



# ADP Earnings Call & Webcast Q2 Fiscal 2020

January 29, 2020



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# Forward Looking Statements

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## Non-GAAP Measures

Adjusted EBIT, adjusted EBIT margin, adjusted diluted earnings per share, adjusted effective tax rate, and organic constant currency are all non-GAAP financial measures. Please refer to the Q2 fiscal 2020 earnings release available at [investors.adp.com](http://investors.adp.com) for a discussion of why ADP believes these measures are important and for a reconciliation of non-GAAP financial measures to their comparable GAAP financial measures.

This presentation is a supplement to our Q2 fiscal 2020 earnings release; it is intended to be read in conjunction with, not as a substitute for, or in isolation from, the earnings release.

# CEO's Perspective

- Strong overall quarter with 5% revenue growth, 70bps adjusted EBIT <sup>(a)</sup> margin expansion, and 13% adjusted diluted EPS <sup>(a)</sup> growth
- ES New Business Bookings growth of 3% driven by continued solid U.S. performance, offset by international and multinational
- Continued progress and positive reception to the roll-out of our Next Gen solutions
- Continuing our track record of shareholder friendly actions; recently increased dividend for 45th consecutive year

(a) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q2 fiscal 2020 earnings release available at [investors.adp.com](https://investors.adp.com).



# Midpoint Lookback of FY21 Targets

(unaudited)

Average growth rates <sup>(a)</sup> through midpoint of three-year FY18 – FY21 period reflect strong progress:

- Worldwide New Business Bookings growth in middle of range
- Revenue growth primarily impacted by lower-than-expected PEO pass-through revenue and Average Worksite Employee growth
- Adj. EBIT <sup>(c)</sup> growth benefiting from successful transformation initiatives and operating leverage
- Adj. EPS <sup>(c)</sup> growth tracking above target range, supported by lower tax rate and steady share repurchases
- Adj. EBIT <sup>(c)</sup> margin expected to be within FY21 target range by end of FY20

Key Metric	Target CAGR <sup>(b)</sup>	Average Growth Rate Q1 FY19 – Q2 FY20 <sup>(a)</sup>
Worldwide New Business Bookings	7 – 9%	8%
Revenue	7 – 9%	6%
Adj. EBIT <sup>(c)</sup>	12.5 – 15.5%	13%
Adj. EPS <sup>(c)</sup>	14.5 – 17.5%	18%

Key Metric	FY21 Target <sup>(b)</sup>	FY20 Guidance <sup>(d)</sup>
Adj. EBIT <sup>(c)</sup> Margin	23.25 – 25.25%	23.4 – 23.6%

(a) Represents arithmetic average of growth rates over the six quarter period beginning Q1 fiscal 2019, which we believe to be the most comparable available metric given the comparison of partial year actual results to full year annualized target CAGRs.

(b) As disclosed in 2018 Investor Day presentation and recasted in Q4 fiscal 2019 earnings presentation, available at investors.adp.com. This does not represent a reissuance or reaffirmation of that outlook.

(c) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q1, Q2, Q3, and Q4 fiscal 2019 and our Q1 and Q2 fiscal 2020 earnings releases available at investors.adp.com.

(d) Adj. EBIT margin range implied by fiscal 2020 guidance of 100 to 125bps Adj. EBIT margin improvement.

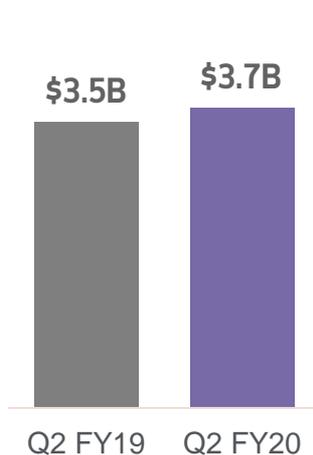
# Q2 Fiscal 2020 Financial Highlights

(unaudited)

## Total Revenues

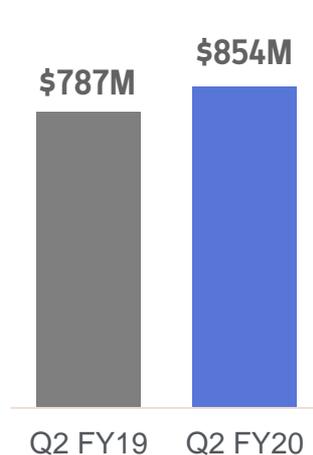
↑ 5%

↑ 6% Organic Constant Currency (a)



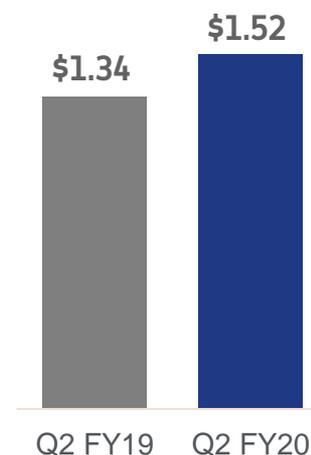
## Adjusted EBIT (a)

↑ 9%



## Adjusted Diluted EPS (a)

↑ 13%

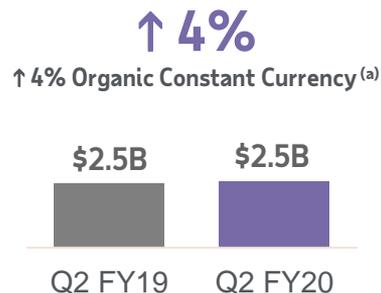


(a) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q2 fiscal 2020 earnings release available at [investors.adp.com](https://investors.adp.com).

