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CORPORATE PARTICIPANTS

Carlos A. Rodriguez *Automatic Data Processing, Inc. - CEO, President & Director*
Christian Greyenbuhl *Automatic Data Processing, Inc. - VP of Investor Relation*
Kathleen A. Winters *Automatic Data Processing, Inc. - Corporate VP & CFO*

CONFERENCE CALL PARTICIPANTS

David Mark Togut *Evercore ISI Institutional Equities, Research Division - Senior MD*
Jason Alan Kupferberg *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*
Jeffrey Marc Silber *BMO Capital Markets Equity Research - MD & Senior Equity Analyst*
Kevin Damien McVeigh *Crédit Suisse AG, Research Division - MD*
Lisa Ann Dejong Ellis *MoffettNathanson LLC - Partner*
Mark Steven Marcon *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*
Ramsey Clark El-Assal *Barclays Bank PLC, Research Division - Research Analyst*
Samad Saleem Samana *Jefferies LLC, Research Division - Equity Analyst*
Tien-Tsin Huang *JP Morgan Chase & Co, Research Division - Senior Analyst*

PRESENTATION

Operator

Good morning. My name is Crystal, and I will be your conference operator today. At this time, I would like to welcome everyone to ADP's Second Quarter Fiscal 2020 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions) I will now turn the conference over to Mr. Christian Greyenbuhl, Vice President, Investor Relations. Please go ahead.

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

Thank you, Crystal, and good morning, everyone, and thank you for joining ADP's Second Quarter Fiscal 2020 Earnings Call and Webcast. With me today are Carlos Rodriguez, our President and Chief Executive Officer; and Kathleen Winters, our Chief Financial Officer.

Earlier this morning, we released our results for the second quarter of fiscal 2020. The earnings materials are available on the SEC's website and our Investor Relations website at investors.adp.com, where you will also find the investor presentation that accompany this call as well as our quarterly history of revenue and pretax earnings by reportable segment.

During our call today, we will reference non-GAAP financial measures, which we believe to be useful to investors and that exclude the impact of certain items. A description and the timing of these items, along with a reconciliation of non-GAAP measures to their most comparable GAAP measure, can be found in our earnings release. Today's call will also contain forward-looking statements that refer to future events and as such, involve some risk. We encourage you to review our filings with the SEC for additional information on factors that could cause actual results to differ materially from our current expectations. Before I turn the call over to Carlos, I'd like to remind you of our upcoming Innovation Day, which is scheduled for February 10. We hope to see many of you there in person. And for those who are unable to attend, you can find more details about how to view the event at investors.adp.com. We're looking forward to sharing our progress on our investments in innovation as well as our vision for our HCM technology portfolio. As always, please do not hesitate to reach out should you have any questions. And with that, let me turn the call over to Carlos.

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

Thank you, Christian, and thank you, everyone, for joining our call.

This morning, we reported our second quarter fiscal 2020 results with revenue of $3.7 billion for the quarter, up 5% reported and [6%] (added by company after the call) organic constant currency. We are pleased with this revenue growth, which was slightly ahead of our expectations. Our adjusted EBIT margin increased 70 basis points for the quarter and was also slightly ahead of our expectations.

Together with share buybacks and a lower adjusted effective tax rate, these results helped us deliver 13% adjusted EPS growth this quarter. Overall, we are pleased with our progress through the first half of fiscal 2020, following a difficult compare with the first half of fiscal 2019.

Moving on to operations and starting with new business bookings. This quarter, we continue to see strength in our employer services downmarket offerings and solid progress on the sales of our Workforce Now solutions. We were also particularly pleased to see strong double-digit bookings growth in our PEO. With that said, we are disappointed with our 3% employer services new business bookings growth for the quarter. This lower-than-expected growth was mainly the result of the same trends we saw in the first quarter with our international and multinational businesses, including delayed decisions for some of our larger multinational sales opportunities.

As we have said before, given their size, these opportunities can have an outsized impact on our quarterly bookings metric. With this in mind, we have narrowed our full year Employer Services new business bookings outlook and now expect 6% to 7% growth as compared to our previous guidance of 6% to 8% growth from last year's $1.6 billion of Employer Services new business bookings. We continue to have a solid pipeline of opportunities, and we remain confident in our ability to execute across our portfolio.

Looking at client service, we continue to see good progress with overall strength in our Net Promoter scores and retention. As a result, we continue to expect our forecasted full year fiscal 2020 Employer Services revenue retention to increase 10 to 20 basis points.

