



ADP Reports Second Quarter Fiscal 2020 Results

- Revenues increased 5% to \$3.7 billion; 6% organic constant currency
- Employer Services New Business Bookings grew 3%
- Net earnings increased 17% to \$652 million, and adjusted net earnings increased 12% to \$658 million
- Adjusted EBIT increased 9% to \$854 million, and adjusted EBIT margin expanded 70 basis points to 23.3%
- Diluted earnings per share ("EPS") increased 18% to \$1.50 for the quarter, and adjusted diluted EPS increased 13% to \$1.52

ROSELAND, N.J. – January 29, 2020 – ADP (Nasdaq: ADP), a leading global technology company providing human capital management (HCM) solutions, today announced its second quarter fiscal 2020 financial results and updated its fiscal 2020 outlook.

Second Quarter Fiscal 2020 Consolidated Results

Compared to last year's second quarter, revenues increased 5% to \$3.7 billion, 6% organic constant currency. Net earnings increased 17% to \$652 million, and adjusted net earnings increased 12% to \$658 million. Adjusted EBIT increased 9% to \$854 million, representing adjusted EBIT margin expansion of 70 basis points in the quarter to 23.3%. Adjusted EBIT margin expansion was driven by continued execution of transformation initiatives as well as operating efficiencies offset by incremental sales and marketing, amortization, and PEO pass-through expenses. ADP's effective tax rate and adjusted effective tax rate for the quarter was 22.0%. Diluted EPS increased 18% to \$1.50, and adjusted diluted EPS increased 13% to \$1.52 due to the factors discussed above as well as a net share count reduction.

"We are continuing to execute well as we balance near-term transformation initiatives with long-term growth investments," said Carlos Rodriguez, President and Chief Executive Officer, ADP. "With a new decade ahead of us, we look forward to spending time with the financial community at our upcoming Innovation Day to discuss our progress on our investments in innovation, as well as our vision for our HCM technology portfolio."

"We are pleased to see continued steady top-line growth and margin expansion as we overcame a difficult compare last year," said Kathleen Winters, Chief Financial Officer, ADP. "We are committed to driving efficiency throughout our organization and we are proud of our progress towards simplifying the client experience."

Adjusted EBIT, adjusted EBIT margin, adjusted net earnings, adjusted diluted earnings per share, adjusted effective tax rate, and organic constant currency are all non-GAAP financial measures. Please refer to the accompanying financial tables at the end of this release 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.

Second Quarter Fiscal 2020 Segment Results

Employer Services – Employer Services offers a comprehensive range of global HCM and Human Resources Outsourcing solutions. Compared to last year's second quarter:

- Employer Services revenues increased 4% on a reported basis and 4% on an organic constant currency basis
- Employer Services New Business Bookings increased 3%
- Pays per control increased 2.2%
- Employer Services segment margin increased 30 basis points

PEO Services – PEO Services provides comprehensive employment administration outsourcing solutions. Compared to last year's second quarter:

- PEO Services revenues increased 9%
- PEO Services revenues excluding zero-margin benefits pass-throughs increased 7%
- Average Worksite Employees paid by PEO Services increased 6% to about 579,000
- PEO Services segment margin decreased 30 basis points

Included within the results of our segments above:

Interest on Funds Held for Clients – The safety, liquidity and diversification of ADP clients' funds are the foremost objectives of the Company's investment strategy. Client funds are invested in accordance with ADP's prudent and conservative investment guidelines and most of the investment portfolio is rated AAA/AA. Compared to last year's second quarter:

- Interest on funds held for clients increased 7% to \$138 million
- Average client funds balances increased 6% to \$25.1 billion
- The average interest yield on client funds was flat at 2.2%

Fiscal 2020 Outlook

Certain components of ADP's fiscal 2020 outlook and related growth comparisons exclude the impact of the following items and are discussed on an adjusted basis where applicable. Please refer to the accompanying financial tables for a reconciliation of these adjusted amounts to their closest comparable GAAP measure.

