Dealer Services spin when we made our commitment to be all-in on HCM. We talked about these 3 pillars. They've been unchanged. We remain committed to them. The first one is really about our core business and about focusing on a complete seamless solution that's cloud-based. And the word solution is very intentional and very important because it's a high differentiation for ADP when it comes to providing things like compliance services.

The second one is our HRO services, which includes our PEO, but also other HRO solutions in our other businesses. And the third one is taking advantage of our global assets, which is an incredibly large opportunity. You'll hear more about that from Don McGuire today, including our multinational opportunity, which has been a great growth driver for ADP for many years. We operate in very exciting markets. And you know that we have leading positions. And the focus that we've had on product innovation and our commitment to transformation, I think, are going to allow us to continue to maintain and hopefully build on that lead that we have already in the marketplace. Clearly, our global scale operating in 113 countries is unique, and we're going to try to take advantage of that. We're never going to lose sight of our differentiators, strategy, if you're on a strategy slide, strategy is all about differentiation. And we have strong differentiators around our compliance solutions. We're going to have the best software, we're going to have the best technology and we're going to have the differentiation of compliance and of big data to help us drive success and win market share against the competition.

And then lastly, let me just talk a little bit about governance because it's important to us a group that -- I think this matters, too. Our strategy is supported by a very strong board that's committed to long-term value creation. In 2014, the board created a Technology Committee, and we embarked on an effort to bring in directors with the appropriate skill set to help us with that Technology Committee. And I think today, I would give credit to, obviously, my team and the organization, but also to our board for helping guide us in the direction of what we've done around technology, especially next-generation technology platform, which have been big investments and have been the focus of this Technology Committee.

Our board and I listen to our shareholders. We listen to your feedback. And I think some evidence of that is not just our adoption of proxy access, but also the recent corporate social responsibility report that we issued, which I think has been something that our investors have been clamoring for. Our board is committed to change, but our board is committed to the right kind of change, and I think that's what you're going to hear about today that at ADP, our shareholders are top of mind. All of you are top of mind for us. It's reflected in everything the board does, whether it's our dividend policy and our ability to return capital to our shareholders or the compensation policies of our senior team. And everything the board does, I think long-term value creation and our investors, I think, are top of mind. And I think nothing is greater evidence of that than the fact that we've returned $13 billion since fiscal year '11 in the form of dividends and share buybacks.

And so let me just finalize by giving a quick preview of what you're going to hear today. Hopefully, I've warmed you up for Don as he talks a little bit more about our strategy. You're going to hear from him about how we're going to capitalize on all the changes taking place in our industry but also out in the marketplace. You're going to hear about a strong competitive position, but also about a changing competitive landscape and how we're going to address that. And you're going to hear, more importantly, how we are going to reshape the HCM industry, how we're going to innovate to stay out in front of our competitors, but also to help our clients build successful businesses.

You're also getting here more about the transformation initiatives from Dermot and how we're -- we have focus on execution and we have focus on speed around those transformation initiatives. And most importantly, you're going to hear about a commitment not just to get better and to transform to drive improvement in margin, which is clearly a commitment we've made, but also to continue to create the capacity to continue to invest. So this is truly a long-term and enduring organization and entity. And our goal is always and has been to be top-quartile TSR. And good news is, for long-term investors, we just happened to look at the stats a couple of days ago, and as of a few days ago, on a 3-, 5- and 10-year basis, we're in the 79th percentile, the 80th percentile and 84th percentile in terms of TSR. So we're glad that we've been able to live up to the commitments through multiple administrations at ADP, not just through mine, and you're going to have our commitment to continue to drive that goal of top-quartile TSR.

And that's probably a really good note for a CEO to end on. And with that, I'm going to turn it over to Don Weinstein so that he can go through some of the strategy with you.

Donald Weinstein - *Automatic Data Processing, Inc. - Chief Strategy Officer*

Thank you. Thank you, Carlos, and good morning, everybody. I'm excited for this opportunity to share with you some of the strategic moves we've been making, both organically and inorganically, that are setting the pace for innovation in our industry and will be driving the next wave of growth for ADP.

We've been focused on key changes taking place in our industry across a wide variety of dimensions. The first change is the evolution of work itself, right down to the most basic element of who is actually doing work inside an organization. And we're seeing the emergence of the gig economy as well as organizations adopting agile workforce management practices at scale by deploying cross-functional teams so that they can become more dynamic. And our recent acquisition of WorkMarket positions us as the only HCM provider with the capability for managing end-to-end, both traditional workers as well as freelancers, increasing our total addressable market. And as we will show you in a moment, our next-generation HCM platform is uniquely built for this new world of agile organization and dynamic teams, including freelancers.

Next is the change in trend of how people get paid, where the traditional model of everyone in an organization getting paid on the exact same weekly or biweekly cycle is changing. That cycle exists today where everyone's getting paid regardless of their role, their need, their personal circumstances on the exact same rate. It just doesn't make sense. It's being replaced by a new pay-on-demand model. And our next-generation payroll and tax engines are being built to provide full payroll calculation in real time at the individual worker or gig level. And our recent acquisition of Global Cash Card provides a differentiating platform for better serving our workers' financial needs between pay periods.

Next, against this evolving work drop, the ability to attract and motivate talent while capturing and extracting insights from your people data is putting enormous pressure on companies and their HR departments to stay ahead of the curve. Our DataCloud contains the largest and most accurate data set about today's workforce. And our acquisition last year of the Marcus Buckingham Company gives us a leadership position in the reinvention of the talent management category, with tools that are designed for team leaders that focus on making agile work teams more productive, with better quality data and insights about team engagement and performance, which is at the top of every CEO's agenda.

Turning now to the broader business environment. We're seeing continued growth in globalization of business, with multinational solutions being one of the fastest-growing categories in our industry. At the same time, however, we're seeing increasing regulatory and compliance challenges around the world. For instance, the recent European privacy regulations, or GDPR, is just one such example. And all of our next-gen platforms are being built ground-up to be completely global and they're advantaged by our unmatched global footprint of providing payroll and compliance solutions to 14 million workers outside the U.S. in 113 countries, covering 95% of the world's multinational workforce.

And then finally, we see the increasingly rapid pace of change in the technologies landscape. There are too many changes going on in technology to enumerate them all, but several are having outsized effects on the HCM industry. First, we see that enterprises are fully embracing the public cloud in their intent to innovate and scale faster, including a record number of startups gaining traction inside the enterprise. HCM is having the most pronounced impact here, where the typical enterprise used over 100 different HCM apps from both established vendors and startups alike. And our industry-leading marketplace was the first and still, by far, largest open app ecosystem in the HCM industry. And this will only be enhanced by our next-generation technology in the open platform architecture we're building on. And many of these startups are employing artificial intelligence and machine learning in an attempt to disrupt traditional approaches. But we know that the key to success here is having the largest array of super high-quality data, which perfectly describes our data cloud. So let me do a deeper dive on a handful of these, starting with the gig economy.

We have a new business incubator inside ADP, we call it ADP Ventures, and we've been conducting organic experiments in the gig economy for quite some time. But we decided we need to go bigger, faster. So we acquired WorkMarket, a market leader and early pioneer in freelancer workforce management. We identified WorkMarket as far and away the best player in this space for a handful of key strategic reasons. First is a robust end-to-end system for managing freelance work, right? Everything from sourcing and verifying talent, managing workflows, approving deliverables, rating and, ultimately, paying the talent, including tools for how you manage compliance, and this area is particularly fraught with all kinds of worker classification issues.

There are a number of startups out there who offer to crowd-sourced talent, but they offer a little more than an enterprise-matching or dating service without the robust tools that you need to actually manage and pay for the work while avoiding compliance issues. Second, WorkMarket covers the widest array of talent. We met many niche providers who specialize in a particular type of skill, be it, IT or creative talent. And there will be opportunities for communities like that to partner and offer their talent into WorkMarket's platform. But we believe that enterprises, ultimately, will want a single environment, a single unified application for managing all of their contingent labor as opposed to fragmenting it into dozens of separate talent pools.

And lastly, we share the vision around a concept we call total talent management, seamlessly blending full-time and contingent labor into one unified kind of mosaic of labor, where you can fluidly source tasks to whichever talent pool is best positioned to deliver. We were coming at it, ADP and WorkMarket, from opposite points, but converging on this common deal of how the world is going to work in the future. So now we can help our client get a better handle on how to manage their contingent workforce and blend that together with their traditional workforce and create a more agile, dynamic workforce of tomorrow. And we're the only HCM provider who can actually do this.

The next key trend I want to focus on is the evolution of pay. Last October, we acquired Global Cash Card, a leading provider of employee payment solutions, which moves us beyond executing a simple payroll and a direct deposit transaction into a mobile digital platform that helps employees manage their financial well-being. And we could do that and do a better job helping employees get the most out of their net pay, alleviating financial stress on their part, which helps our clients as well. We conducted extensive follow-me-home research in the field with real workers, especially kind of millennials and the new generation entering the workforce, to better understand what happens in between pay cycles. And what we learned is that many of them struggle with managing their money. They need help with budgeting, spending tools, saving for big expenses. So we launched our newest digital pay solution, Wisely Pay, which we've built on the Global Cash Card platform, and that gives us the flexibility to offer simple money management tools that help people meet their financial goals, while also leading the way people get paid in the future with innovative new services like on-demand access that are better aligned with how the workforce is evolving. And it extends our reach beyond our traditional client into the broader workforce itself, right? What was super interesting here is that WorkMarket had already partnered with Global Cash Card as the platform for helping contingent workers get paid faster. This was especially critical because in the contingent world, workers are often paid not by payroll, but by procurement or accounts payable, where payment cycles can run 60 days or longer. WorkMarket experienced very rapid growth in workers opting for this fast funds model.

And one of the coolest features is the ability to pay and manage a workers' entire earnings on a single platform, so you can combine traditional full-time earnings with freelance income on the side, and here again, our follow-me-home research, we learned that a lot of workers do gigs on the side, but they aren't adept at managing all of their tax withholdings. In particular, they're used to their employers managing those withholdings for them, and so they get nasty surprises come tax time when they haven't adequately withheld for all their gig income.

The next key trend is the evolution of the HR function to be more analytical and more data driven. And when it comes to big data, this is where it pays off to be big. At ADP, we were the first ones to harness the quality of HCM data with our National Appointment (sic) [Employment] Report. This was truly the very first application of big data in our industry. And then we followed that up with our data cloud and our benchmarking products. This is where we're tapping into the power of our big data to benefit our client, by bringing them deep insights about their workforce in a way that only ADP can because of our scale. And we were recognized in 2016 as both the Product of the Year and also New Technology.

And then in 2017, we followed that up with the release of our Pay Equity Explorer. This leverages machine learning to help resolve a truly difficult and long-standing industry issue around equal pay, which is a very hot topic today. And this was likewise recognized, winning back-to-back awesome new technology awards in 2017.

But now we're moving beyond traditional applications and into offering data-as-a-service into the broader market. This is yet another example of something that we're incubating inside our ADP Ventures group. In this instance, we are building organic net new revenue streams out of our data by developing new clients and new use cases. For example, we're working with one of the largest residential real estate brokers, and they're using our wage and employment information, our data cloud, to help them market properties to buyers based on income and other demographic information. And we're working with a number of commercial banks who are using our direct deposit routing information to generate more accurate market share data, and they can mash that up with neighborhood information around people movement to see if they're gaining or losing share in rising or declining neighborhoods. They're also especially interested, and this is data that only ADP can provide, in understanding what share of a worker's paycheck is getting direct deposited into their account versus other accounts and instruments.

Turning now to technology and the movement towards platforms in the open ecosystem. ADP, we've been leading the way with our award-winning marketplace. Again, it has the most partners, the most apps, the most clients and the most marketplace activity in our industry. And Marketplace is more than just an app store, right? We are tapping into the innovation of the industry, orchestrating data movement and workflows on behalf of the multiple applications on behalf of our clients, with ADP sitting right in the middle.

Let me give you an example. We've got a particular client, they're a restaurant group located here in New York City, and they're using multiple Marketplace applications. They use an app called ClearCompany, which specializes in recruiting specifically for the restaurant vertical industry, right? They also use an app called MakeShift, which again contains specific niche functionalities for that restaurant vertical. And they use a third partner called Gratuity Solutions for managing how the servers and wait staff can get paid their tips in real time on a Global Cash Card. But ADP is still the system of record for HR, payroll and benefits, sitting in the middle of all that and tying all the various pieces of the clients' ecosystem together. That's taking simplification to the next level. It enhances our differentiation and our stickiness with our client.

Another great example and recent example of our approach to open innovation has been our partnerships with Facebook and [Flak]. This is where we're using our marketplace platform with open API connectivity to connect our content and serve it up into their platform so that workers can get access to their critical pay, time-off or other information inside the place where they're doing work and not having to break context. We're one of the first companies in any industry to be in both those places, and now Facebook, for instance, is promoting our integration to their tens of thousands of workforce clients, showing the power and the benefit of open integration.

And now taking it to the next level, our next-generation technology platforms are tying all of these industry trends together, leading the next wave of innovation in our industry by building solutions that are aligned with how work actually gets done in agile team-based organizations that usher in a new era of personalization with an on-demand workforce and related on-demand pay practices that yield higher-quality data, providing meaningful insights that make clients smarter, that are open and enable clients to tap into innovation happening anywhere in our industry and ecosystem whether it be from ADP or our partners, and that are truly, truly global. These are the core design principles of our next-generation technology investments. These are aligned with the key industry trends that I just talked about. And next up, Stuart Sackman, our Head of Global Process and Technology, will tell you all about them. Stuart?

Stuart Sackman - *Automatic Data Processing, Inc. - Corporate VP of Global Product & Technology*

Thank you, Don, for that great overview of the key industry trends and our strategic initiatives. But now I get the fun part of showing you how some of our most impactful leapfrog innovations that we've built into our next-generation solutions.

So my first example is how we've designed our next-generation platforms around a natural person, or what we call person-centric. And that's a big change from other solutions that are designed around the employer or worker relationship. And because our next-gen solutions are person-centric, we'll automatically combine all of the person's earnings from their -- across their employers and their freelance assignments, so we can accurately calculate tax withholdings and help workers avoid any surprises at the tax time. And with the growing gig economy and the growing number of freelance workers and the growing number of full-time workers who also work as freelancers, this is really a powerful and differentiated capability.