Now we're halfway through fiscal 2020 and at the midpoint of our 3-year targets we outlined at our June 2018 Investor Day. As we are also 6 months away from giving our fiscal 2021 guidance, and we will not be giving any updated financial outlook at our upcoming Innovation Day, I want to take a few moments here to look back and share my thoughts on our progress since we provided that guidance.

Let's start with new business bookings. You will recall that at our June 2018 Investor Day, we outlined we were targeting growth for worldwide new business bookings growth of 7% to 9% through fiscal 2021. Though we no longer regularly report a worldwide bookings figure, which, as a reminder, includes the results of Employer Services and PEO segments together, we thought it would be helpful in that context of a midpoint look-back to share that we have seen 8% average quarterly growth since the beginning of fiscal 2019. We are pleased with this worldwide bookings growth, together with our improvements in Employer Services revenue retention, and how they demonstrate the strength and stability of our business even as we've been going through meaningful transformation as an organization with a set of broad-based initiatives, including our service alignment initiative in fiscal years 2017 and '18, our voluntary early retirement program in fiscal 2019 and most recently, our workforce optimization and procurement initiatives. Meanwhile, our quarterly average consolidated revenue grew 6% reported and organic constant currency over the past 18 months.

As we look at some of the developments that have affected our recent growth relative to our expectations, we note that our PEO has not performed in line with our long-term expectations, driven by lower-than-expected pass-through revenues and lower-than-planned worksite employee growth. Over the past several quarters, we've discussed some of the factors impacting PEO revenue growth, including the impacts from our sales incentives, recent retention unfavorability related to health care inflation and softness in workers' compensation and state unemployment insurance rates. With the impact of these factors, our average growth over the past 18 months in average worksite employees was 8% as compared to our long-term expectation of 9% to 11%. And the contribution to revenue growth from pass-throughs was 1% compared to our long-term expectation of 1% to 3%.

Despite the slight underperformance relative to our expectations, we are confident in the overall prospects of the PEO business and continue to see healthy demand for our offerings. Our PEO platform is the leading fully outsourced solution in the HCM market, and we combine this with best-in-class HR business partners, which, together, helps deliver an unparalleled service experience.

Stepping back now to total revenue, we are tracking at 6% average growth through 6 quarters. We have a solid playbook with a proven track record of driving sustained growth, and we'll continue to focus on delivering consistent strong bookings growth and retention performance as key priorities.

And moving down the P&L, during this period, we further solidified the foundations of our business as our associates continue to transform the way we work while also delivering innovative solutions to our clients. These transformation efforts, along with our steady top line growth and the operating leverage in our model, have helped deliver robust margin expansion and an average adjusted EBIT growth of 13% through the end of the second quarter of fiscal 2020, which is within the range of our fiscal 2021 target CAGR of 12.5% to 15.5%. This, together with our disciplined share buybacks and a lower adjusted effective tax rate, has driven adjusted EPS growth of 18%, which is tracking ahead of our targeted growth of $14.5 million to $17.5 million through fiscal 2021.

As you can tell from our guidance for fiscal 2020, we currently anticipate ending the year within our fiscal 2021 3-year margin target range, 1 year ahead of schedule. This is no small accomplishment given our ongoing efforts to invest in the business for the long term. Overall, I'm very pleased with our progress to date. The journey that we embarked upon to simplify how we work, drive innovation and grow our business is a challenging one. However, and more importantly, it is also providing us with great opportunities to demonstrate the value of our offerings to our clients as we continue to simplify the client experience. Through these collective efforts and with the continued strength of both our R&D organization and our worldwide sales force, we are enhancing the depth and scale of our ability to serve our clients wherever they do business with best-in-class products and solutions that fit their needs.

Our clients, in turn, are recognizing these efforts as we continue to see improvements in both our Net Promoter Scores as well as in our Employer Services revenue retention. It is due to the success of these efforts that we remain committed to additional shareholder-friendly actions, such as our recent dividend increases of nearly 45% over the past 2 years. Our track record of annual increases in our dividend puts us in a small minority with 30 other companies in the S&P 500 that have also grown their dividend for 45 consecutive years or more.

As we look forward to the future, we remain confident that our strategy is the right one as we aim to further strengthen our resilient business model in order to drive sustainable long-term value for our shareholders.