- Fiscal 2019 pre-tax charges of about \$138 million related to transformation initiatives
- Fiscal 2019 pre-tax gain of about \$16 million related to sale of assets
- Fiscal 2020 pre-tax charges of about \$30 million related to transformation initiatives

Consolidated Fiscal 2020 Outlook

- Revenue growth of about 6%
- Adjusted EBIT margin up 100 to 125 basis points
- Adjusted effective tax rate of 23.2%
- Diluted EPS growth of 14% to 16%
- Adjusted diluted EPS growth of 12% to 14%

Employer Services Segment Fiscal 2020 Outlook

- Employer Services revenue growth of about 4%
- Employer Services margin up 100 to 125 basis points
- Employer Services New Business Bookings growth of 6% to 7%
- Employer Services client revenue retention up 10 to 20 basis points
- Increase in pays per control of 2.5%

PEO Services Segment Fiscal 2020 Outlook

- PEO Services revenue growth of 9% to 10%
- PEO Services revenue growth excluding zero-margin benefits pass-throughs of 7% to 8%
- PEO Services margins flat to down 25 basis points; this outlook reflects approximately 50 basis points of anticipated grow-over pressure related to workers' compensation reserve reductions at ADP Indemnity in fiscal 2019
- PEO Services Average Worksite Employee growth of 7% to 8%

Client Funds Extended Investment Strategy Fiscal 2020 Outlook

The interest assumptions in our outlook are based on Fed Funds futures contracts and forward yield curves as of January 28, 2020. The Fed Funds futures contracts are used in the client short and corporate cash interest income outlook. The three-and-a-half and five-year U.S. government agency rates based on the forward yield curves as of January 28, 2020 were used to forecast new purchase rates for the client and corporate extended, and client long portfolios, respectively.

- Interest on funds held for clients of \$570 to \$580 million; this is based on anticipated growth in average client funds balances of ~4% from \$25.5 billion in fiscal 2019, and an average yield which is anticipated to be about flat as compared to 2.2% in fiscal 2019
- Total contribution from the client funds extended investment strategy of \$575 to \$585 million

Fiscal 2020 Outlook

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

(a) Fiscal 2019 results revised to include change in PEO zero-margin pass-through revenue and operating expenses. Please refer to Q1 fiscal 2020 earnings release for more detail.

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

Investor Webcast Today

As previously announced, ADP will host a conference call for financial analysts today, Wednesday, January 29, 2020 at 8:30 a.m. ET. The conference call will be webcast live on ADP's website at investors.adp.com and will be available for replay following the call. A slide presentation accompanying the webcast is also available at investors.adp.com/events-and-presentations.

Supplemental financial information including schedules of quarterly and full year reportable segment revenues and earnings for fiscal years 2018, 2019, and 2020, as well as quarterly details of the fiscal 2020 results from the client funds extended investment strategy, are posted to ADP's website at investors.adp.com. ADP news releases, current financial information, SEC filings and Investor Relations presentations are accessible at the same website.

About ADP (Nasdaq: ADP)

Designing better ways to work through cutting-edge products, premium services and exceptional experiences that enable people to reach their full potential. HR, Talent, Time Management, Benefits and Payroll. Informed by data and designed for people. Learn more at ADP.com.