So let me show you how that works. This is Amy. She works as a full-time employee at a coffee shop and also as a freelance graphic designer. She just completed an assignment -- she just completed her freelance assignment, and when she goes through her ADP mobile app, she sees both her earnings combined together on her mobile app. And now that we've pooled those 2 things together, we can accurately calculate the necessary tax withholdings based on her combined earnings. So you can see, she -- we ask her, "Do you want to put away $30 per taxes?" She agrees, confirms those changes, we saved -- put the money aside first, so she's ready for tax time, and to the best of my knowledge, this is a totally differentiated capability that again addresses this market trend around workers and freelance and full-time work coming together.

One of the most powerful innovations in our next-generation HCM platforms is the introduction of a concept we call mini-apps. What we've done is we've broken down the traditional 8 or 10 HCM modules, like performance or compensation or recruiting, into many smaller discrete modules that we call mini apps. And what that does is it enables our clients to personalize their HCM solutions around their specific needs. And none of the current SaaS HCM solutions on the market offer this level of flexibility. So let me show you how that works.

You may be surprised to learn, but HCM needs differ broadly across companies. And they even differ broadly across different groups in any individual company, especially in the enterprise space. And they differ based on company size or industry, function, culture, HR practice. And the challenge with today's generation of cloud-based HCM solutions is that their primary design principle is one-to-many. Primary design principle. Use one system, with a defined set of functionality across multiple clients. And therefore, by definition, they meet only a defined set of needs. And I guess that's good for the vendors if they can just build one thing, but it's not great for the clients that are forced to "fit in the box," or in this graphic, fit in that narrow orange bell curve. Well, we solve that with our mini-app approach. What we're doing is we're building a portfolio of mini-apps that cover a broader spectrum of user needs. As you could see in the graphic, those little blue squares, those are mini-apps and then what we do is we allow individual clients to select just those mini-apps they need based on their business requirements.

And in that way, they can mass-personalize their solution around their specific needs.

So as an example, many of us in the room have this device. But I can almost guarantee that no 2 of us have these exactly the same because we personalize this device around our individual interest or whatever we do, whatever we want to do. And we've taken that same concept now to the -- to our next-generation HCM platforms. And think about it, imagine how much less valuable this would be if everyone had to run just the same small set of applications. Like you can only run 5 applications on your phone, how much less interesting if we all had to run the same ones.

And again, that's the concept that we're taking to our next-generation platforms. And just like this phone, if you want to -- if your needs change, say you want to replace your annual performance reviews with the weekly check-in, you don't need to do an expensive upgrade or migration. You just stop using the annual performance review app and start using the check-in app. So as easy as that. And we've already built 40 mini-apps, and we're adding more all the time. So that's the mini-app strategy.

The other most important -- in addition to mini-apps, the other most important innovation in our next-generation platforms is our ability to support agile organizations and dynamic teams. And Don talked about the industry trends here. But as you likely know, for many large companies, being more nimble, being more agile is a strategic imperative because these companies need to quickly respond to the changing technology trends and the disruptions in their respective industries, which is why so many companies are starting to implement agile org structures where they form and reform cross-functional teams to address evolving business issues and drive positive business results.

As one CHRO from a tech company told me, "Performance happens in teams." So it's obvious, right? Your HCM systems need to be built around the teams. And the challenge is that today's generation of HCM cloud systems are largely designed and do a good job for the formal organization, but they don't have the flexibility to handle dynamic team structures. And again, if your HR system doesn't support dynamic teams, the way the work actually gets done in your company, then how can that effectively help you manage and develop your workforce?

So let me show you how our HCM solutions support dynamic teams, enable companies to develop a more agile, engaged and productive workforce. So this is a typical technology organization. It's actually very much like my own formal structure. I have our R&D teams, the user experience teams, enterprise architecture, product infrastructure. And we've added this, what I think is a really creative feature here where right from the org chart, you can turn on metrics, and you can display metrics on your org chart. So in this case, these are engagement metrics, but you can also show turnover, performance, tenure and any other key metrics right on your org chart. As you could see in the graphic, this is pretty good. Engagement's relatively high across the board, it's good in R&D, UX, product. Maybe EA is lagging a bit. And that's kind of useful information for this technology leader.

But it's way more interesting when I switch to the teams view. This organization, the sample organization, like many technology organizations, uses the agile development methodology. So the work in those dev teams, those are all cross-functional scrum teams. And they include members from R&D, UX, EA, product infrastructure, okay? So this is the way the work is actually done.

And now when I overlay the metrics, again, these are the engagement metrics, I can actually get actionable insights because you could see here, even though previously, you thought, "Hey, R&D was pretty good," well, now I could see that in one of my projects, my Innovation One project, engagement is only average. And even inside that project, I had 2 highly engaged teams and one team, Team 4 here, that's got really low engagement. So as the leader, if I want to make sure my innovation project comes out -- gets done on time and with quality, it obviously behooves me to go find out and fix whatever the problems are in Dev Team 4. And that's an example of how our next-generation HCM platforms will provide companies, especially companies that are moving to agile organizations, more actionable metrics so they can actually drive better productivity and better business performance.

So Don talked about the emerging trends regarding how workers get paid. As he said today, the vast majority of workers around the world get paid when their employers want to pay them. Monthly, semimonthly, biweekly for traditional employees, net 60 or net 90 for freelance workers. But even that's starting to change. The big gig companies like Uber and Lyft are already allowing their drivers to get paid after every ride. And a few large companies, large traditional companies like Walmart, McDonald's have started allowing hourly workers to get a portion of their pay at the end of the shift -- at the end of their shift. Well, we strongly believe that in the future, workers will get paid real time, on demand, when they want to receive their earnings. And employers are going to be forced to offer this capability if they want to attract and retain the best workforce.

So let me show you how our next-generation HCM solutions enable fully compliant, real-time, on-demand pay. This is Phil. He's an hourly employee, works at a bike shop. So at the end of his shift, he goes to our ADP mobile app and clocks out. As soon as he clocks out, we real-time calculate his earnings. So you can see he's earned $89.47. And again, our next-generation payroll system is real-time, event-driven. So at the end of that transaction, we calculated his pay, and then we give him the opportunity if he wants to get paid today. So pay me on demand. And then we give him the choice to choose what portion of his pay he wants. So in this example, he says he wants to get $80 today. And we can ask him, "Where do you want us to put the money? You want to send it to your direct deposit account, your checking account?" And as you guys know, that takes -- that could take 2 to 3 days for a direct deposit to clear or you can choose his Wisely card and get paid real time on his Wisely card. So he pays -- checks Wisely, gets paid real time. And he can go out and start spending that money. And that's the future of pay. That's the future of pay.

And our next-generation platforms, they're built ground up to support global companies and the increasingly global workforce. And it's complicated. Around the world, there are thousands of constantly changing statutory requirements. But in addition, the pay policies, the way earnings are calculated and the types of pay workers earn and the way withholdings are calculated and the types of withholdings that apply, those also vary broadly across companies, and they vary even more broadly across countries, which is why it's so expensive and takes a long time to implement a payroll system for an enterprise company or an MNC company. And this is a really important problem to solve because we know from our sales force that when we reduce the switching costs, the time and cost it takes to implement a new client, we're able to sell more. So let me show you the innovative way that we have addressed that problem.

Our next-generation payroll system is designed and built around the concept of policies. Now that may seem like a simple idea, but it's actually patent pending and very much differentiated. None of our competitors have this structure. And what we're doing is we're building a library of policies so that when we implement a new client, we simply select, apply and configure the policies based on their needs to meet -- again, around their specific needs and pay policies. And our expectation is that should make implementation faster and less expensive.

And the policies are inherently global. The concept of policies is inherently global. So to add another country, we just have to build the -- expand the policy library around those countries' specific policies. And we know this works because the proof of concept, we brought some of our engineers from Australia to the U.S., and we spent a few weeks training them on how to build policies on the platforms. Then we sent them back to Australia, and within a couple of months, they built a dozen Australia-specific policies. Then we took the input from one of our Australia GlobalView clients, and we took their input, and we put it through GlobalView. And we took that same input and put it through our next-generation payroll, these policies, and compared the results. And as expected, they matched. So we know this design works.

And importantly, since ADP -- since at ADP, we have engineers around the world that already have deep knowledge and extensive experience and expertise with local payroll policies, we're uniquely positioned to add additional countries and create a true global payroll solution.

And to enable all of this innovation, we've built a low-code development platform. So our teams can build the mini-apps I described earlier with clicks, not code. And because the platform -- and because the platform holds the data -- the platform manages the data model and the UI and the workflow and the automated test scripts, everything we build on the platform should be natively integrated, giving our clients a seamless experience across mini-apps. So the net-net is we're building a more personalized, broader, fully integrated global HCM system that's competitively differentiated. And at the same time, we expect to be able to lower our R&D investment.

So now let me give you an example of the -- let me give you an end-to-end example of the power of ADP and the power of all these innovations working together. So this is Britt. She's the team lead on a critical project that's due in a few weeks. And unfortunately, our UX designer quits unexpectedly. And she knows she'll miss her deadline unless she immediately replaces the UX designer. So she logs on to our next-generation ADP HCM solution and goes to the org chart. And right from the org chart, she clicks on this recently vacated position, and she can add -- and right from there, she can add a freelancer. So she clicks Get Me a Freelancer. That automatically takes her to WorkMarket. And based on the position description, WorkMarket has already pulled up a talent pool of available freelancers to meet her needs. So you get that? She has an open position, has some needs. We go to WorkMarket. We see what she needs.

And then immediately, she could see that Nick here is a great fit. He's done 16 -- he's already done 16 assignments for a company. He has a 100% satisfaction rating, and he meets her needs. So she can offer Nick the assignment, and once Nick accepts the assignment, he's automatically added to Britt's team. So Nick is now part of her org chart, and he's a full-fledged member of Nick's team. I mean, Nick is a full-fledged member of Britt's team. And as a full-fledged member of the team, he's automatically added to the relevant workgroups that he needs to participate in. And because of our Slack integration that Don described earlier, he's automatically added to the appropriate Slack channels. So right from the start, he can get up to speed more quickly, start communicating with other teams, collaborating and getting up to speed to what's going on. And Nick's automatically assigned the team's objectives and key results. So there's no ambiguity for Nick about what the team's goals are or what he needs to do. So he knows the definition of success and the work that has to get done.

And then maybe a week into Nick's assignment, Britt decides, "Let me see how the team's adapting to Nick." So she decides, "Hey, I'll run a Pulse Survey, Pulse Engagement Survey." And you can see here that we've redesigned our mobile experience and our next-generation HCM platforms using a conversational user experience. And this makes the mobile application more action oriented, easier to use, and it's consistent with the B2C -- with the trends in the B2C world. And this is also a very differentiated model for mobile.

So Britt sends out the survey. She gets the results real time. And good news, she could see the team's engagement is up. And then the project ends on schedule, and Nick gets this notice. He's been paid through his Wisely card. And you can see, he gets the second notice, he's reached his savings goals. Because as Don explained, the Wisely card is not just a pay card; it's a financial wellness app. So what we're doing is we're extending our relationship beyond employers to start offering services direct to employees. So in the Wisely app, Nick can set up these purses to help them better manage his earnings, and he can also set up savings goals so he can automatically apply a portion of his savings -- a portion of his earnings towards his savings goals. So this story has a happy ending. Britt gets her assignment done on time. Nick heads off on his Aruba vacation.

And this Wisely app, so you know, was up on the demo station. This is in pilot and live with clients today.

So I'm sure you want to know, what's the status of all these exciting innovations? And I'm happy to report, as Carlos said earlier, they're all live in pilot today. And in fiscal '19, we'll be rolling them out in North America while we start expanding global capabilities. And then in fiscal '20 and beyond, we'll be scaling up our sales in North America and rolling out to other geographies.

And at the same time we've been delivering all these next-gen -- all the next-gen platforms, innovations, we've kept our eye on the ball and are finishing the shift of our U.S. HCM clients to our strategic cloud-based platforms. So the chart on your left is slightly different than what we showed last fall. This is U.S. HCM clients only, not our global ES client base. And as you can see, today, we have nearly 100% of U.S. HCM clients and 90% of the revenues on our strategic cloud-based platforms. And that's a really impressive shift since fiscal '11. And the biggest drivers have been the completion of our downmarket, migrations to RUN and the recently completed mid-market migrations to WFN.

And another benefit of our progress has been a decline in our need to spend R&D dollars on maintenance. And so we've reduced maintenance with a corresponding 18% growth rate in innovation spend. And that's helped drive the development of and now the rollout of our next-gen platforms. So all in all, a track record that we're really proud of.

But I'm even more excited about the future. We believe ADP has the best sales force in the HCM industry. As we strengthen our leadership position and reshape the human capital management market and build upon the momentum we have in HCM innovation, we've established a really solid foundation for continued sales growth.

So now I'd like to introduce Tom Perrotti, our Head of Sales, who'll walk you through our sales plans.

Thomas J. Perrotti - *Automatic Data Processing, Inc. - President of Worldwide Sales & Marketing*

Thanks, Stuart. Good morning, everyone. I am responsible for worldwide sales and marketing. We've made tremendous progress over the last 12 months, and looking forward to sharing with you what we've done as well as where we're headed.

So just as a recall, the scale of our distribution model has always been a differentiator for us. In fact, in FY '17, we sold $1.65 billion in new business bookings, which significantly far exceeds any of our direct competitors. We serve clients in 113 countries with around 6,500 sellers. Of those sellers, 1,600 of them are in inside sales. And they have kind of a dual focus. So in the past, they've spent a lot of time expanding share of wallet. We've also directed them towards new logo sales. And that's really helped supplement the efforts with our field sales organization.

So to benefit from that scale, there's a few unique advantages that we're really leveraging. First, having 1,600 inside sales sellers gives us the ability to really fuel markets and cross-sell opportunities and provide leads to the field when a sale can't be completed over the phone with a client. And they can quickly pivot when there are changes in the market. And that ability to be able to do that gives us the chance to rapidly change and impact sales based on segments, markets and wherever we're focused.

So let me give you kind of a real-time example. We've accelerated sales of Workforce Now in the enterprise space. The result of that has been a huge increase in both win rates and unit growth. And you'll hear Debbie talk a little bit about that when we get to the enterprise segment.