Before I turn it over to Kathleen for a detailed financial review, I want you to know how proud I am of the external recognitions that we received this quarter, which reflect the strong corporate culture on which our business is built. As I reflect on our recent efforts, I am especially proud to see Fortune magazine again name us to their most admired companies list for the 14th consecutive time and also ranked us #1 in our sector. This is a remarkable achievement and a rewarding recognition for the efforts of our associates, who are focused on providing our clients the best solutions, both for today and for the future. I am also particularly pleased to see our efforts reflected in the Wall Street Journal's Drucker Institute list of best managed companies, where we were one of the biggest movers, jumping 104 places into the top quartile. These are only some of the great recognitions that we are receiving for our efforts to create opportunities for all of our stakeholders. And with that, I'll turn the call over to Kathleen for her commentary on our results and the fiscal 2020 outlook.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Thank you, Carlos, and good morning, everyone.

As Carlos mentioned, we're pleased with our continued progress in delivering growth for our shareholders, and this quarter was no exception. This quarter's reported revenue growth of 5% and 6% organic constant currency is slightly ahead of our expectations. And we're particularly pleased given the difficult compare to our second quarter of fiscal 2019.

Our adjusted EBIT increased 9%, and adjusted EBIT margin was up 70 basis points compared to the second quarter of fiscal 2019, both also slightly ahead of expectations due to the timing of our progress across our multiple transformation initiatives. Our margin improvement continues to benefit from a combination of cost savings related to our transformation initiatives and operating efficiencies. These benefits were partially offset by growth in PEO zero margin benefits pass-through expenses, increased selling and marketing expenses and amortization expense.

Similar to the first quarter of fiscal 2020, we're particularly pleased with our margin performance given the difficult compare that we faced in the first half of the year, resulting from the outsized benefits in fiscal 2019 related to our voluntary early retirement program. Our adjusted effective tax rate decreased by 260 basis points to 22% compared to the second quarter of fiscal 2019. The decrease is in line with our expectations and was mainly due to the release of a valuation allowance related to foreign tax credit carryforwards. Adjusted diluted earnings per share grew 13% to $1.52; and in addition to benefiting from our revenue growth, margin expansion and a lower adjusted effective tax rate was also aided by fewer shares outstanding compared to a year ago.

Moving on to our Employer Services segment and interest on funds held for clients. Employer Services revenues were slightly ahead of expectations and grew 4% reported and organic constant currency. Interest income on client funds grew 7% and benefited from growth in average client fund balances of 6% to $25.1 billion. This growth in balances continues to be driven by a combination of client growth, wage inflation and growth in our pays per control. Our Employer Services same-store pays per control metric in the U.S. grew 2.2% for the second quarter. Employer Services margins increased 30 basis points in the quarter, driven by the same factors that I mentioned earlier when discussing our consolidated results.

Our PEO segment revenues grew 9% for the quarter to $1.1 billion, and average worksite employees grew 6% to $579,000. Revenues, excluding zero margin benefits pass-throughs, grew 7% to $412 million and continue to include pressure from lower workers' compensation and SUI costs and related pricing. Our value proposition in the PEO remains strong, as evidenced by our double-digit PEO new business bookings growth this quarter.

Our mid-market sales channel continues to grow following the realignment of our sales incentives, and we're seeing continued signs of positive traction within our downmarket referral channel. With these factors in mind, we remain optimistic in our ability to reaccelerate the PEO in the latter part of fiscal 2020.

Margins in the PEO decreased about 30 basis points for the quarter, largely due to a difficult compare and an increase in selling expenses resulted from our strong quarterly new business bookings growth.

Let's turn to the outlook for the full year and start with the PEO. With 6 months behind us now, and our year-to-date average worksite employee growth and revenues tracking slightly below our expectations, we do not expect to achieve the higher end of our previous guidance range. As such, we are narrowing our guidance and now expect 9% to 10% PEO revenue growth in fiscal 2020 and 7% to 8% growth in PEO revenues, excluding zero-margin benefits pass-throughs, both driven by an anticipated growth of 7% to 8% in average worksite employees.

As we also discussed last quarter, we continue to expect lower workers' compensation and SUI costs and related pricing to pressure our total PEO revenue growth. For PEO margin, we continue to anticipate margins to be flat to down 25 basis points in fiscal 2020. As we noted in previous calls, this outlook continues to include approximately 50 basis points of pressure from smaller favorable reserve adjustments at ADP Indemnity in fiscal 2020 compared to fiscal 2019.