Automatic Data Processing, Inc. and Subsidiaries

Statements of Consolidated Earnings

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Revenues:				
Revenues, other than interest on funds held for clients and PEO revenues	\$ 2,398.4	\$ 2,319.8	\$ 4,704.7	\$ 4,537.8
Interest on funds held for clients	137.7	129.1	271.5	247.6
PEO revenues (A) (B) (C)	1,133.4	1,043.5	2,189.0	2,017.3
Total revenues	3,669.5	3,492.4	7,165.2	6,802.7
Expenses:				
Costs of revenues:				
Operating expenses (B) (C)	1,836.0	1,772.4	3,623.6	3,469.5
Systems development and programming costs	168.7	156.1	336.9	314.1
Depreciation and amortization	89.4	71.7	178.3	144.3
Total costs of revenues	2,094.1	2,000.2	4,138.8	3,927.9
Selling, general, and administrative expenses	754.3	745.2	1,480.9	1,459.0
Interest expense	31.6	38.6	71.5	74.5
Total expenses	2,880.0	2,784.0	5,691.2	5,461.4
Other income, net	(46.0)	(32.6)	(100.6)	(46.5)
Earnings before income taxes	835.5	741.0	1,574.6	1,387.8
Provision for income taxes	183.9	182.8	340.6	324.2
Net earnings	\$ 651.6	\$ 558.2	\$ 1,234.0	\$ 1,063.6
Basic earnings per share	\$ 1.51	\$ 1.28	\$ 2.86	\$ 2.44
Diluted earnings per share	\$ 1.50	\$ 1.27	\$ 2.84	\$ 2.42
Components of Other income, net:				
Interest income on corporate funds	\$ (25.7)	\$ (28.1)	\$ (58.0)	\$ (56.6)
Realized gains on available-for-sale securities	(7.6)	(0.3)	(10.1)	(0.6)
Realized losses on available-for-sale securities	0.5	0.8	0.7	2.0
Impairment of intangible assets	—	—	—	12.1
Gain on sale of assets	—	(4.1)	(1.9)	(4.1)
Gain on sale of investment	(0.2)	—	(0.2)	—
Non-service components of pension expense, net (D)	(13.0)	(0.9)	(31.1)	0.7
Other income, net	\$ (46.0)	\$ (32.6)	\$ (100.6)	\$ (46.5)

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes of \$12,371.6 million and \$11,751.1 million for the three months ended December 31, 2019 and 2018, respectively, and \$22,882.2 million and \$21,380.5 million for the six months ended December 31, 2019 and 2018, respectively.

(B) PEO revenues and operating expenses include zero-margin benefits pass-through costs of \$722.4 million and \$659.7 million, and \$1,421.5 million and \$1,300.2 million for the three and six months ended December 31, 2019 and 2018, respectively.

(C) PEO revenues and operating expenses include costs related to workers' compensation coverage and state unemployment taxes for worksite employees of \$117.4 million and \$114.9 million, and \$209.3 million and \$204.4 million for the three and six months ended December 31, 2019 and 2018, respectively.

(D) Non-service components of pension expense, net, includes reversals of charges of \$5.1 million related to Voluntary Early Retirement Program ("VERP") for the six months ended December 31, 2019.

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Balance Sheets
(In millions)
(Unaudited)

	December 31, 2019	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,500.4	\$ 1,949.2
Short-term marketable securities	7.2	10.5
Accounts receivable, net of allowance for doubtful accounts of \$53.1 and \$54.9, respectively	2,587.9	2,439.3
Other current assets	660.9	509.1
Total current assets before funds held for clients	4,756.4	4,908.1
Funds held for clients	36,608.6	29,434.2
Total current assets	41,365.0	34,342.3
Long-term receivables, net of allowance for doubtful accounts of \$0.5 and \$0.4, respectively	21.6	23.8
Property, plant and equipment, net	761.3	764.2
Operating lease right-of-use asset	500.2	—
Deferred contract costs	2,397.3	2,428.5
Other assets	596.6	934.4
Goodwill	2,314.9	2,323.0
Intangible assets, net	1,102.5	1,071.5
Total assets	<u>\$ 49,059.4</u>	<u>\$ 41,887.7</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 132.9	\$ 125.5
Accrued expenses and other current liabilities	2,051.5	1,759.0
Accrued payroll and payroll-related expenses	428.7	721.1
Dividends payable	389.3	340.1
Short-term deferred revenues	210.4	220.7
Obligations under reverse repurchase agreements (A)	—	262.0
Short-term debt	1,001.6	—
Income taxes payable	38.1	54.8
Total current liabilities before client funds obligations	4,252.5	3,483.2
Client funds obligations	36,269.9	29,144.5
Total current liabilities	40,522.4	32,627.7
Long-term debt	1,003.0	2,002.2
Operating lease liabilities	360.2	—
Other liabilities	726.0	798.7
Deferred income taxes	702.4	659.9
Long-term deferred revenues	381.0	399.3
Total liabilities	<u>43,695.0</u>	<u>36,487.8</u>
Stockholders' equity:		
Preferred stock, \$1.00 par value: authorized, 0.3 shares; issued, none	—	—
Common stock, \$0.10 par value: authorized, 1,000.0 shares; issued, 638.7 shares at December 31, 2019 and June 30, 2019; outstanding, 431.8 and 434.2 shares at December 31, 2019 and June 30, 2019, respectively	63.9	63.9
Capital in excess of par value	1,253.7	1,183.2
Retained earnings	17,987.6	17,500.6
Treasury stock - at cost: 206.9 and 204.5 shares at December 31, 2019 and June 30, 2019, respectively	(13,709.6)	(13,090.5)
Accumulated other comprehensive loss	(231.2)	(257.3)
Total stockholders' equity	<u>5,364.4</u>	<u>5,399.9</u>
Total liabilities and stockholders' equity	<u>\$ 49,059.4</u>	<u>\$ 41,887.7</u>