We're also leveraging the size of our coverage model by working with our network of referral partners. So that includes CPAs, banks and benefit brokers in the downmarket and the mid-market and then private equity firms and ERPs in the upper end of the mid-market and in the enterprise space. Last year, we had over 20,000 partners refer new business to ADP. And that's a huge advantage for us. And we just recently announced a really exciting partnership with Microsoft. We now have integration with Workforce Now and Microsoft Dynamics 365 Business Central. It's enabling mutual clients to gain obviously greater insights for faster and better decision-making. We're going to co-sell with Microsoft's extensive VAR network, value-added resellers, of roughly 3,500. And that type of relationship, we feel, will provide huge coverage and a great advantage for us.

So in addition to the partnerships, we've also seen an uptick, as Don had described earlier, in sales of the Marketplace. And I'll give a little color there in terms of how we're using that as a competitive advantage in the marketplace. So as Don said, we have roughly 250 apps. It helps expand our HCM capabilities and our value prop in the field. So let's take a look at how we view the path forward and what our growth objectives look like.

So we've driven strong results, increasing new business bookings by an average of 7% from FY '11 to FY '17. We plan to further accelerate our growth going forward by strategically adding headcount in our most productive roles by equipping sellers with the most advanced sales capabilities, which I'll share more about, and then capitalize on all the new innovation that both Don and Stuart just talked about. We see productivity as an important source of growth over the next few years. So let me take you through what our approach is to headcount and what it will be going forward.

So adding field headcount to our sales force has always been a part of our sales growth strategy. And as a result, we have a very comprehensive field coverage model. We have the opportunity to continue to complement that coverage model with inside sellers. So what's the value of having inside sales centers of excellence? Well, they -- one, they match well with current buying behaviors. Two, they really provide us with shorter cycle times, the flexibility to rapidly change based on market conditions. And it's also a mechanism to maximize our HCM module penetration to our base. And clearly, it's a cost of sale advantage over the field sales resources. So we've successfully accelerated our inside sales expansion in FY '18 and feel optimistic about our plan going forward and our ability to be able to do that.

So partner sales, as I referenced earlier, have always been a critical part of acquiring new clients at ADP. Let me show you the impact it's having on our growth. Our partner channel strategy is designed to leverage the concept of one to many. Today, we work with a large network of partners that span the entire spectrum of the markets we serve. In the downmarket, 74% of our first half sales in FY '18 came from partner channels. Specific to the mid-market, 10 of the top 15 benefit brokers by revenue have a referral relationship with ADP. And in the upmarket, 1/3 of our FY '18 first half sales came from either private equity firms or ERPs. And so ADP offers a pretty strong partner-compelling value prop that includes not just the relationship of the sales force but obviously an unparalleled breadth of HCM solutions, the ability to handle a client of any size, which is critical for a partner because they're not necessarily bound by segments. They have customers, in often cases, of all sizes.

And most importantly, through service and technology, we're able to provide the partners with the capability to serve their clients better and to make them more efficient. And so our strategy to grow the portion of the new business bookings from the partner channels is a large part of our overall growth strategy. The benefit for us is obviously that we get a productivity lift that comes with that through this concept of one to many.

And so by leveraging partners, we're able to accelerate our path to decision makers, establish longer-term relationships that yield ongoing referrals, and it's working. New logo growth through Q3 of this fiscal year across all markets is up, and that's pretty exciting for us. So the technologies that Don and Stuart spoke about differentiate ADP in the marketplace and open up new markets, resulting in sales growth. Let me give you just a couple examples.

The ADP Marketplace enables us to win by leveraging partnerships to create industry-specific solutions for our clients. So when we combine our HCM platform with, say, apps on the marketplace like ClearCompany for recruiting or MakeShift for scheduling or Gratuity Solutions for text, we create a differentiated solution that caters to the unique needs of that restaurant vertical, and it's really hard to beat.

We're also winning in the area of having advanced analytics. So I'll talk a little bit about what we get through ADP DataCloud, and then they were doing a demo of AssetBuilder upstairs. It's actually pretty cool for our sales force to be able to use this actually during the buying process for the client. And so the way it works is obviously, we have a large HCM data set. And for an example, we may tell an executive at a clothing retailer in Ohio who's considering ADP that in 2017, the average store manager in their industry in the Midwest makes $36,000 a year. 56% of them receive overtime, and they turn over at a rate of 41%. We have this type of information for hundreds of industries and for thousands of job types. And so when we're able to introduce that in the sales process and tell a customer a little bit more about their industry or about them that they didn't know, it really provides us with a unique advantage over our competition. None of our competitors can deliver that level of insight on how to inform clients and how they may improve their overall business.

A third area where I'm really excited is we're building Global Cloud Connect technology to reimagine global payroll delivery by equipping our multinational clients with a consumer-grade tool that vastly simplifies the data integration across cloud systems. So let me give you just one example. We reduced the number of HCM system interfaces for a multinational energy company operating in 15 countries, from 80 interfaces down to 3 while improving global visibility and accuracy. Global Cloud Connect reduced the total cost of ownership for that client and strengthens our already differentiated position in the multinational marketplace and really helps us win.

In addition, we're differentiating our multinational solutions with an approach to compliance. We consistently employ privacy-by-design principles, enabling our clients to stay ahead of new regulations such as GDPR. To bring all this innovation together into the market, we're working with Stuart and his team to improve and enhance our overall demo environment so that the innovation shows really well in front of our clients. And we're really pleased with the progress that we're making there.

So to summarize, we're confident that our approach to new business bookings growth, growing our inside sales force, leveraging partner channels to drive productivity and leading with innovation will enable us to win and continue to win in the market and deliver accelerated results.

So thank you. And Christian, I'll ask you to come up.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

So we're going to have our first Q&A session now, and then we're going to follow that up with a 15-minute break. So please do try and check out those product demos when you have a chance.

Carlos, Jan, if you could please join me up on stage. We do have a webcast going on at the same time, so I do ask that you please wait for the microphones to make their way around the room. We'll call up on you for the Q&A session, and we ask that you please state your name and your firm so that we know who's asking the questions. So if we have the mics ready, we've got one question over there.

QUESTIONS AND ANSWERS

James Robert Berkley - *Barclays Bank PLC, Research Division - VP*

James Berkley, Wolfe Research. Just on the accelerated margin expansion, you guys obviously just completed the mid-market piece. Could you just break out what part of that expansion you see coming from the mid-market, what you anticipate coming from the upmarket? And just for perception's sake, I know you doubled margins in the downmarket over a 5- to 6-year period. Are you able to quantify that at all so we can just get a feel for how those replatformings are impacting that margin accelerated expansion then where some of the other components of that expansion are coming from as well?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I'm very glad the first question is for Jan.

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

And I'm usually interested -- usually excited about the margin question. I will detail this in much more detail at the second part. So you have to wait for a little bit, and then you'll see all the decomposition of the margin contribution from each of the initiatives. It's a smaller part than you think, but it is a contribution to it.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Yes. I think Jan is going to get into a more detailed discussion...

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

I'll give a comprehensive update about the margin expansion program in my presentation.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

But I think as a teaser, I think that we believe client retention, we -- our expectation is that client retention is going to improve in the mid-market as a result of the completion of the migrations. But I think as Jan is laying the groundwork here, when he gets to his section, the mid-market was already a business that was a strong business with good margins and I would say with okay retention. The retention, as you know, we had some challenges over the last couple of years. So as a result of that challenge that we had in retention, there is opportunity now in the next several years to drive improvement, especially with a tailwind of the completion of the migrations. But I think the starting -- bottom line as a starting point is different in the mid-market than it was for the downmarket, which is why it might not be as much as some people might think. But we think that obviously, every dollar of improvement that we get from a retention standpoint is "almost" 100% margin to the -- for the bottom line. So any improvement in retention in the mid-market will really help us with our margin objectives.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Go ahead, David.

David Michael Grossman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

David Grossman with Stifel. So obviously, a lot of change going on in the product side, and you went into great detail about that over the last several minutes. But it may be hard to disaggregate what these changes are, but can you give us any insight into what your expectation is in terms of what changes and enhancements will be most impactful near term versus those that you think are going to have a longer-term impact on the business?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So I think near term, I think it's probably a combination -- a lot of the things that Tom talked about -- Tom really reflects our sales force and what they need in order to be able to achieve the objectives we have from a new business bookings standpoint. I think you saw some of the things he described around the new product innovations that we have, combined with the acquisitions, I think, help us in real terms in terms of selling more business, but it also enhances ADP's overall value proposition. So I think that from a reputational standpoint that it matters. And I think as you said, it's hard to disaggregate in terms of how much we get from that kind of momentum, but it feels like it's a tailwind to it. So it's not just about the real impact of the new product because as we said today, they're in pilot. And we're not really quite at the scale level yet from a next-generation platform standpoint, but things like Marketplace, things like Wisely, WorkMarket, all of those things, I think, enhance our value proposition and, I think, people's perception of the -- not just the current value that we can deliver but also the future value that we know we're going to be able to deliver to them as we continue to expand our product portfolio. So I think it's a combination of driving sales force momentum in terms of their confidence, which I think matters, combined with the real outcomes of more products that our sales force can go out and have more things in their bag to sell in the marketplace. And I think that Tom has -- and the sales force has a good detailed plan of how to kind of compartmentalize those things into kind of new product sales versus sales that are coming from productivity improvements, from optimizing our sales force composition through using inside sales and improved tools and partnerships. So I think as usual, because of the scale we have, and I think Tom talked about it, it requires a lot of different things to be executed in order to really achieve our goals. There isn't one solution or one product that we could point to that is going to be the one that's going to make the difference for us. It's a lot of different things combined together, and we have high confidence that we're going to be able to do that.

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

In addition maybe to the sales growth and the revenue growth that Carlos describes, in the near term and for next year, our continued improvement in the service experience that you will hear in the second part of this presentation and consequential improvement of the retention rate, pairing that with the outcome of the early retirement initiative and those more efficiency and effectiveness-focused initiatives for the next year, those are going to be the big drivers for the overall bottom line results.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Jason?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I'm glad you get to pick the questions and not us.

Jason Alan Kupferberg - *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

Jason Kupferberg from Bank of America Merrill Lynch. So kind of a 2-part question following up on all this conversation around product and innovation. How much of your revenue growth over the next few years roughly do you think may come from products that, let's say, didn't exist 2 to 3 years ago? And then just to follow up more from the competitive side of things, a lot of the competitors in the market seem to continually talk about ADP as kind of a "chronic share donor." Clearly, we're hearing a very different message today. How would you respond to that?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So I think that from a revenue growth standpoint, I think Jan probably knows the formulas better than I. But our strong retention rates mean that, by definition, assuming that we maintain those retention rates, that some portion of our revenue growth -- so we think it's a good news story. It's a good news story that we have so much product innovation, we have such optimism about the future growth of the company, but it's also a good news story that most of our revenue growth is kind of in the bag at the beginning of every year, at least 90% of it, hopefully, 91%, 92% in the road as our retention rates continue to improve. So it's really about accelerating the top line, if you will, and adding more to the top of the funnel because we have a great business model that is very sticky. And so we don't really have to rely a lot in the next 2 or 3 years on new products to drive our growth. But 3, 5, 7 years down the road, clearly, it makes a big difference. And I think it also makes the big difference from a retention rate standpoint that revenue growth depends a lot not just on new business bookings from new products but on the retention rate itself. And what we've done in the downmarket with migrations and in the upmarket with Workforce Now and across other parts of the company have created what I would call an insurance policy or greater stickiness around our revenue growth. In terms of what our competitors say, I think that we -- I think I've said many times that we really can't point to one individual competitor that is the big difference maker for us either in terms of new business bookings for us or actually also in terms of losses. But as the market leader, I can see how other people would view us as a donor. And obviously, our job is to make sure that they become donors to us. And that's where you've seen us investing in, is the capability to do exactly that. But as the market leader, by definition, given the market share that we have, I think if you throw a dart on a list of companies, they're likely to be an ADP client. We happen to be proud of that, and I think that gives us a big advantage. But it also allows our competitors to say things like you're describing.

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

With the broad scope of services that we offer globally, none of our competitors really targets ADP in total but in specificity. So we try to illustrate, and I think Don talked about it today, to gain market share in all of our core segments, which we have done so. So I think last fall, we demonstrated that in each of the "product categories," we really have expanded our market share leadership in all the categories, not just single categories. And we provide updates on all of our client relationships, which have been growing, I think, last year around 7% to 8%, clearly outgrowing the market. And our revenue growth is exceeding the overall market growth, which are, I think, good summary indicators for you that our competitive position is solid.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

And I think I was a little too polite in my answer. So after thinking about it a little more, I think I will add that we have a number of competitors that are net donors to us. But we are more polite people, so we tend to not focus on that on a regular basis.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Mark?

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

This is Mark Marcon from R.W. Baird. I've got a couple of related questions. Number one, you pointed out to a lot of different innovations. Which 2, 3 or 4 are you the most excited about in terms of being -- having the ability to generate incremental revenue that's noticeable? Number one. Number two, when will most clients know about it? Is it something that's going to occur over the next year, 2, 3, 4, 5 years? How should we think about it from that perspective? And then related to the sales generation and sales productivity, if you're going to take inside sales from 25% to 40%, does that mean that outside sales is actually going to decline in number? Or is that going to continue to grow as well?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So that was a 6-part question to 1 question. So hopefully, I'll remember all of the different parts. Jan will help me.

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

Yes.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I think on the revenue growth standpoint, in terms of what's going to have the biggest positive impact short term, I think we're excited about some of the things we've done around these acquisitions, so I think WorkMarket and I think Global Cash Card payments, the innovations that I think Stuart went through in terms of that are in pilot today. But to me, short term is, a year or 2, I think these things are going to make a difference from a revenue growth standpoint. We already are seeing that the work we've done in Workforce Now, there's also -- there's a ton of innovation there. We've kind of almost replatformed that product while it was already in flight. And we are, I think, seeing already some of the fruits of that labor in terms of some acceleration from a revenue standpoint in the enterprise space and also in the mid-market in terms of new business bookings acceleration. But it may surprise you to hear, like what's the thing that to me seems to be the most exciting is, believe it or not, it's the next-generation payroll and tax platforms. And the reason I say that is it really speaks to not just about the future of ADP but our commitment to our biggest source of differentiation. So our tax platform and our payroll platform, what we do globally around payroll and tax is very, very complex. And you have to have consumer-grade technology, you have to have talent management tools, all of the things that Stuart went through today. But the heart and soul of ADP is really our ability to deliver complex -- on complex solutions around payroll and tax globally. And so these investments that we're making, I think, are something that not only does it help us in terms of the cost of our back office and increases our flexibility, but I think it speaks to our commitment to our future. Like I think that we wouldn't be making these kinds of investments if we didn't feel and our board didn't feel that we had 10, 20, 30 years of runway to build on top of that. So all the things that you heard about today around the gig economy, all the things that you heard around payments, around talent management, around mini-apps, all of those things rest on top of the foundation of ADP, which we are investing in and I think is going to be a much stronger, more flexible foundation. I think Stuart alluded to it, but I think people are underappreciating what this is going to do to extend our ability to grow our business over many, many years. And I think on the sales force question, I think it's the -- it's all about how the math comes out. But we have -- we're not trying to decline our field sales organization because we love our field sales organization. so I don't know if the math works, but in general, we're probably going to grow faster...