# Q2 Fiscal 2020 Employer Services Segment Results

(unaudited)

## ES Revenues



- ES New Business Bookings ↑ 3%
- U.S. Pays Per Control ↑ 2.2%
- Average client funds balances ↑ 6%

## ES Margin



## Highlights

- Revenue growth slightly ahead of expectations
- Solid ES New Business Bookings performance in the U.S. offset by lower than expected results in international and multinational
- Continued FX unfavorability from stronger U.S. dollar versus Euro
- 30 bps margin expansion off strong Q2 fiscal 2019 margin performance

(a) For a reconciliation of this non-GAAP financial metric to its closest comparable GAAP metric see our Q2 fiscal 2020 earnings release available at [investors.adp.com](https://investors.adp.com).

# Q2 Fiscal 2020 PEO Services Segment Results

(unaudited)

## PEO Revenues

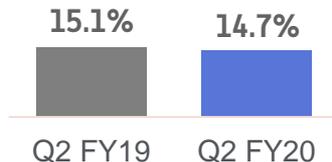
↑ 9%



- Revenues excluding zero-margin benefits pass-throughs ↑ 7%
- Average Worksite Employees paid ↑ 6% to 579,000

## PEO Margin

↓ 30bps



- Includes 30 basis points of benefit from ADP Indemnity

## Highlights

- Strong double-digit bookings growth; continue to expect improvement in Average WSE growth through the remainder of the year
- Margins impacted by increased selling expense and difficult Q2 FY19 compare
- Slight benefit from ADP Indemnity in the quarter, in line with expectations; no change to full year expectation for 50 bps of pressure

# Fiscal 2020 Outlook

	Fiscal 2019 Revised <sup>(a)</sup> , unaudited	July 31, 2019 Fiscal 2020 Outlook <sup>(b)</sup>	October 30, 2019 Fiscal 2020 Outlook <sup>(b)</sup>	January 29, 2020 Fiscal 2020 Outlook <sup>(b)</sup>	
Total ADP	Revenues	\$14,110M	↑ 6% - 7%	↑ 6% - 7%	↑ 6%
	Adj. EBIT Margin <sup>(c)</sup>	22.4%	↑ 100 - 125 bps	↑ 100 - 125 bps	↑ 100 - 125 bps
	Adj. Effective Tax Rate <sup>(c)</sup>	23.8%	Flat at 23.8%	23.3%	23.2%
	Adj. Diluted EPS <sup>(c)</sup>	\$5.45	↑ 12% - 14%	↑ 12% - 14%	↑ 12% - 14%
Employer Services	Revenues	\$9,943M	↑ 4% - 5%	↑ 4% - 5%	↑ 4%
	Margin	29.8%	↑ 100 - 125 bps	↑ 100 - 125 bps	↑ 100 - 125 bps
	ES New Business Bookings	\$1.6B	↑ 6% - 8%	↑ 6% - 8%	↑ 6% - 7%
	Client Revenue Retention	90.8%	↑ 10 - 20 bps	↑ 10 - 20 bps	↑ 10 - 20 bps
	Pays Per Control	↑ 2.7%	↑ ~2.5%	↑ ~2.5%	↑ ~2.5%
PEO Services	Revenues	\$4,178M	↑ 9% - 11%	↑ 9% - 11%	↑ 9% - 10%
	Revenues Ex Zero-Margin Pass-throughs	\$1,530M	↑ 7% - 9%	↑ 7% - 9%	↑ 7% - 8%
	Margin	14.7%	Flat to ↓ (25) bps	Flat to ↓ (25) bps	Flat to ↓ (25) bps
	Average WSEs	547,000	↑ 7% - 9%	↑ 7% - 9%	↑ 7% - 8%
Client Funds Interest	Average Client Funds Balances	\$25.5B	↑ 4% - 5%	↑ ~4%	↑ ~4%
	Yield on Client Funds Portfolio	2.2%	Flat at 2.2%	Flat at 2.2%	Flat at 2.2%
	Client Funds Interest Revenue	\$562M	\$580 - \$590M	\$570 - \$580M	\$570 - \$580M
	Extended Investment Strategy	\$557M	\$585 - \$595M	\$575 - \$585M	\$575 - \$585M

(a) Fiscal 2019 results revised to include change in PEO Services zero-margin pass-through revenue and operating expenses; see our Q1 fiscal 2020 earnings release available at investors.adp.com for more details.

(b) Outlook contemplates the impact of prior fiscal year acquisition of Celergo and anticipated impact of foreign currency in revenue and operating results.

(c) For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q2 fiscal 2020 earnings release available at investors.adp.com.

# Appendix: Client Funds Investment Strategy Detail

	Fiscal 2020 Outlook		
	Average Balance (\$)	Average Yield	Interest (\$)
Client Short	~4.9B	~1.5%	70 - 75M
Client Extended	~11.7B	~2.1%	240 - 245M
Client Long	~9.9B	~2.6%	~260M
<b>Total Client Funds (a)</b>	<b>~26.5B</b>	<b>~2.2%</b>	<b>570 - 580M</b>
Corporate Extended Interest Income (b)	~3.3B	~2.1%	~70M
Borrowing Days Interest Expense	~3.3B	~1.9%	~(65)M
<b>Net Impact From Client Funds Extended Investment Strategy</b>			<b>575 - 585M</b>

Interest on the Extended Portfolio flows into two separate sections of the Statements of Consolidated Earnings.

(a) Reported as Interest on Funds Held for Clients in the revenue section of the Statements of Consolidated Earnings.

(b) A component of Interest Income on Corporate Funds, reported within Other Income, net, on the Statements of Consolidated Earnings.