(A) As of June 30, 2019, \$261.4 million of long-term marketable securities and \$0.6 million of cash and cash equivalents have been pledged as collateral under the Company's reverse repurchase agreements.

Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Cash Flows
(In millions)
(Unaudited)

	Six Months Ended	
	December 31,	
	2019	2018
Cash Flows from Operating Activities:		
Net earnings	\$ 1,234.0	\$ 1,063.6
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	234.9	196.5
Amortization of deferred contract costs	456.0	434.6
Deferred income taxes	44.1	33.0
Stock-based compensation expense	73.3	77.0
Net pension expense	(0.4)	31.5
Net amortization of premiums and accretion of discounts on available-for-sale securities	26.3	27.4
Impairment of intangible assets	—	12.1
Gain on sale of assets	(2.1)	(4.1)
Other	6.5	18.1
Changes in operating assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(198.8)	(670.0)
Increase in other assets	(605.4)	(594.4)
Increase in accounts payable	12.3	19.0
(Decrease) / increase in accrued expenses and other liabilities	(149.8)	287.2
Net cash flows provided by operating activities	<u>1,130.9</u>	<u>931.5</u>
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(2,875.3)	(1,300.8)
Proceeds from the sales and maturities of corporate and client funds marketable securities	2,995.2	1,163.4
Capital expenditures	(100.7)	(80.0)
Additions to intangibles	(167.7)	(139.3)
Acquisitions of businesses, net of cash acquired	—	(120.4)
Proceeds from the sale of property, plant, and equipment and other assets	23.6	7.9
Net cash flows used in investing activities	<u>(124.9)</u>	<u>(469.2)</u>
Cash Flows from Financing Activities:		
Net increase / (decrease) in client funds obligations	7,093.7	(1,567.1)
Payments of debt	(1.1)	(1.1)
Repurchases of common stock	(615.1)	(526.6)
Net proceeds from stock purchase plan and stock-based compensation plans	(4.4)	5.5
Dividends paid	(686.0)	(605.0)
Net payments of reverse repurchase agreements	(262.0)	—
Net proceeds from commercial paper borrowings	—	1,206.0
Net cash flows provided by / (used in) financing activities	<u>5,525.1</u>	<u>(1,488.3)</u>
Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	(12.2)	(32.1)
Net change in cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>6,518.9</u>	<u>(1,058.1)</u>
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	6,796.2	6,542.1
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	<u>\$ 13,315.1</u>	<u>\$ 5,484.0</u>
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	1,500.4	2,785.6
Restricted cash and restricted cash equivalents included in funds held for clients	11,814.7	2,698.4
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>\$ 13,315.1</u>	<u>\$ 5,484.0</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 70.6	\$ 73.3
Cash paid for income taxes, net of income tax refunds	\$ 350.4	\$ 280.3