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

And we'll also grow on that side as well.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

It's really a difference in growth rates. We're going to grow our inside sales faster than our field sales force. I think we've been doing some of that already for the last, let's say, decade, but I think Tom is accelerating that pace.

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

To add maybe a little bit of the numbers to what Carlos just said, in our new business bookings, you're aware that we typically sell 50% of our new business bookings to our existing client base, and 50% of our new business bookings are generated by selling to new logos. And Tom clearly has indicated the success that we have in accelerating our new logo wins, which are mathematically going to be a more important growth driver. And all the topics that Carlos has shared with you are really changing the competitiveness of our core product set, which will be needed in order to drive sustained new business bookings growth. And to give you a share, during the time of high-profile activity ACA and benefit-related systems, et cetera, in the last few years, our shift had been a little bit more 40% new logos and 60% to the base. And we reversed this trend in the last 12 months, which is really a huge testament to Tom and his sales force, by accelerating the focus and reshifting a huge amount of sales quota carriers and sellers to those new objectives. And we have been closer to 60% of new business bookings driven by new logos, which is really a great testament of how competitiveness of the overall product set has improved.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Tien-tsin?

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Tien-tsin Huang from JPMorgan. Just a couple of product questions. First on the Wisely card. I originally thought of as a prepaid card, but it sounds like more of a mobile banking product. So how does ADP -- what's the revenue model around that? Are you going to generate interchange income and ATM withdrawal fees? And do you share some of those, especially with the -- your bank partner?

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

Yes, so Tien-tsin, that's a good question. The Wisely and our prepaid payroll card business has been developing for a long time. We had an active card portfolio box of 1 million cards, and we doubled that with the acquisition of Global Cash Card to approximately 2 million prepaid cards. Technically, it is a prepaid debit card that offers payroll functionality. There's very important, differentiated compliance requirements around payroll cards that you have to deliver. And we're unique in the industry that we offer fully compliant payroll cards. So it is a prepaid payroll card, as you described, and it finances itself out of a combination of fee structure, interchange and certain user fees. We have paid specific attention to be very competitive on these fees because we want to be very employee-centric and friendly on all of those. But that's the major revenue drivers are interchange and certain transaction fees out of the card. And it is very advantageous for us to expand the card into our employee base. Compared to an ACH float opportunity, this is a vastly superior economic opportunity, and that's why the card portfolio had been focusing on it, has been actually one of the more specific growth drivers of Tom's success and will be for the future.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

And keep in mind that it doesn't have to be a physical card. So this is a virtual thing.

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

Yes, and so it is also an indication of a strategic thing that Don talked. And we, at investor meetings, have mentioned this as a growth opportunity for us to become more employee-centric. And so today, really, if you summarize of what Stuart said and what Don said and what you can see upstairs is a number of things are coming together. The gig worker piece, the person-centric uniqueness of our payroll engine, plus the pay card digital capabilities, we have now a hub, so to speak, that is the starting point of developing a really much more intimate relationship with our -- with the paid employees in our client base.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

It seems compelling, given your lead generation, but it is a B2C sort of product, which is why I wanted to ask. But it sounds (inaudible). My follow-up quickly, just on the app marketplace concept. I like that mini apps chart that you threw up there. So my question there is how do you monetize that marketplace? Is it going to drive more efficient R&D for ADP? Or is this kind of a farm team where we can ultimately acquire some of these apps and plug it into HCM? Just trying to understand the monetization on that part.

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

Well, the CFO is greedy, so we do like to participate in the success of our partners, and that's a fairly typical revenue-share arrangement that our partners have with us in the marketplace. And so those third-party apps share the revenues. We offer the client relationship and the security and the integration and access to our client base. And in partnership, they share some of the revenue stream. So that's the general revenue model for third-party apps. And then Stuart takes this to the next level in his next-generation platform, many of those apps will be home-developed and part of the PEPM, part of the per employee per month type of charge, pending of what menu the client chooses. The revenue model for us and our owned applications will remain the same, and then we have a revenue share for the third-party apps.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

And it is little bit of a -- it's a different, probably, approach than maybe you've heard from the old ADP. This is a very open approach, which is probably a little surprising to some people. So it may take time for that to filter in, but it's open in the sense that we want the market to determine what mini apps have demand. And so we have a sales force and we have revenue share and so forth. But we want to solve the client's problems, and they're going to choose from those mini apps what is going to solve their problem, whether it's benefits administration or talent management. We hopefully -- and we'll continue to develop our own apps and our own solutions, but it's really an open architecture, an open platform, to solve market needs.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Lisa?

Lisa Ann Dejong Ellis - *MoffettNathanson LLC - Partner*

Sure. Lisa Ellis from MoffettNathanson. I'm really intrigued by the employee-centric or the worker-centric shift that you guys are describing. Is the vision there that you'll be able to, as a worker, actually transport your ADP profile with you when you move jobs, for example? Like, meaning, it'll become something that moves beyond one employer and stays with you throughout?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Well, for sure, today, I think that's the intention with the Wisely card. So there's no question. We have other products that can move with the employee. But I think the employee-centric approach is also and the person-centric approach is really more of a technology infrastructure change as well, which is -- creates differentiation against existing HCM platforms. So it's more driven from that aspect versus really the desire to -- although we would love to maintain a relationship, and that is something that we've talked about, and we have some products that fulfill that need, but it's really about being focused on the needs of the individual. Because most technology and HCM platforms have been delivered, even the ones that are SaaS and that are modern, have been built around the organization rather than around the individual. And so the structure of that technology is just different from what we built from a flexibility standpoint. So I think it's just a way of developing competitive advantage, and I think being responsive to changes in the marketplace and the way the work gets done. You saw the example that Don went through in terms of how -- and that Stuart went through in terms of how people work in teams. It's very difficult to do with traditional technology that's not person-centric.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Jeff?

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

It's Jeff Silber with BMO Capital Markets. Just a segue off of that. You talk about the move to the gig economy. I'm just curious, are you seeing that happening at ADP itself? If so, which areas and how are you managing that?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Well, we have some statistics, obviously, that we -- that everyone else has access to. I think the IRS kind of publishes information around how many W-2s, for example, have been processed. And that can vary based on turnover, and other things you have to be careful about. You have to look at cyclical issues as well. But clearly, the number of 10-99s has grown faster than the number of W-2s. Fortunately, the number of W-2s has also grown. And as you know, that depends in part on cyclical issues in the economies. So when you have 10% unemployment, when you go from 5% to 10% unemployment, that hurts W-2 growth. And when it goes from 10% employment back down to 5%, it helps. But if you cut through all that, I think the trends are clear that there's faster growth and that there is an evolution of work going on towards freelancers and the gig economy. So again, good news in some respects for our industry and our business is that there is time to adapt to that because it's happening at a pace that is manageable versus maybe other things that happen in the world from a "disruption" standpoint. But I think the signs are unmistakable, and I think the opportunity is there. We talked about somewhere -- now we really have only scratched the surface. I think WorkMarket has, I think it's 350,000 freelancers on the platform. We think there's somewhere between 30 million and 55 million. What that translates into in per employee per month or per employee per year, we're in the kind of the early stages. But as an enduring organization, we've benefited from x numbers of -- call it 150 million, 160 million people who are in the official W-2 workforce. And I think this change, I think, if ADP wants to be the successful company that it is 10, 20, 30 years from now, we know we have to capture this opportunity. And that's why we're heading in that direction.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*

What about your own internal workforce? Have you seen that shift?

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

So we actually are also users of project-based work. And as you would imagine, as a technology-oriented company, a large amount of that work is being done in our development organization, in our content generation organization and marketing to some degree. So we're doing it, I think, ADP is rolling out WorkMarket as we speak and leveraging our own product, obviously, for that purpose.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

All right. So we got time for one more question. So Jim?

James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

Jim Schneider from Goldman Sachs. I was wondering, if you look across all the different product initiatives and technology initiatives you outlined earlier today, some of them apply to small businesses, some of them apply to the enterprise. But if you look on a go-forward basis, in which of the segments, down-market, mid-market or enterprise, do you think there's the greatest room for enhancing or improving client attrition rates? And then, tech follow-on to that is, as you look forward in a point in which the economy is pretty strong and unemployment's low, what do you view as kind of the new ceiling, if you will, for attrition on a go-forward basis?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I think it's a great question, it's a little bit of a loaded question because the -- when I give a positive answer to the question, it gives a negative impression of a particular place where we're challenged. But I think we've talked enough about some of the challenges that we have in our enterprise base domestically, that I think that people know that we have opportunity there. 2 years ago, ironically, we had a fair amount of opportunity in the mid-market, and I think we -- even though we don't give retention rates by individual business units or areas of our business, I think we've clearly signaled that we've made a lot of progress in the mid-market already. I think the completion of our migration should allow us to gain even more ground there and really test the limits that we thought existed. For sure in the downmarket, having been the person who ran that business, and I would tell my boss, "There's no way we're ever going to get above x percent retention," I can tell you we passed that by 200 to 300 basis points. And so that was -- I think, has been great news for us. And I think we have a similar opportunity in the mid-market. And I think in the short to medium term, I think, in our enterprise space, I think we have a great deal of opportunity there as well. One of the things you didn't mention is our global businesses. We have actually quite good retention in our global businesses, and we're investing there as well. When you talk -- you heard our discussion about our global approach to our payroll platform and our global approach to our HCM platform, and I think those are intended to "continue to drive and continue to protect what is already very good retention in our international businesses." But I think, all in all, when you add that all together, we still think we have a decent amount of room in terms of retention. I think we're building, again to be transparent in our guidance that we're providing for '19 through '21, we expect improvements in retention. And we, I would say, 5 years ago, 3 years ago, those things were harder to see. It was more driven by economy and what I would call external factors. I think today, we have a little bit more tangibility and confidence, because of things we've seen happen in other places, to lead us to believe that we can drive continuing improvements in retention, which, as you know, have a very positive impact on the overall economic model. Not to mention that it's great for morale. It's great when you have high NPS scores and high client satisfaction. And it helps our sales force. It helps, really, not just the economics of the business, but it's just a -- creates a virtuous cycle in the business to have very high client satisfaction and very high client retention rates.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

All right. So thank you, Carlos, thank you, Jan. We'll take a break now. Be back at 10:30. You've heard about the Wisely app, you heard about WorkMarket, a lot of great innovations. They're upstairs. Please go ahead and enjoy them.

(Break)

PRESENTATION

Unidentified Company Representative

Please welcome back Christian Greyenbuhl.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

All right. Looks like everyone's been really enjoying those product demos. So you have another chance at the end of the session.

And right, we're going to get kicked off with a video on the PEO, something which we truly believe demonstrates the value of a full suite offering. You're going to really like this and you're actually going to enjoy watching how our clients enjoy the PEO process as well.

And then we're going to have Maria stand up and give us a little bit of a presentation on our HRO offerings, including the PEO. So let's roll the video.

(presentation)

Maria Black - *Automatic Data Processing, Inc. - President of Small Business Solutions & HR Outsourcing*

Good morning. I'm Maria Black, and I have responsibility for our downmarket solutions and HRO offerings, which includes our PEO. This video is a great example of the type of value and impact that ADP's HR solutions can bring to our clients. And I personally can't think of a better lead-in for me to tell all of you more about our HRO offerings and how they fit within the broader context of ADP solutions and why we think HRO will continue to be a growth driver for ADP going forward.

We've always put our clients first here at ADP with respect to how we approach the market and how we think about our solutions. We know our clients face a wide array of HCM challenges: From determining how to find, recruit and onboard talent, to managing, engaging and rewarding talent; from supporting retirement and succession planning. ADP has developed our full suite of HCM offerings with this in mind, offering everything from hire to retire to be able to meet any need our client may have, no matter what their circumstances or their situation may be. In many ways, ADP's HRO offerings are the most complete and comprehensive solutions that we provide because they enable our clients to bundle together a solution that covers the entire spectrum of HCM needs.

HRO offerings combine technology with our most comprehensive service expertise in addition to performing many HCM tasks and functions on behalf of our clients. To get a better understanding of how ADP's HRO solutions fit within the broader context of ADP, it's helpful to take a step back and start with our clients and their various needs.

Our history of serving our clients tells us that although clients can look and seem similar from a size, industry and geographic standpoint, their needs can actually be quite different and unique, depending on where they are in their business life cycle and what challenges they may be facing. And as clients evolve or their business circumstances change, not only might they discover that they need a different HCM solution, but they may realize that they want to engage their HCM partner in a new way, with a relationship that goes deeper than just a SaaS provider. In short, they may discover that they need an HRO solution.

To illustrate this point, we can think about our Don -- downmarket clients and their life cycles and their various needs. Many of our downmarket clients look similar to Brad. They're busy running their businesses, and the ecosystem of tools that they leverage are of a do-it-yourself type of fashion. Similarly, their primary HCM need is simple. They want a simple, easy-to-use payroll solution that can help them with money movement and with tax.

However, the downmarket also has clients like Denise that may be in a very different point in their business life cycle, where their HCM needs are much more complex. They may be looking to expand across state borders and are worried about how to handle the additional complexity that comes with that. They may have lost associates or recruits because their benefits suite wasn't attractive enough. And they may have been involved in legal disputes and are looking to reduce risk. For clients like this, the PEO model is a great fit and the easiest way to address their complex set of needs.