Automatic Data Processing, Inc. and Subsidiaries

Other Selected Financial Data

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended			Six Months Ended		
	December 31,			December 31,		
	2019	2018	% Change	2019	2018	% Change
<u>Revenues</u>						
Employer Services	\$ 2,537.5	\$ 2,450.4	4 %	\$ 4,978.9	\$ 4,788.6	4 %
PEO Services	1,134.7	1,044.7	9 %	2,191.5	2,019.6	9 %
Other	(2.7)	(2.7)	n/m	(5.2)	(5.5)	n/m
Total revenues	\$ 3,669.5	\$ 3,492.4	5 %	\$ 7,165.2	\$ 6,802.7	5 %
<u>Segment earnings</u>						
Employer Services	\$ 767.4	\$ 733.0	5 %	\$ 1,448.4	\$ 1,372.9	5 %
PEO Services	167.1	157.3	6 %	315.5	301.1	5 %
Other	(99.0)	(149.3)	n/m	(189.3)	(286.2)	n/m
Total pretax earnings	\$ 835.5	\$ 741.0	13 %	\$ 1,574.6	\$ 1,387.8	13 %
<u>Segment margin</u>						
Employer Services	30.2 %	29.9 %	0.3 %	29.1 %	28.7 %	0.4 %
PEO Services	14.7 %	15.1 %	(0.3) %	14.4 %	14.9 %	(0.5) %
Other	n/m	n/m	n/m	n/m	n/m	n/m
Total pretax margin	22.8 %	21.2 %	1.6 %	22.0 %	20.4 %	1.6 %

	Three Months Ended			Six Months Ended		
	December 31,			December 31,		
	2019	2018	% Change	2019	2018	% Change
<u>Earnings per share information:</u>						
Net earnings	\$ 651.6	\$ 558.2	17 %	\$ 1,234.0	\$ 1,063.6	16 %
Basic weighted average shares outstanding	431.5	435.7	(1) %	432.1	436.2	(1) %
Basic earnings per share	\$ 1.51	\$ 1.28	18 %	\$ 2.86	\$ 2.44	17 %
Diluted weighted average shares outstanding	433.3	438.0	(1) %	434.3	438.9	(1) %
Diluted earnings per share	\$ 1.50	\$ 1.27	18 %	\$ 2.84	\$ 2.42	17 %

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
<u>Key Statistics:</u>				
<u>Employer Services:</u>				
Change in pays per control - U.S. (A)	2.2 %	2.3 %	2.3 %	2.3 %
Employer Services New Business Bookings growth	3 %	1 %	4 %	4 %
<u>PEO Services:</u>				
Paid PEO Worksite Employees at end of period	584,000	549,000	584,000	549,000
Average paid PEO Worksite Employees during the period	579,000	545,000	571,000	536,000
<u>Significant PEO expenses included within Operating expenses</u>				
Zero-margin benefits pass-through costs	\$ 722.4	\$ 659.7	\$ 1,421.5	\$ 1,300.2
Workers' compensation and state unemployment taxes	\$ 117.4	\$ 114.9	\$ 209.3	\$ 204.4

(A) Pays per control represents the number of employees on ADP clients' payrolls in the United States when measured on a same-store-sales basis for a subset of clients ranging from small to large businesses.

Automatic Data Processing, Inc. and Subsidiaries

Other Selected Financial Data, Continued

(Dollars in millions, except per share amounts or where otherwise stated)

(Unaudited)

	Three Months Ended			Six Months Ended		
	December 31,			December 31,		
	2019	2018	% Change	2019	2018	% Change
Average investment balances at cost (in billions):						
Corporate, other than corporate extended	\$ 1.3	\$ 1.5	(7)%	\$ 1.5	\$ 1.6	(5)%
Corporate extended (A)	3.8	4.1	(8)%	4.1	4.2	(2)%
Total corporate	5.1	5.6	(8)%	5.6	5.8	(3)%
Funds held for clients	25.1	23.6	6 %	24.4	22.9	7 %
Total	<u>\$ 30.2</u>	<u>\$ 29.2</u>	<u>3 %</u>	<u>\$ 30.0</u>	<u>\$ 28.6</u>	<u>5 %</u>
Average interest rates earned exclusive of realized losses (gains) on:						
Corporate, other than corporate extended	1.6 %	1.8 %		1.8 %	1.8 %	
Corporate extended (A)	2.1 %	2.1 %		2.2 %	2.0 %	
Total corporate	2.0 %	2.0 %		2.1 %	2.0 %	
Funds held for clients	2.2 %	2.2 %		2.2 %	2.2 %	
Total	<u>2.2 %</u>	<u>2.2 %</u>		<u>2.2 %</u>	<u>2.1 %</u>	
Net unrealized (loss)/gain position at end of period	\$ 338.7	\$ (236.3)		\$ 338.7	\$ (236.3)	
Average short-term financing (in billions):						
U.S. commercial paper borrowings	\$ 3.5	\$ 3.8		\$ 3.7	\$ 3.8	
U.S., Canadian & U.K. reverse repurchase agreement borrowings	0.3	0.3		\$ 0.4	\$ 0.4	
	<u>\$ 3.8</u>	<u>\$ 4.1</u>		<u>\$ 4.1</u>	<u>\$ 4.2</u>	
Average interest rates paid on:						
U.S. commercial paper borrowings	1.7 %	2.3 %		2.0 %	2.1 %	
U.S., Canadian & U.K. reverse repurchase agreement borrowings	1.7 %	1.9 %		1.8 %	1.8 %	
Interest on funds held for clients	\$ 137.7	\$ 129.1	7 %	\$ 271.5	\$ 247.6	10 %
Corporate extended interest income (B)	20.3	21.5	(6)%	44.2	42.4	4 %
Corporate interest expense-short-term financing (B)	(16.9)	(23.6)	28 %	(42.0)	(44.5)	5 %
Net Impact from Client Fund Strategy	<u>\$ 141.1</u>	<u>\$ 127.0</u>	<u>11 %</u>	<u>\$ 273.7</u>	<u>\$ 245.6</u>	<u>11 %</u>

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Corporate extended interest income (B)	\$ 20.3	\$ 21.5	\$ 44.2	\$ 42.4
All other interest income	5.4	6.6	13.8	14.2
Total interest income on corporate funds (component of Other (income)/expense, net)	<u>\$ 25.7</u>	<u>\$ 28.1</u>	<u>\$ 58.0</u>	<u>\$ 56.6</u>
Corporate interest expense-short-term financing (B)	\$ 16.9	\$ 23.6	\$ 42.0	\$ 44.5
All other interest expense	14.7	14.9	29.5	30.0
Total interest expense	<u>\$ 31.6</u>	<u>\$ 38.6</u>	<u>\$ 71.5</u>	<u>\$ 74.5</u>

(A) We utilize a strategy by which we extend the maturities of our investment portfolio for funds held for clients and employ short-term financing arrangements to satisfy our short-term funding requirements related to client funds obligations. As part of our client funds investment strategy, we use daily collection of funds from our clients to satisfy other unrelated client fund obligations, rather than liquidating previously-collected client funds that have already been invested in available-for-sale securities.

(B) While "Corporate extended interest income" and "Corporate interest expense-short-term financing," related to our client funds investment strategy, are non-GAAP measures, management believes this information is beneficial to reviewing the financial statements of ADP. Management believes this information is beneficial as it allows the reader to understand the extended investment strategy for ADP's client funds assets, corporate investments, and short-term borrowings. A reconciliation of the non-GAAP measures to GAAP measures is provided above.

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Statement of Adjusted / Non-GAAP Financial Information
(in millions, except per share amounts)
(Unaudited)

In addition to our GAAP results, we use the adjusted results and other non-GAAP metrics set forth in the table below to evaluate our operating performance in the absence of certain items and for planning and forecasting of future periods:

Adjusted Financial Measure	U.S. GAAP Measures
Adjusted EBIT	Net earnings
Adjusted provision for income taxes	Provision for income taxes
Adjusted net earnings	Net earnings
Adjusted diluted earnings per share	Diluted earnings per share
Adjusted effective tax rate	Effective tax rate
Organic constant currency	Revenues
Corporate extended interest income (see prior page)	Interest income
Corporate interest expense-short-term financing (see prior page)	Interest expense

We believe that the exclusion of the identified items below helps us reflect the fundamentals of our underlying business model and analyze results against our expectations and against prior period, and to plan for future periods by focusing on our underlying operations. We believe that the adjusted results provide relevant and useful information for investors because it allows investors to view performance in a manner similar to the method used by management and improves their ability to understand and assess our operating performance. The nature of these exclusions is for specific items that are not fundamental to our underlying business operations. Since these adjusted financial measures and other non-GAAP metrics are not measures of performance calculated in accordance with U.S. GAAP, they should not be considered in isolation from, as a substitute for, or superior to their corresponding U.S. GAAP measures, and they may not be comparable to similarly titled measures at other companies.