The key point is client needs can vary quite a bit, and ADP has learned that being able to provide comprehensive outsourced solutions, such as our HRO and PEO offerings, enables us to more holistically meet our client needs, no matter where they are in their life cycle. It's all about meeting our clients where they want to meet us with a tailored solution that's right for them. And just as importantly, having outsourced solutions means ADP has offerings that can flex and move with the client no matter where they are in their business life cycle and as they evolve in their partnership with us. And this type of flexibility is not just constrained to the downmarket, but it exists across all segments ADP serves.

Focusing on the HRO value proposition helps demonstrate why it's growing in popularity within our client base and within the market as a whole. HRO can be an attractive option because it provides a more complete set of services for those clients that have more complex needs. And it simplifies the relationship so that the client can consume and manage these services through one single source provider.

It provides a higher level of support with a true strategic HCM partnership. It provides a higher level of compliance support and risk mitigation. It provides scale and cost saving from administrative lift. And in the case of our PEO model, a cost-effective way to buy benefits and worker's compensation. And it increases a client's flexibility, giving them more bandwidth to focus on their core business. And it helps them with the ability to scale up and down in terms of their geographic footprint.

And as you can see, we believe ADP has unique strength and differentiators across all elements of the HRO value proposition. This has been a key reason why we've been able to win in the market and why we are the industry leader in the HRO space.

Our ability to win in the market has enabled ADP to see strong historical growth from our HRO businesses. In many ways, HRO growth has been the result of the full suite of ADP offerings, products and our sellers coming together and working together to execute across the HCM continuum to drive the right solutions to meet client needs. And as a result, ADP has added an incremental $2.5 billion of HRO revenue between 2011 and 2017. The extensive value proposition HRO provides clients is reflected in the fact that we're able to generate a much higher revenue per client employee for clients on the HRO model.

Looking ahead, we see runway for continued HRO growth with a large addressable market. Within our own ADP client base, the HRO model is still relatively underpenetrated, giving us a fantastic opportunity to continue to upgrade our clients. The PEO model also has huge opportunity for continued growth. Collectively, the PEO's addressable market of approximately 30 million client employees is only 10% to 15% penetrated, providing additional opportunity to bring more businesses into the PEO model.

As you all know, the runway for growth, coupled with the strength of ADP's HRO solutions, gives us optimism to grow in this space going forward. We're projecting 12% to 14% annual growth over the next several years. Our growth will be driven by bringing the best of ADP's technical innovation to our HRO clients, continuing to look for ways to improve the value of our HRO services, connecting them with more powerful insights while maintaining the core of the HRO value proposition in compliance support, risk management and cost-effectiveness.

We're excited about the opportunity to continue to be a leader in the outsourcing space and to continue to grow -- to drive growth for ADP going forward.

And speaking of growth, another incredible growth area for ADP is our international business. And with that, I'd like to turn it over to the leader, Don McGuire.

Don McGuire - *Automatic Data Processing, Inc. - Corporate VP*

Thank you. Thank you, Maria. Good morning. I'm Don McGuire, Head of International. ADP has been operating internationally for a long time, starting with The Netherlands in 1974. Today, we have the capability of serving clients in 113 countries. We have over 60,000 clients and deliver payroll for 14 million employees outside the United States. And our international business represents about 20% of the revenue for Employer Services.

ADP's international business consists of local in-country solutions as well as solutions for multinational corporations. We serve the entire spectrum of clients, from a small business operating in a single country to a midsized firm operating across multiple countries to large corporations around the world.

As an example, France is our second-largest country after the U.S., and we serve all client sizes within France. And just as in the U.S., clients -- compliance is a key part of our value proposition internationally. As an example, ADP is out in front of the recently launched General Data Protection Regulation, GDPR, in the European Union.

On May 25, 2018, GDPR came into effect, bringing about the biggest change to data protection in 30 years. GDPR will enhance individual privacy rights and increase the power of the data protection authorities, the DPAs. Fines for noncompliance could be the higher of EUR 20 million or 4% of an organization's worldwide revenue.

ADP has gone to the highest standards to ensure our clients are compliant with GDPR. We have adopted a set of binding corporate rules, BCRs, which are endorsed and considered the gold standard for GDPR compliance. ADP is 1 of only 28 companies worldwide who have received approval for BCRs as a data processor. As you can imagine, it wasn't easy to convince all 28 EU member states. It was a multiyear effort that leveraged ADP's core competencies in data processing, security, compliance and our financial strength and stability.

Clients and prospects are excited about how we are supporting GDPR. Our support of GDPR through binding corporate rules will be a competitive differentiator for ADP. GDPR helps us in the fast-growing international space.

We are winning in the multinational market. The multinational market's an attractive market, growing at 9%, nearly 3x the rate of single country market. And it's highly fragmented. Clients often use a patchwork of solutions to manage their payroll. But what they really want is a unified experience across their various solutions, and this is where ADP can help them. ADP's ability to serve clients in 113 countries and global compliance expertise position us to be the partner of choice.

Both NelsonHall and Everest Group have identified ADP as a leader in this space, in large part due to our products: GlobalView to provide integrated solutions to global companies and Streamline to leverage the breadth of our global footprint. As a result, ADP is #1 in this market.

We have over 3.5 million pays and are growing nearly twice as fast as the market.

Over the next few years, we will continue to improve the integration experience to systems of record through Global Cloud Connect technology, creating that seamless experience clients want. This will ensure we remain a partner of choice for global ERP providers.

We will extend our lead with the launch of next-generation HCM and payroll solutions. These solutions were designed to be global and will give us unmatched flexibility and scale across geographies and company sizes. Our rollout of these solutions will be accelerated because of our extensive local in-country operations.

And with that, I'd like to turn it over to Debbie Dyson, President of National Accounts.

Deborah L. Dyson - *Automatic Data Processing, Inc. - President of National Account Services & Client Experience*

Thanks, Don. All right. Very good. Thank you, Don. So look, I'm excited to share with all of you the meaningful actions that we're taking to drive improvement in the upmarket. Our actions are centered on the 4 pillars that you see here. We are growing share by leveraging the strength of our portfolio. We have a unique set of capabilities to help our clients which -- with their HCM needs. So let me just highlight a few of those. You've heard some of them already today.

So DataCloud, which is providing predictive intelligence; TMBC to help our clients better leverage and engage with their talent; and WorkMarket to help our clients manage their freelance employees. And you know what? If we don't have the right solution, our clients can leverage and partner within the marketplace.

Next, we are accelerating the sales of Workforce Now in the upmarket. We've been successfully selling Workforce Now for several years. It's a fully integrated HCM suite which is a great alternative for many types of clients. We've enhanced the upmarket service model for Workforce Now and are delivering faster implementation times. Together with Vantage and Enterprise, we have a complete, robust portfolio of solutions in the upmarket.

Now you've heard throughout the day already about the next-generation HCM, so we know that we have to continue to transform our operation and further differentiate our service. We are leveraging our unique data to tailor and personalize our client interactions based on the markets in which our clients operate in. We use the disciplines of Lean Six Sigma to streamline processes and further digitize and automate as many tasks as we can. Having named account specialists ensures that we have a tight and cohesive partnership. And we've developed personalized client dashboards that promote collaboration between our Associates and our clients, allowing for shared insights. All of this puts us on the right path to next-generation HCM and payroll to offer a new level of flexibility and global capabilities that will fundamentally change the client experience and our operating model in the upmarket.

So you've seen the how, now let me talk a little bit about the what. Technology is a key part of our success today and tomorrow. We lead with technology and use service as an added layer of differentiation. This service approach has 3 core products.

Expertise. Again, as I already mentioned, named account specialists who understand the end-to-end processes and help our clients with the changing regulatory environment.

Optimizing. We are streamlining clients' processes using best practices and our deep thought leadership. At the same time, we're taking these deep insights and using pristine data to sense changes in clients' organizations before they're forced to react to it. So a few examples: Determining Associates who may be a flight risk within your company; seeing if pay is equitable across your company and the industry; or helping you decide where to open a new office based on competitive wage rates.

We provide a world where our data is helping HR professionals drive strategy and deliver better business outcomes. This comes from not only having the data but also having the ability to translate that data into insights to make strategic decisions.

And you know what? It's working. We are excited about the progress that you're seeing and we're making today. Our service initiatives are having meaningful impact as our net promoter scores are up 19 points year-over-year. We are seeing success with our products as the sales win rate is up 5 points year-over-year as well. And lastly, as you can see, this has driven 16% year-over-year growth in new unit sales.

It's a great time. I appreciate your time and your attention. And now it's my pleasure to introduce Dermot O'Brien, our Chief Transformation Officer.

Dermot J. O'Brien - *Automatic Data Processing, Inc. - Chief Transformation Officer*

Thanks, Debbie. Thank you, everybody. I'm the new Transformation Officer at ADP. As you've heard from Debbie and others, we are clearly driving change at ADP. It's a very rapid, it's been done over a few years. We've been investing in innovation and service, and we are accelerating our momentum that we believe will actually reshape the HCM industry. And Carlos has laid out a very clear vision for us to -- for ADP to pivot from being a technology-enabled HCM service company to more of an HCM technology company that has got great service. And although we're talking more about change today and transformation today than we have in the past, the reality is that this has been a journey we have been going through for several years now.

So we have a broad story around transformation that we are redefining. And starting on the left-hand side, it started about 2 years ago. We launched an internal campaign that we called Win as One. And this really was a performance and change framework to consolidate the various strategic initiatives we had already underway, but this time, with clear measurement and over a multiyear period.

The idea was to centralize messaging; to use a scorecard approach and metrics, and this would help us track; and also to communicate internally along a measurable path. And it has created, again, a lot of opportunities for us. We wanted to ensure that all our associates globally were appropriately linked to our long-term strategy, while at the same time, we drove the more immediate needs at simplifying our organization, driving innovation and growing. And the board also took these metrics and incorporated them as part of the management team's compensation objectives to further drive accountability.

Moving to the right-hand side of the screen, we have a high aspiration to continue to be the best human capital management solutions company, bar none. To be a top experience company for our clients, for our Associates and for our shareholders. Now we know we need to stay out in front and we need to be the HCM industry disruptor. To do that, we need to drive change from the front, from a position of strength. And very, very importantly, we need to do that by driving this change from within.

So you recognize some of the various initiatives that we have here on the slide. And we've spoken before about our service initiative, and this is where we brought small groups of people together who are highly efficient, highly trained, sitting in the same location, focused in a strategic, cost-effective location, delivering an enhanced and an integrated client experience. And we know that we're getting great results already. The client satisfaction in these strategic ADP locations is already high.

So let's think about that a little bit. These are brand-new locations staffed primarily by new Associates and they handling complex HCM issues, and already, they are doing a terrific job.

Another initiative that you will be familiar with is our client upgrade strategy. And here, too, we've made great progress over the last number of years. And we were very pleased to recently have completed the last of our mid-market migrations just a short while ago. Now this is not the end of the journey for us. We know there's still a lot of opportunity that we can unlock to fully reap the benefit of this strategy.

One final initiative I'll touch upon here is our contact reductions. And we've made, again, great progress in our migrations, and it's allowed us to bring more automation to the table with regard to our service organization and sort of bringing in automation with our service features. These improvements in technology, use of automation and self service has allowed us and these investments to get a 5% overall annual reduction in contacts per client.

What's even more exciting than these overall reductions is actually observing how the downmarkets has benefited since 2015, when we finished the last of our migrations in this space. Our NPS scores since then have improved by approximately 50%. And we've been able to reduce the number of contacts per client by about 25%, all while improving the health of the growth of the business that we have there.

So these are just a few examples of things that we've been able to achieve in a relatively short period of time. And we're also pushing further to accelerate and expand the momentum of our transformation. And it's with that, that we know, and Carlos has recognized, the importance and the interdependence of many of these initiatives and the inherent risks that they represent. And this is really the reason why the creation of the transformation office came into being.

So it's with that, about 4 months ago, Carlos asked me to play this transformation role. We know that clients, industries and technologies change, and we need to create an ever-increasingly more agile organization. And the root of the idea behind the transformation office was to centralize our initiatives, to bring speed to thoughtful decisions and thereby accelerate our progress, capture value and drive accountability within the group.

I actually meet with a very small group of people, and we meet every 2 weeks with the executive team. And the idea is to update on progress and drive unified decisions so that we can move forward with speed and with care.

I've also -- part of my job in the last 4 months, I've worked with Carlos and the executive team to raise the bar on setting a new set of 3-year Win as One goals. And these are very significant goals for us in the company. And they will ultimately lead to great improvement and outcomes for our clients, our Associates and our financials.

In addition to those goals, we have a living set of initiatives, capacity creation initiatives that we are working on. And these are really to help us, whether they have positive impact on the organizational capacity, human capacity or also our financial capacity. And in some case in these projects, all 3.

And we believe that these combined efforts will really allow us to achieve our objective of being a top-experience company for organizations, as measured by -- and these are very important measures. We want to have top-quartile net promoter scores across all our market segments, top-quartile associate engagement and also deliver top-quartile total shareholder return. Okay. And these evolving sets of initiatives, we believe, will help us achieve just that.

Okay. So when you look at this slide coming up here, broadly speaking, every initiative on this slide is a transformation initiative by nature or an enabler. You're familiar with some, and Jan will take you through the anticipated benefits later. But let's start with our go-to-market activities. We are streamlining our service organizations to enable them to be more efficient, but with predictive analytics to help us identify clients that are willing to buy. And we believe this will have a lot of benefits but will be a win rate enabler as we leverage data and have a much more targeted approach to the sales process. And this will ultimately allow us to reinvest in our sales growth.

In addition, we are looking at expanding our innovation story and adding to our technology-enabled tools that will really help things pop.

On products and portfolio, we know we continue to have opportunities within our infrastructure to drive greater automation, and especially given the benefit of our recent migrations. So we've begun to shift our efforts to driving additional operating automation. And we're also looking at the underlying data processing infrastructure to ensure that it is effective and efficient at leveraging capacity and vendors.

We are very focused on initiatives that bring together the new acquisitions that we just have. And as you can see with Global Cash Card, we are looking toward the accelerated conversion of check to pay card.

This revenue conversion will be incrementally beneficial to our bottom line.

Service is another area that we've talked a lot about. And while this has been a sensitive balancing act to execute, we have stayed on or ahead of plan throughout, and we expect to be completed in fiscal year '19.

It has enabled other opportunities for us. And we know that we've opportunities to leverage these new locations as we address the natural turnover of associates in other locations.

When I think about ADP and what it's doing, I see a broader array of initiatives with technology and with automation at its core, with ease of serviceability and with user experience top of mind. Digital transformation crosses our entire company, simplifying our processes, innovating our products, transforming the way we sell and service them, all while giving clients a much easier way to buy, use and upgrade their various solutions.