	Three Months Ended		% Change	Six Months Ended		% Change
	December 31,			December 31,		
	2019	2018	As Reported	2019	2018	As Reported
Net earnings	\$ 651.6	\$ 558.2	17 %	\$ 1,234.0	\$ 1,063.6	16 %
Adjustments:						
Provision for income taxes	183.9	182.8		340.6	324.2	
All other interest expense (a)	14.7	14.9		29.5	30.0	
All other interest income (a)	(5.4)	(6.6)		(13.8)	(14.2)	
Gain on sale of assets	(0.2)	—		(0.2)	—	
Transformation initiatives (b)	9.1	37.2		8.6	69.6	
Adjusted EBIT	\$ 853.7	\$ 786.5	9 %	\$ 1,598.7	\$ 1,473.2	9 %
Adjusted EBIT Margin	23.3 %	22.5 %		22.3 %	21.7 %	
Provision for income taxes	\$ 183.9	\$ 182.8	1 %	\$ 340.6	\$ 324.2	5 %
Adjustments:						
Gain on sale of assets (c)	(0.1)	—		(0.1)	—	
Transformation initiatives (c)	2.3	9.2		2.1	17.2	
Tax Cuts and Jobs Act (d)	—	(0.6)		—	0.5	
Adjusted provision for income taxes	\$ 186.1	\$ 191.4	(3)%	\$ 342.6	\$ 341.9	0 %
Adjusted effective tax rate (e)	22.0 %	24.6 %		21.6 %	23.4 %	
Net earnings	\$ 651.6	\$ 558.2	17 %	\$ 1,234.0	\$ 1,063.6	16 %
Adjustments:						
Gain on sale of assets	(0.2)	—		(0.2)	—	
Income tax provision on gain on sale of assets (c)	0.1	—		0.1	—	
Transformation initiatives (b)	9.1	37.2		8.6	69.6	
Income tax provision for transformation initiatives (c)	(2.3)	(9.2)		(2.1)	(17.2)	
Tax Cuts and Jobs Act (d)	—	0.6		—	(0.5)	
Adjusted net earnings	\$ 658.3	\$ 586.8	12 %	\$ 1,240.4	\$ 1,115.5	11 %
Diluted EPS	\$ 1.50	\$ 1.27	18 %	\$ 2.84	\$ 2.42	17 %
Adjustments:						
Gain on sale of assets (c)	—	—		—	—	
Transformation initiatives (b) (c)	0.02	0.06		0.01	0.12	
Tax Cuts and Jobs Act (d)	—	—		—	—	
Adjusted diluted EPS	\$ 1.52	\$ 1.34	13 %	\$ 2.86	\$ 2.54	13 %

(a) We include the interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy as we believe these amounts to be fundamental to the underlying operations of our business model. The adjustments in the table above represent the interest income and interest expense that is not related to our client funds extended investment strategy and are labeled as “All other interest expense” and “All other interest income.”

(b) The transformation initiatives for the three months ended December 31, 2019 include net reversals of charges related to our Service Alignment Initiative of \$1.8 million, offset by charges of \$10.9 million related to other transformation initiatives. The transformation initiatives for the six months ended December 31, 2019 include net reversals of charges related to our Voluntary Early Retirement Program (“VERP”) and Service Alignment Initiative of \$7.6 million, and a gain on sale of assets related to our Service Alignment Initiative of \$1.9 million, offset by charges of \$18.1 million related to other transformation initiatives. Unlike other severance charges which are not included as an adjustment to get to adjusted results, these specific charges relate to actions that are part of our broad-based, company-wide transformation initiative.

(c) The tax provision (benefit) on transformation initiatives and gain on sale of assets was calculated based on the annualized marginal rate in effect during the quarter of the adjustment.

(d) There was no impact from the Tax Cuts and Jobs Act in the three and six months ended December 31, 2019.

(e) The Adjusted effective tax rate is calculated as our Adjusted provision for income taxes divided by the sum of our Adjusted net earnings plus our Adjusted provision for income taxes.

The following table reconciles our reported growth rates to the non-GAAP measure of organic revenue, which excludes the impact of acquisitions, the impact of dispositions, and the impact of foreign currency. The impact of acquisitions and dispositions is calculated by excluding the current year revenues of acquisitions until the one year anniversary of the transaction and by excluding the prior year revenues of divestitures for the one year period preceding the transaction. The impact of foreign currency is determined by calculating the current year result using foreign exchange rates consistent with the prior year. The PEO segment is not impacted by acquisitions, dispositions or foreign currency.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
<u>Revenue growth consolidated:</u>				
Employer Services	4%	7 %	4%	7 %
PEO Services	9%	12 %	9%	11 %
Consolidated revenue growth as reported	5%	8 %	5%	8 %
<u>Adjustments:</u>				
Impact of acquisitions	—%	— %	—%	(1)%
Impact of foreign currency	—%	1 %	—%	1 %
Consolidated revenue growth, organic constant currency	6%	8 %	6%	8 %
<u>Segment:</u>				
Employer Services revenue growth as reported	4%	7 %	4%	7 %
<u>Adjustments:</u>				
Impact of acquisitions	—%	(1)%	—%	(1)%
Impact of foreign currency	1%	1 %	1%	1 %
Employer Services revenue growth, organic constant	4%	7 %	5%	6 %

Automatic Data Processing, Inc. and Subsidiaries
Fiscal 2019 to Fiscal 2020 Non-GAAP Guidance Reconciliation
(Unaudited)

	Fiscal 2019		Fiscal 2020
			Outlook
Earnings before income taxes / margin (GAAP)	\$ 3,005.6	21.3%	165 - 190 bps
All other interest expense (a)	59.9	40 bps	(5) bps
All other interest income (a)	(32.4)	(20) bps	10 bps
Gain on sale of assets - FY19	(15.7)	(10) bps	10 bps
Transformation initiatives - FY19 (b)	138.3	100 bps	(100) bps
Transformation initiatives - FY20 (b)	-	-	20 bps
Adjusted EBIT margin (Non-GAAP)	\$ 3,155.7	22.4%	100 - 125 bps
Effective tax rate (GAAP)		23.7%	23.1%
Gain on sale of assets - FY19		-	-
Transformation initiatives - FY19 (b)		0.1%	-
Transformation initiatives - FY20 (b)		-	0.1%
Adjusted effective tax rate (Non-GAAP)		23.8%	23.2%
Diluted earnings per share (GAAP)	\$ 5.24		14 - 16%
Gain on sale of assets - FY19	(0.03)		~ 1%
Transformation initiatives - FY19 (b)	0.24		~ (5%)
Transformation initiatives - FY20 (b)	-		~ 2%
Adjusted diluted earnings per share (Non-GAAP)	\$ 5.45		12 - 14%

a) We include the interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy as we believe these amounts to be fundamental to the underlying operations of our business model. These adjustments in the table above represent the interest income and interest expense that is not related to our client funds extended investment strategy and are labeled as "All other interest expense" and "All other interest income."

b) The charges within transformation initiatives are comprised of charges for our VERP, Service Alignment Initiative, Workforce Optimization and other transformation initiatives. For the twelve months ended June 30, 2019, charges include \$48.2 million for non-cash pension settlement charge and special termination benefits, and \$23.6 million of expenses related to the continuing health coverage related to our VERP. We also recorded severance charges totaling \$33.6 million primarily relating to our Workforce Optimization initiative to reduce management layers and increase spans of controls and \$56.8 million related to our other transformation initiatives. These charges were partially offset by net reversals of charges and gain on sale of assets related to our Service Alignment Initiative of (\$23.9 million) for the twelve months ended June 30, 2019. Unlike other severance charges in prior periods which are not included as an adjustment to get to adjusted results, these specific charges relate to actions that are part of our broad-based, company-wide transformation initiative.

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