And lastly, before I ask Jan to come up, you'll see on the operation and support side, we have a specific initiative that we're handling around our procurement initiative that we believe will be quite extensive. And we'll also be working with certain subject matter experts to help us with that.

So we have a lot influx already, but we are looking for new ways and other ways to add value and to drive our transformation. ADP is a successful global company with a rich past and a bright future. And we know what it takes to leap from the front. We are the ones who developed the first ATM industries, cloud application, the first big data application and the first mobile app. So we have a long history in innovation. And as we look towards our future, we know that we need to balance the ability to grow and perform while delivering on these various plans.

So with that, I'm going to ask Jan to come up and give us a compelling overview of his financial outlook and compelling value proposition. Thank you very much.

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

Thank you, Dermot. It looks like you got a lot of initiatives going. I'm looking forward to the results of that and to report those in the future.

So tying it all together and translating it into the financial outcomes that you can expect for the next few years is my role and delighted to be here to kind of round out the whirlwind tour across innovation and execution that you have seen today.

As you sense, ADP is a company that has gained momentum, and particularly in the last couple of years, we have a lot of transformation initiatives going on. And we're accelerating that momentum, and we're accelerating the execution of those initiatives.

But as Carlos mentioned in his opening statement, we have to do so in a careful manner. Our strongly recurring revenue model, which is the hallmark of our business model, is sensitive to risk. And so while we're focused on efficiencies, effectiveness and upgrading our clients to next technologies, we have to do it in a very thoughtful manner, not to negatively impact the client experience or our retention rates. And that balance between pace of execution and drive forward is a critical balance that we are keenly focused and trying to maintain.

The robust revenue model is supported by our strength of our global presence, by our strength of our unique differentiators and big data, scope of services, technology and our strength in compliance, which will serve us well because the investment thesis for ADP centers around the strength of our business model.

Our strong and robust revenue growth is the source of a lot of happiness that follows out of it. And we are committed to drive the growth of that recurring model. You have a regular recurring model in the future. Pair that with our low capital intensity and our business model, our strong cash flow generation, which allows us to reinvest into the business, and I will talk about that in 1 minute, and strong balance sheet, we're prepared for the future uncertainty that future might bring in any business. It's a good combination to deliver value to our shareholders for the long run.

Our priorities to use our cash remain unchanged, and you have seen this chart before. It is clearly our priority to invest into the long-term competitiveness of the franchise, and we do so through investments into our products, into our organization, into our growth. And it is really delightful for me to see that -- to show you today that we are really putting our money where our mouth is relative to these investment priorities.

You have seen the outcome of our multiyear investments into our strategic platforms, organic investments into driving product innovation forward. We're executing against the Service Alignment Initiative, organic investments into simplifying our infrastructure and modernizing our service models, just 2 examples. And we are in the middle of the executive of another initiative, our early retirement initiative, that we reported on in our last quarter earnings, which will allow us to deliver meaningful bottom line impact in FY '19 and going forward.

Priority #2 is to use the strong cash flow that ADP's business model offers us to augment our business model to a focused and disciplined approach on M&A.

And 2 examples are here, and you can see them in our product demonstration: WorkMarket, our strategically planned expansion into gig economy, the 1099 economy, as a unique innovator to strength our overall value proposition to our clients and our investment into Global Cash Card, which is a digital payment platform that sets the basis for our strategic expansion to better serve the employees of our clients in an integrated way, serving not only our W2 employees in our core payroll services but integrating it into our capabilities, into the 1099 work gig economy as well. Good examples of use of our disciplined M&A strategy, and you should expect that going forward from ADP.

We're of course, proud for our shareholder-friendly actions and maintaining our dividend target of 55% to 60%. The benefit of the corporate tax reforms were meaningful for ADP, and our board felt compelled to transfer some of those benefits directly to you and then out of cycle dividend increase just a few months ago.

So [more of this] planning to review our annual dividend increases in November as well, so you should expect typical actions in November as well, while we maintain our goal of 55% to 60% payout.

We have a dividend growth history of 43 years. That is important for you, and my boss has made it crystal clear that we're going to maintain it. And we have a very long-term goal to be truly differentiated in that record and maintain that record.

Our share buybacks have been consistent, thoughtful and added value to our shareholders throughout a very long time of period.

Let's dive into our business model. Our business model is fueled by our ability to consistently deliver revenue growth. That is the starting point. And so I want to spend a little bit of time giving you a more detailed picture around the sources of our revenue growth.

And a good way to look at our revenue growth is how it aligns with our strategic pillars that Carlos introduced, we introduced to your earlier in the morning. It is good to think about the revenue as coming from our core HCM solutions and then the growth driver that our HRO, or if you are a little old-fashioned, HR BPO type of solutions offer and our global solutions.

This is how our core strategic initiatives align, and we'll monitor the execution of our model against achieving those revenue growth targets around those 3 pillars.

And in fall -- last fall, we started to offer you an insight into the size of these revenue components. And as we update our revenue disclosures, you will find ongoing disclosure around those key growth pillars, if you want, going forward. We're not changing our segment reporting, but this will -- incremental information for you to follow.

And then as you look at those pillars, I don't want to lead you through all the numbers. You can see there are a few characteristics that I think are worth pointing out. We have a very meaningful market size and opportunity ahead of us. That industry is growing at healthy rates. And as I indicated in my answer in the Q&A, our goal is to exceed the industry growth in all of these categories in the long run.

And as a matter of consequence, we're providing an outlook for our next 3 years of 4% to 5% revenue growth in our core and continued success in our HRO solutions, with revenue growth anticipated 12% to 14% and continued global presence of 6% to 7%, a mix between the very strong growth of our multinational solutions and the more in-line growth of our best-in-breed, country-specific solutions. So great growth opportunities.

As part of our discussions with our shareholders with you over the last 12 months, we learned that it can be a little bit difficult to predict those revenue growth drivers in detail.

And ADP has long been proud about our best-in-class disclosure, financial disclosures, that we offer to you. It's the most detailed disclosure set that we offer in the HCM industry. But we're always never shy to try to improve. And so going forward and starting with fiscal year '19, we are meaningfully improving our financial disclosures for you.

One of the difficulties I think that ADP as a company has is that we have 2 different segments with 2 different economics, 2 different margin profiles, and we would suggest and feel, you're better served in modeling ADP's revenue going forward by taking a segment-specific approach. And while doing so, by focusing on the revenue drivers for the specific Employer Services segment and then specifically on the PEO segment, I think you will have a better insight about an ability to drive your revenue models [this year] in time.

So -- and so that required a number of adjustments and additions and changes to our financial disclosures that I want to briefly lead you through. Christian and Danny of our IR department are, of course, here to give you all the technical details. And the appendix I think provides also some more detail around a wide range of updates that we're providing going forward with our annual guidance call in August.

And so a starting point is our new business bookings disclosure. We're now aligning our new business bookings disclosures to ES only. It has been historically ADP-wide and didn't match with our retention disclosure, which was ES-specific. But now our new business bookings disclosure is ES-centric and matches the retention disclosure, which will allow for better modeling of the key growth drivers of ES.

And so that's important. And the retention number that we have historically disclosed is a full year annualized retention number and quarterly retention changes. The quarterly retention changes have been very difficult to translate into a model. And I recognize that because I had many discussions with you about how to do that. And we feel it may not have been as useful as we hope to be. And so we're changing now our approach of how we want to talk about ES revenue retention. And we will be providing guidance to our expected retention in ES. And we'll update that guidance on a regular basis, pending on the events. So you have a number that translates easier into the expected revenue impact that changes to retention half. So that will make modeling much easier rather than trying to translate these deltas that we give every quarter. They have been the source of a lot of confusion.

So with that, we're also updating our disclosures relative to interest rate for a variety of reasons that I actually feel are quite valid. We reported our client fund portfolio results in form of -- as constant interest rate at 4.5%, which were, of course, in today's interest rate environment, different from the actual realized interest income to a reconciling item in the other segment. And that now we get rid of. We're going to report actual results in the segment so there's no confusion about the margin contribution that the client fund portfolio does. Client fund interest revenue is an integral part of the revenue that the business is generating. It is directly correlated to the business activity of processing payrolls and tax filing and offering compliance. So we think it's very important that the client fund revenue is part of the overall ES revenue. And now you're going to see them at actual (inaudible).

So we're maintaining the table that reconciles rate changes versus balance changes, so you can do the principal reconciliation that you may want to do around the client fund portfolio as you will. But the segment results are going to be reported at actual rates.

Let me switch over to the PEO because the PEO has slightly different revenue growth drivers. And as an industry practice that works -- growth in our worksite employees, growth in the employees that the PEO serves is the most important growth driver. And so we are now -- we'll start to guide to the worksite employee growth. And so that will give you a good insight in what we're expecting the core growth driver of that business will be for the year when we provide them. We'll do this the first time in August. And as you can see, that has caused the most important driver of revenue growth in the PEO.

The next important driver is the pass-throughs. And we will be -- now starting to guide to our expected 0 margin pass-through growth, giving you an opportunity then to model the overall total revenue growth expectation for the PEO. Also, reported actual interest rates, it's very small, 500,000 employees that will generate that much client fund balances, but nevertheless, PEO will also report the interest rate at actual rates.

So those changes of worksite employees and pass-through growth guidance will allow you to kind of have a very good picture about the anticipated revenue development for the PEO. And then combining them will give you the total ADP. So this is going to make, I think, life much easier going forward.

Let me switch over to margin. We probably have emphasized that now 2 or 3 times today, Carlos and I. We're proud that we have good momentum and that we're exceeding our initial commitments to you, and this chart summarizes it. We had about 30 basis points of pressure in our cost structure from the 2 acquisitions. First, your integration cost and effort to ensure that those acquisitions meet all ADP's cybersecurity compliance standards. Do cost a little bit of money, but we had a lot of momentum in our core business to allow us to anticipate, as we said in the third quarter, a flat margin for the year, which sets us up for good success in our longer-term margin expectation that I want to lead you through. And this is a question that we got in the first break that I rudely didn't answer. So now I want to spend a good bit of time to lead you through our margin waterfall, which is a very good news story.

So we are accelerating the pace, and we feel the initiatives that we have underway allow us to update our margin expectations by 1 full year. So I'm talking about margin expectation for fiscal year '21. Clearly, 2 or 3 years out, a lot of things can change so that margin expectation anticipates a solid economic environment, that we anticipate forward-looking yield curves, interest rates in this portfolio, we anticipate a stable global economy. All that stuff can change. So the caution is part of the CEO world. Let me tell you that further out, we have a little bit more uncertainty. But we feel good about the source of the driver, which is the core of this chart. And so I'm really here to illustrate to you that we have a well laid out plan to drive this margin expansion while protecting our client experience and while driving retention improvement.

Actually, retention improvement is a very important growth driver, because if retention is improving, we have to sell less to achieve the same revenue growth. That incremental revenue is highly profitable to us and is the basis of an ability to drive this type of performance improvement over a multiyear cycle.

So the 4 or 5 buckets that I'm listing here are giving you the quantification of the impact of each of these initiatives. I want to caution the analytical linear thinkers of us, which I include myself, to think that these buckets are too precise, because it's naturally overlapped between these initiatives. I want to illustrate that a little bit for you. The bucket for the Service Alignment Initiative, which some of the reconcilers of you will undoubtedly find out is a little smaller than it was in fall, and that is because it is overlapped with our early retirement initiative. Now people and locations that we are closing, some of them have high tenures and took advantage of the early retirement initiatives. So things change overall. It's a little bit of fluid. Some of the improvements that we're seeing here are driven by changes in our labor force. And, obviously, it's a system that has different ways of coming out of the -- out of our business model. So take it with a grain of open mind as we talk about the buckets.

Each of these initiatives are managed, of course, in our transformation office. So we hold ourselves accountable for the anticipated business case results. And so the sources are clear. The drivers of operating leverage are the revenue growth. Incremental margin have a higher -- incremental revenue has higher margin to us after it gets implemented and drive a good bit of the core margin expansion. And we added the simplification of our operating environment that is driven, for example, by platform migrations in the mid-market and the new service models in -- so these alignment initiatives all helping us to drive the results that I'm showing you here in this chart. The transformation initiatives that Dermot talked about, procurement, other expansions of our Service Alignment Initiative, more locations and simplification of core business processes and call volume reductions, all captured in the last bucket. So overall, I think a pretty solid picture, achieving 23% to 25% adjusted EBIT margin by fiscal year '21.

So what has changed? Since fall, we added our early retirement program. We accelerated some of our Service Alignment Initiatives based on the success that we saw in our new strategic locations. Debbie and Dermot talked both about the great momentum that we have in those locations, just to name a few examples.

And did I mention? We are ahead of our margin guidance for this year. And we also now ahead of our future margin expansion and anticipate now 300 to 500 basis points of adjusted EBIT margin expansion for the years '19 to '21 and ending up with a beautiful target margin of 23% to 25%.

Translating and pulling it all together. So you've seen, I think, close to 90 charts today. Glad that I had seen them before. But here, it comes all together. We're maintaining our revenue outlook of 79% for the horizon, and I'm talking '21. We are helping our pretax earnings. Through the margin expansion in FY '18, we had the welcome contribution of an improved tax rate that will carry through. We think it's a good way to think about 25% to 26% of effective tax rate for ADP. And we're planning to continue our annual share buyback program to return excess cash to you. And that is kind of a function that we have been deploying for many years successfully, driving an expected EPS growth of 16% to 19% for the planning horizon on a very remarkable overall total shareholder return that would -- should allow us to meet our objective of delivering top quartile shareholder return. I think that we're proud to have delivered over many time horizons that you can pick in the past.

We're accelerating our transformation, reshaping the industry with our innovation, with our focus on service, with our focus on compliance and our global strength. So I feel confident that we'll continue that trajectory and we'll be able to meet our ambitious goals.

Thank you. And I hand it over back to Carlos.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Thanks, Jan. Before we move over to the Q&A, I just want to share a couple of organizational changes that some we've already kind of announced internally, and others, we're in the progress of rolling out. But this is obviously a unique opportunity to share with all of you as well in an environment where we can deliver the message in a comprehensive way rather than in piecemeal.

So starting last week, we announced Ed Flynn, who, for several years, he and I have been talking about retirement. And I've been trying to encourage him not to retire, I think, but he finally decided that he did want to retire. And Ed Flynn had a long and successful career at ADP, including a hugely successful sales run. And you saw some of the sales results that we had from '11 to '17 when he was in charge of sale, and it was just a great tailwind for us from the sales results. So I appreciate everything. He did that. He went over then to run what, at the time, was a combined upmarket, domestic business and international business, a new business that we had created 3 or 4 years before that.

As you heard today from Debbie and Don McGuire, we have those businesses in good hands. And so with Ed's retirement decision, I made the decision to really have Don and Debbie report to me directly. And it gives us an opportunity, despite the loss of Ed, to really streamline and flatten the organization by going back to the org structure that we had several years back that was flatter and, I think -- and leaner.

So I hate to see Ed go, but I know he's going to enjoy his well-earned retirement.

We also, last week, announced that with the movement of Dermot over to the transformation office created a vacancy in our CHRO position, and we promoted Sreeni Kutam to that job. Sreeni came to ADP a few years ago from the outside. And I think a lot of people, I think, are looking for us to add talent to our executive ranks that comes from the outside with fresh thinking. So I think Sreeni does exactly that. And he's obviously well capable of taking the job. We've gotten to know him over the years. And Dermot brought him in specifically as a potential succession candidate. So that all worked out very well.

In addition to that, when Debbie Dyson moved over to run our upmarket national account domestic business, she left open a position that is a shared services organization where we believe we have even more opportunity to standardize. Debbie made an enormous amount of progress around taking global assets that we can utilize in a standardized way, in a shared services environment. We think we can do more with that, especially with the work we have in the transformation office. So having that position open led me to look for a very senior executive who could hit the ground running. And I've asked Stuart Sackman to move into that open position and fill that void. Stuart did an incredible job in our R&D organization. He's been in that job for 3 years, which in R&D is like dog years. So it feels like 21 years. And he has a long list of accomplishments. You've seen the progress we've made. A lot of that is Stuart. Of course, Stuart will say that a lot of it is his team, but he's ultimately the leader. There was also a lot of groundwork that was laid before that, but he takes a lot of the credit. At the last technology committee meeting that we had over the board, we kind of listed out a list of accomplishments, and they are quite numerous with marketplace, user experience, the list goes on. You heard a lot about it today. Not to mention the fact that one of our technology committee members is Bill Ready, who's the COO of PayPal. And for him to come over to say to me, I'm not even sure if Stuart knows this, but he came over and said, "It's pretty incredible you guys have been able to pull off having actual [live] clients on all 3 of these big next-generation technology platforms." So it's a feather in Stuart's cap.

It was important, obviously, then to figure out how do we make sure we fill that void and continue the progress that we have in our R&D organization, our innovation efforts. And so I've asked Don Weinstein to fill that role. You heard from Don today, nobody knows our strategy, our products, our competitors, our markets and the opportunity better than Don. Obviously, he also has the benefit of having Stuart right down the hallway. And so looking forward to Don's contributions and to him hitting the ground running and continuing the forward momentum we have on the product and innovation front.

So I'm excited about all of those changes. And there's one other change which is, I think, a personal disappointment to me in terms of I'm going to miss him, but we've also been talking for the last years. So -- Jan and I, about him potentially retiring and moving on to fulfill other ambitions he might have. And so we started talking about this a while back. I have successfully convinced him for some period of time now to stick around because of all the exciting things we have going on, but he's, I think, served his time. And so although we have no specific date and no specific time line, we thought -- Jan and I thought that it was important with the community that's here today to deliver that news to you in person that at some point in the future, I think Jan will transition. And clearly from a CEO and board perspective, you can't make a transition like this in any better way than the way that Jan is allowing us to do it.

So he's obviously accomplished an enormous amount. He's been a partner to me in the last 6 years. I got exactly what I wanted out of Jan as a CFO, because he's not only had mastery of the numbers, the analytics, as he said, he's a strategic thinker and he's helped drive ADP to the future that you see here today, which is a very bright future.

So I really appreciate everything Jan has done for us. But I appreciate even more the fact that he's willing to stick around. And as you can see, he's fully engaged. And for those of us who went through the operating plan process in the last 2 months, there was no doubt that Jan is still fully engaged.

So we hope that over the next 3 to 6 months, we'll have news in terms of what we're going to do. We're obviously going to conduct a search, and we'll let you know and give you updates as we have more information. But in the meantime, Jan will continue in the role, and we'll continue to work on all of these initiatives and all of these objectives that we have going forward.

So, Jan, thanks for everything you've done for ADP. And, Ed, thanks for everything you've done for ADP as well.

So with that, I'll invite my partner back up to answer some questions. And I'll ask, I think, Christian to go through the rules of engagement again. Thanks.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

All right. Again, for the benefit of those on the webcast, if you could announce your name and then your firm before you ask your question, that'd be great. We're just getting set up here. I think the microphones are in the room. So we'll start taking questions. We've got a 30-minute session. Again, we'll finish at noon. And then the product demos, again, will be available at 12:00 up until 12:30.

QUESTIONS AND ANSWERS

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

So let's get started around Tien-tsin. I think Tien-tsin was going to ask the first question.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

So yes, Jan, sad to hear you go, but I always enjoyed working with you. So I just want to say that upfront.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Remember, not yet.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Not yet, not yet. Sorry. No predetermined date. But thanks for sharing. So a lot of information that you have. I guess, my question, just thinking about the timetable of the cycle guidance you're giving, and I know it's been asked as well. But what about beyond the cycle? It feels like there's still a lot of what you're working towards, so many products and whatnot, could see material benefit beyond the '21 period. So maybe can you unbundle that as my kickoff question?

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

Should I take the lead?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Please.

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

Okay. I think you should think about the 3 years as a period of accelerated margin expansion because we have good insight about what is driving the transformation, we have initiatives lined up that give us comfort to set that expectation. As we get further out, 4, 5, 6 years, a lot of things can change in the industry, competitive dynamics can change. And also, we will be at a very good margin level also. So I think the best way that -- my script said, actually, I should really point out, in '21, there could be a slight flowing of our margin expansion, as you can see, the bulk of the drivers of the margin expansion running through. And it's probably good to think about a longer-term normalizing to our normal outlook of 50 to 75 basis points. But honestly, it's so far out that it's hard to say that -- I think that's a good way. That's how I think about the company, clearly, what we've working on stuff, not me, I guess, but to continue the success. But for modeling purposes, I think it's probably fair to assume that the accelerated pace is not going to last forever.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Yes. I think as Jan said, we -- historically, as you know, because of our conservative nature, like we already are a little bit outside of our comfort zone going so far out in terms of making commitments. But I think we have enough visibility given the initiatives we have underway, given the -- what we see in a lot of parts of our business, including even the forward yield curves and so forth. But the fact of the matter is, there is -- as Jan said, it could get progressively harder, depending on what happens in terms of industry dynamics and competitiveness and competition. And [so over] there's also a scenario where maybe there are a few more years of above-average margin expansion because we do still have a lot of work to do in the next couple of years to truly get scale on these next-generation platforms and get the benefits of global -- of creating global solutions. So can we envision a future in '22 and '23 where because of all of that, ADP has even stronger position and a stronger ability to drive growth and margin? Of course, we can see that. My optimistic side says that, that's a possibility, but my CEO side, I think, says that, that's really not the right way to communicate the message today, because I think we're working very hard with what we already have in the next couple of years. And I think that we should be proud of what we're accomplishing. And I think it really comes down to then kind of looking us, if you will, in the eye and believing whether this team can really lay this foundation for success beyond the time frame that we've laid out. But I want to point out that this company has 69 years of success behind it. Jan talked about some of the financial accomplishments that we've achieved, and I think that should give you some comfort.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

We'll take Vasu next.

Vasundhara Govil - *Morgan Stanley, Research Division - VP*

This is Vasu Govil from Morgan Stanley. Just following up on the margin question. Can you talk about the cadence of margin expansion between fiscal '19 and '21?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I'm very surprised. We're going to get a lot of questions about margin expansion. So...

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

Disappointed. I want to hear all about the growth, really. But equal -- about equal, fairly similar, so -- year-by-year.

Vasundhara Govil - *Morgan Stanley, Research Division - VP*

I was also hoping you could talk a little bit more about the HRO business. You've spoken a fair amount about the PEO side of the business, but what about the non-PEO side of the HRO business? What sort of good expectation should we think about for that business? And where do you see most opportunity coming from? Is it upmarket or downmarket or mid-market?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

That's one of the interesting things about, and we've been saying this, I think, for -- we obviously haven't been as maybe as clear in our communication that, clearly, in today's world, you have to have the best technology solution. You have to be consumer grade. We have to be able to interact with the employees of our clients, not just our clients and the practitioners. So all that stuff is true, but there's no question that the compliance and the service component, the solutions that we provide are really not only a differentiator but a huge source of growth opportunity for us, because for years now, it's probably been more than a decade, all of our HRO solutions, not just the PEO, the PEO is the most visible and we're very proud of it and, obviously, it's a stand-alone segment, so it gets a lot of attention, but in the upmarket, in the mid-market, in the downmarket, international, we have HRO solutions that have a component that is beyond the technology, that's expertise, it's insight, some of it data-driven, but it's also about helping people to get to outcomes and get to solutions. And those businesses all have consistently grown faster than the line average. So I think that the over-rotation through the technology solutions themselves are really where the growth is. The technology solutions are an enabler. We clearly -- you've seen where we put our money where our mouth is in terms of investment and technology, but the market is telling us that what the market wants is beyond technology. And our HRO solutions and every single segment reflect that.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Rick?

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Rick Eskelsen from Wells Fargo. Sort of building off of Tien-tsin's question on margin. A lot of the things you talked about earlier today, things like inside sales and the new technology platform, have a lot of efficiency benefits that go along with driving the growth. So maybe could you help sort of unpack in terms of longer-term outlook how much can be driven by investments that had the added benefit of efficiency versus your transformation and then the operating leverage component as well?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Well, if we showed you the spreadsheet that we have for Dermot's organization, we have a list of initiatives that cut across a lot of the categories you talked about, all the way from sales to operations to procurement. I think you heard -- you got a taste of it today. I wish I could tell you that there was 1 magic solution, that we found the 1 project that I could sit here today and tell you it's the difference maker, but it's a lot of different things combined. Some of them are more meaningful than others, like the Service Alignment Initiative. And the early retirement initiatives are very quantifiable, easily identifiable, although they're very difficult to execute on, we can see the direct impact of those initiatives on our margins, assuming that we execute well. But the procurement initiative is a fairly large initiative as well that if we execute on, we'll also generate, I think, savings for us in efficiency. The -- what you're referring to in sales around our inside sales approach, but there are other productivity enhancement tools around digital selling that I think we think can drive efficiency in our sales force. We spend, I think, it's $1.6 billion or so in sales cost. So you do have obviously large buckets of costs where you would expect that would be the place that we're looking. But I think overall, the overall theme, which I know is hard to put your arms around, is this concept of simplification, right, which is the first thing in our simplify, innovate and grow. Complexity gets in the way of good client experience, and it gets in the way of margin improvement. And we've been focused on this for 5 or 6 years, and we've proven that we can really drive both of those things, improvement in client experience, improvement in retention, that then translates into better financial performance. And I think most of the initiatives that we have underway are around that topic or that category, is around simplification. And it just eliminates friction. So, yes, you retire old technology platforms and you save money on R&D. I think Stuart talked about that. And Stuart has done a tremendous job of spending less on the old stuff because we have new stuff. But what doesn't get reflected in Stuart's numbers is the duplication of training, the duplication of having to handle multiple platforms. What we had in our mid-market, in our downmarket businesses 5, 6 years ago was very, very difficult to manage and very expensive if you wanted to maintain high retention rates. And now I think the -- it's a very different situation. Still work to do in our upmarket. I think we've been transparent about that. We still there have complexity to work through and to improve upon. But what we've done already, I think, shows that -- that I think it really does drive long-term margin improvements.

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

But when you think about the expected new business bookings growth that Tom talked about of 7% to 9%, which just kind of happens to be really fairly aligned with our revenue growth expectations, and you assume the sales cost is what Carlos just disclosed, is you'll see that the productivity that Tom is driving would result in a slightly slower growth of that new business bookings growth and, hence, would be a portion of the margin contribution. Sales and implementation resources form a big part of our cost block. So it's very important that we get better. And Thomas has a lot of initiatives that he will share with you of how he's driving the productivity and the overall cost base so he can make that contribution. And I don't think we're going to disclose the detail of what that cost plan is. But it will contribute if we're successful, and he delivers against that growth rate. If he's going to grow, all of a sudden, 12%, he's not going to contribute to the margin. But we love, of course, the accelerated revenue growth out of that. So it's kind of a -- every part of our business system is making a contribution to the overall margin expansion. I think where we are particularly excited is the improvement of our implementation productivity, because now having single platform and single focus on implementation with powerful cloud-based platforms, we have seen already improvements in that. And as we drive that, that's also a big [cost block] for us as related to new business bookings growth, of course, correlated that will help us. So that business block is important. And there's actually a lot of good news to report. In particular, mid-market segment, we have been very powerful in driving the implementation efficiencies there.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Bogdan?

Bogdan Cosmaciuc

It's Bogdan Cosmaciuc with Senator Investment Group. A quick question for Jan. So in the revenue waterfall that you provided for forward-looking, and by the way, thanks for changing that, it was really hard to reconcile before, but I noticed your expected client loss is 6%, 7%, which sort of translates to 93%, 94% retention. Is that number apples-to-apples with the 90% that's today or not?

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

So it is funny that you ask that question. And my team educated -- I mean, I gave you the background. I tried to -- I felt the revenue disclosure was so clear, so I tried to build the revenue model over the weekend myself, like a number of months ago, it was not so easy. So I hope this will be really easier. This is the impact our losses have on our revenue growth rates. So it's not the retention rate, which I thought so, too. So I'm glad you asked me the question. So our loss is reducing our revenue growth rate by that number as sales are adding to it. And so it's a little bit of a decomposition exercise that I think will get you closer to the number. So it's not a statement about our expected long-term retention rate. I think our revenue model anticipates modest improvements of the retention rate over the planning horizon. This year, we're accelerating. I think what have we reported year-to-date, we are pushing the year-to-date in third quarter 70%?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

100 basis points. Retention?

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

Yes, year-to-date.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

100 basis points.

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

So that's clearly more than we typically deliver. And -- so -- but, obviously, we're ambitious to drive that up, and that will be a part of the improvement that we see in our (inaudible).

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

And on that same chart, Jan, the sales -- is also a sales contribution not equal to the sales growth rate.

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

So I should have said that. I felt you were glazing over at my financial disclosure. It's a little bit here, so I was speeding through this. But the contribution -- our revenue and new business bookings growth number for the total company, as Tom has disclosed, is expected to be 7% to 9%. And so in August, we don't provide it today. We'll give you also an update, obviously, of our expected growth for ES only. It's going to be slightly lower because, clearly, sales contribution and new business bookings contribution that we all have been contributing to the overall ADP new business bookings number. So we'll provide some reconciliation for that as we go into August. Does that help, Bogdan? Good.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Rayna next.

Rayna Kumar - *Evercore ISI, Research Division - MD*

Rayna Kumar from Evercore ISI. Could you discuss your pricing strategy for your next-generation platform? Where could we see some pricing upside? Where could you see pricing pressure?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I think that it sounds like probably a boring answer, but this is an industry where there's been a fair amount of, what I would call, disciplined, well-behaved pricing environment that we see no kind of change in. Whenever you see change in an industry and disruption, there's always -- you always have to watch out for, are they going to be different pricing models, different approaches, things of -- like, for example, 20 years ago, we charged for processing different parts of the payroll business. Now a lot of our revenues really pro-play per month driven. So there have been changes, but for the purposes of what you would be concerned about, we haven't seen any kind of dramatic shifts one way or the other. What we have tried to do, and I think you saw it in Jan's waterfall, is we believe that we strengthen our position if we can be careful around how we use price over the medium to long term. We do believe that there's pricing power in this industry and that ADP has pricing power. But if we can achieve the objectives that we've laid out and we are able to achieve the results we've driven so far for the last 5 or 6 years without driving large price increases, that strengthens our hand even more with the competitors who "might be trying to take market share from us." So I think that we don't -- we're not anticipating any major changes other than we expect more new business and we expect to accelerate our growth, which helps our revenue growth and our margin and our profitability, because we don't have any plans per se to change -- the industry has evolved to a more pro-play per month. So where there might be opportunity, if you look at the expansiveness of our product offering, to the extent we can make it easier, more seamless for prospects and clients to use more of our products, obviously, share of wallet, I don't consider that to be priced, but I consider that to be share of wallet where the revenue per employee or per client is higher because they're utilizing more services from ADP. I don't know if you have...

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Jason?

Jason Alan Kupferberg - *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

(inaudible) Kupferberg from Bank of America Merrill Lynch. So you've obviously been overperforming this fiscal year, as you rightfully reminded us all. And if we think forward the next few years and the potential for outperformance versus the targets you've just shared, I mean, I guess, one footnote we noticed in the slide was that you're not including margin benefit from the new accounting rules, ASC 606, which granted a small, I think, 25 basis points or so, you highlighted on the slide. But maybe on the early retirement program, can you talk about the underlying assumptions there? Because, initially, I know you were talking about a 35% estimated participation rate. And hypothetically, if that's meaningfully higher, what does that do from an incremental margin upside perspective? And then just lastly, from a share count standpoint, I think you're modeling 1% annual net reduction on average. Recent years, I think, have been closer to 2%. So just trying to test some of those potential areas of conservatism.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

Sure. I'll let maybe Jan handle the question on the share buyback. So I'll probably forget by the time I answer the question on the early retirement. But on the early retirement, you're correct that we had gotten some guidance from our external partner, Mercer, who kind of told us the industry average was a 35% take rate. The average age of our eligible population was actually higher than the average in the Mercer database, which we figured out, subsequent to us, assuming that we're going to get a 35% take rate, so we eventually knew going into it, as we started getting closer to rollout, that we're probably going to be higher than 35%, just because of the demographics of our eligible population. And, of course, we were right. So we ended up with a higher -- a little bit higher than 60% take rate of what I think was a 3,500-person eligible population. So think around 2,000 takers, if you will. One of the complexities in terms of answering the question around, so what does that imply? Well, first of all, we know for sure it implies a higher charge. It's going to be now $300 million instead of $250 million, because we had more people that take -- that took it. Good news is it doesn't have any meaningful impact on cash or a pension plan because it's still sufficiently overfunded to take care of that. The caution, I guess, in terms of translating into results of why I would stick to whatever our -- the guidance that we provided today in the waterfall of what the impact is that we expect. The reason we want to stick to that and not say, "It's better than we thought," is because we also have more people leading than we thought. And so we have to figure out a way to deal with that. And so we are trying to stay disciplined in terms of sticking to the same kind of backfill rate that we originally assumed because there was some backfill rate. I think we disclosed a percentage of backfill rate in our original communication. So there are more people that we have to backfill. So there's probably slightly higher benefit but also slightly more backfill than we originally anticipated. And I want to retain some dry powder because I think back to this thing about care, it's very, very important that we maintain, I think, the operational stability as some of these -- and the service stability as these folks all exit, some of which are highly tenured and had a lot of time with ADP. So it's a long-winded way of saying, "I think, yes, the numbers are different, and I just communicated what the new numbers are, but I think we should probably keep the same assumptions." If it changes, we will let you know in the next 6 to -- because this is literally 30 days old, the information that I'm sharing with you. We did have our first wave of exits. We targeted about 50% of the 2,000 to leave shortly after the window closing. We're in the process of executing on that successfully through our transformation office. And so as we've seen more -- we have more visibility about what the financial impact might be, we'll communicate that.

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

We will have grown-over impact for the early retirement initiative beyond '19, because some of those benefits materialized midyear FY '19. And so there's going to be impact for '20. But the number that you have is a good number because I'm tracking the people that are leaving and I'm tracking the people that are going to be rehired. I think the cautionary impact, in addition to what Carlos said, is, also, there is spillover impact. So part of the reduction in force is impacting the productivity that we have in the regular service organization. And if you anticipate productivity improvement on a regular basis, you have to make certain management decisions around it. So I think the early retirement is, I think, adequately not really -- I'm not providing this on a discounted level to have something in the back of my -- you have to dig deeper to find the cushions. And so the second part is the share buybacks, which is a fair question, because we have historically a little bit higher impact, but it also -- keep in mind that some of those share buybacks have been fueled by, for example, our decision to leverage the balance sheet with $2 billion of long-term debt, which was returned to shareholders, which will accelerate our share buyback. And then that's not contemplated in this plan, additional long-term debt. And we also -- I feel when I provide this guidance, I have to give you a fair use of our cash flow proceeds. So when we say we make thoughtful and strategic investments into M&A, I have to provide cash for M&A. And in the past year, we did, but in many years before, we had organically focused R&D innovation strategy, which gave me extra cash to return to shareholders, because we don't want to build, really, on cash balances on our sheet. So it's that combination. And the share buyback is really -- is -- that's really the function. We want to return excess cash that can fluctuate, pending mostly on M&A activity. And so this is what the model shows. It's maybe kind of a few basis points of cushion in because my treasurer is a conservative gentleman, but it's not that big. But it could be that if we don't do M&A, that will be a factor.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

So, Jim?

James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

Jim Schneider, Goldman Sachs. Just want to ask a follow-up of what you just said, Jan, and congratulations on a strong run. Just with respect to M&A, can you maybe talk about -- you talked about some of the wages contributing to the future growth and [productary] of the company, but you didn't talk about what you might do in the future. So can you maybe address, first of all, whether M&A is contemplated in any of the 7% to 9% long-term growth rate from a revenue perspective? And then, b, what might you buy and what kind of productary is?

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

I think that's more a question for the boss, I think.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

I thought he said Jan. I think the answer is, Jan will correct me if I'm wrong, but I don't think there's anything -- we historically have never included acquisitions in our guidance, in our revenue. I think as Jan said, we had a period of time where we did less acquisitions, and then we had periods where we've done more acquisitions. I think that you should anticipate that in the future, because we're going to be opportunistic and we're going to fill in gaps. I think the difference for us is it really has to fit into our road map. So we're not buying revenues, and we're not buying products to create an assortment, because I think you've seen charts of some of the complexity that was created as a result of that. By the way, it also has created an enormous amount of opportunities. So some of the businesses that we're in, time and attendance, benefits administration, you name the whole host of things, we wouldn't be in these businesses if it hadn't been through acquisitions. But it did create some work now in the back-end to make sure that, that is truly integrated. So I think that we will keep our eyes open. There are clearly things out there. You saw with Global Cash Card and with WorkMarket and with TMBC that there are opportunities out there. And we do have capital. And we would love to use our capital in that way to generate future growth. But it's -- I think the fair thing to say is that the bar is probably higher than it was whatever years back. And that's not a criticism of any approach that we took in the past, it's just the way the world is today, in the sense that it's not okay to just present a fractured approach to clients and a fractured experience for the practitioners or to the employees of our clients. So things have to fit in to the technology road map that we have already in existence.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

So we have time for 1 more question.

William Albert Ackman - *Pershing Square Capital Management, L.P. - CEO and Portfolio Manager*

So it's Bill Ackman from Pershing Square. Just a question about long-term new margins from the business and Jan's comment that you're kind of slowing down in the margin expansion. When I think about ADP and the progress you've made, with the migrations that you've been achieved, the launching of Lifion, 3 years from now, you would expect this company to look much more like a true cloud-based technology company. And if you look at your competitors in this industry that are cloud -- pure cloud-based companies, they have obviously much higher margins. When you think about ADP scale, the fact that you play in all different segments, you have a much bigger float business, why shouldn't the long-term structure, potential margins of ADP continue to advance, at least on the pace that you expect to be able to achieve over the next 3 years? Why would they, all of a sudden, slow down? You have lots of interesting acquisitions you've done in terms of other initiatives, which I think should be margin-accretive to the company.

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

I give the technical answer and then I'll let you top it off maybe? Like I -- as we try to illustrate, Bill, a meaningful component of our revenue growth is driven actually by our HR BPO business that has different margin characteristics and a cloud-based player. And so I think it's very important to understand that we are committed to our overall value proposition, which is a combination of cloud-based leading technologies as well as business process services that we augment our answers, which had different characteristics on margins. Also, for the longer term, which is actually probably the most important driver that gives me queasiness about -- talking about 4, 5 years out, margin expansion is the growth of (inaudible) revenues could vary significantly, pending on health care inflations kind of changes in the health care market. So that would impact our outlook in a meaningful way is also, portfolio effect over faster-growing PEOs margin pressure to us. So I don't think we're going to be ever kind of to on par with an imaginary cloud provider of our scale and size and coverage. But we'll certainly have good progress. And I think it's not that margin expansion will stop after 3 years, but it will continue, just, I think, realistically probably at a little bit slower pace.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

So if I can interpret the question, I think if the question is around our sense of optimism about the opportunity for the business, both from a top line revenue growth and also a profit standpoint, I think we share that optimism. I think the technicality is that Jan is talking about maybe sometimes get in the way from a mathematical standpoint. But I think if you really focus on EPS, because the margin thing, the fast-growing HRO businesses really do convolute things. And if you look at Employer Services on a stand-alone basis, I would say that maybe it's not the place where 3, 5, 7 years from now, I think you might see that looking more, despite the fact that we'll still have a large upmarket business and a large international business, which may have slightly different margin characteristics. So I think if you focus really on -- I mean, margin is an important number, especially if you're willing to go down, like all of you are, to the detail of how you get to that, right, in terms of the different components versus -- based on the different segments, but really, the only thing that matters at the end of the day is EPS growth and, thereby, free cash flow. And I think on that front, it's hard to believe that we're going to go from -- I can't remember what we put up there, 16% to 19% (corrected by company after the call) or whatever it is, EPS growth. It's hard to believe that we're going to go from 16% to 19% (corrected by company after the call) EPS growth to like 5% in '22. So I hope that you will stick around and make sure that in '22, '23 and '24, we're still driving the same kind of profit growth that we are driving now. I think you've been very constructive and helpful in finding places where we can focus and look after. But I hope also that you'll help us focus the narrative more on EPS and dollar growth, because I think the margin -- I think discussion gets difficult as this blend of HRO, PEO and Employer Services kind of pollutes the overall progress of the business. If you dissect what we presented today and you back into what this implies for Employer Services in terms of margin improvement, I think that it's certainly an acceleration from where we were a couple of years ago.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

All right. So thanks, all, for your questions. Carlos, did you have any other closing remarks you wanted to share?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President & Director*

The only thing that I would end with is, I think the message you heard today, from a balance standpoint, is -- I mean, it wasn't clear we're clearly speeding up things. We've worked -- this team has worked really hard. And all 58,000 of our associates have spent many, many years laying a foundation that hopefully we can all benefit from now. So it's been a lot of hard work and a lot of incremental investment. These migrations, these technology investments have put pressure on the organization from a cost standpoint while we were simultaneously trying to deliver and did deliver margin improvement. That was not easy to do.

So a very strong foundation has been laid. I appreciate all the efforts on everybody's part. And now hopefully, the time is right for us to kind of accelerate our transformation and our forward momentum.

Having said that, someone at one of my senior leadership meetings coined the term urgency with care, which I repeated internally many, many times, because we will definitely not lose sight of the care part. We get the urgency part. We appreciate the external pressure on the speed on the urgency, but the care part is very important to me as well.

I'll end with one of my favorite statistics because only a CEO of ADP would enjoy this one. But Jan talked about a 43-year track record of increasing and paying a dividend. So I did a little homework. I had somebody go do a little homework last night. There are only 29 companies in the S&P 500. So we're a Fortune 250 company in revenue. We're a Fortune 100 on margins, believe it or not, and also on market cap and profitability. But there's only 29 other companies that have a longer track record of increasing -- paying an increasing dividend. So that's a lot to be proud of.

The urgency, that requires urgency, it requires transformation over many, many decades, but it also requires a great deal of care. And I think our new goal is to be one of the 13 companies in the S&P 500, maybe a smaller number, who has done that for 50 years. And there's only 13 of those companies.

So who knows if I'll be around for that milestone, but I know that ADP will certainly be around to accomplish that. And that'll be a huge feather in our cap.

So with that, I think on the dividend front, I will end my comments with a great sense of optimism and also appreciation for all of you being here listening to us and also asking really great questions. Thank you very much.

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Well, thanks, everyone, for joining us. The product demos, like I said, are going to be available until 12:30. So they're upstairs, and enjoy. Thanks again. Have a great day.