Moving on, let's take a look at Employer Services. We are narrowing our guidance to 4% revenue growth versus our prior outlook of 4% to 5%, driven by a combination of continued unfavorability in FX and interest rates relative to our expectations coming into the year and the lower bookings growth in the first half of fiscal 2020. We meanwhile continue to anticipate pays per control growth of about 2.5% and Employer Services revenue retention to improve 10 to 20 basis points, and we now expect Employer Services new business bookings growth of 6% to 7%. We continue to expect our margin in the Employer Services segment to expand by 100 to 125 basis points. We now anticipate total revenue growth of about 6% in fiscal 2020 as compared to our previous outlook of 6% to 7%.

This revenue outlook continues to assume an elevated level of FX unfavorability for fiscal 2020 relative to our expectations at the beginning of the year. We continue to anticipate our growth in average client fund balances to be about 4%, the average yield earned on our client fund investments to be about 2.2% and interest income on client funds to be between $570 million to $580 million. We also continue to expect interest income from our extended investment strategy to be $575 million to $585 million.

We continue to anticipate our adjusted EBIT margin to expand 100 to 125 basis points. As a reminder, this guidance also continues to contemplate approximately $100 million in cost savings for fiscal 2020 related to our workforce optimization and procurement transformation initiatives. We now anticipate our adjusted effective tax rate to be 23.2%. The rate includes this quarter's unplanned tax benefit from stock-based compensation related to stock option exercises. It does not, however, include any further estimated tax benefit related to potential future stock option exercises, given the dependency of that benefit on the timing of those exercises. We continue to expect adjusted diluted earnings per share to grow 12% to 14% in fiscal 2020.

Finally, before we take your questions, I wanted to let you know that shortly after our February 10 Innovation Day, Christian will be moving on to take an international assignment as the General Manager of one of our European businesses. I want to thank Christian for his many contributions leading our investor relations program, and also welcome, Danyal Hussain, who many of you already know, as our new Head of Investor Relations. Congratulations to both of you. With that, I will turn the call over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Kevin McVeigh from Crédit Suisse.

Kevin Damien McVeigh ***Crédit Suisse AG, Research Division - MD***

I think one of the things we've been focused on is the retention -- the improvement in the retention. Can you give us any sense of how are kind of the first half scale relative to the full year guidance?

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

Given that -- I think you could tell from our comments that it obviously improved in the second quarter. We've tried to get away from -- with the new guidance that we started providing, I think it was a year ago, we're trying to get away from quarterly guidance. But we're still committed to giving you kind of a sense of kind of where we are. And I think you can tell from my, I think, prepared comments that we had a good first quarter, and we also had a good second quarter. So retention is definitely a positive for us. Like we talked about last quarter, in terms of some of the bright spots, our mid-market business retention continues to improve and is on track to really get to this year close to record levels. So it's very, very satisfying because we went through a very difficult time back in the day where we did all the client upgrades and migrations. And then with ACA, at the same time, that was a business where we really had a real step-back of retention. By the way, step-back, for us, is a couple of percentage points. And now we've recovered all of that and are kind of on track to get back to kind of where we were at record levels.

Kevin Damien McVeigh ***Crédit Suisse AG, Research Division - MD***

Understood. And then just...

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

I'm sorry. Another comment was I think we also, in the first half, have had good retention in the upmarket, which was another place that's been kind of a challenge for us over the last couple of years. So I think both of those businesses, when you combine them, they're a significant portion of our revenues, and I think are -- have a solid retention performance.

Kevin Damien McVeigh ***Crédit Suisse AG, Research Division - MD***

That's super helpful. As a quick follow-up, despite revenue adjustments, it seems like you're maintaining the margin guidance. I guess what's driving that outperformance given kind of the revenue adjustments in the PEO and I guess, overall?

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

We have -- our business model's interesting because sometimes, at least for the first half because we -- as you can tell, we're hoping and planning on a recovery in terms of our sales results for the second half. But in general, we benefited in the first half from an expense standpoint from having weaker new business bookings because as you know, our business has a little bit of a self-adjusting factor. Now the new 606 rules, I think when you amortize some of these costs over time, they brought some of that impact, but there's still some impact from that. So we did benefit from that. And we just have a lot of good things going on from a margin standpoint, we really want to make sure that we focus on the growth as well, but we feel pretty good about the initiatives that we've put in place, call it, last fiscal year that are impacting this year's cost structure. And I think those -- we've talked about those procurement initiatives, also the workforce optimization, which was a delayering exercise, where we reduced spends and control. So we took 3 layers out and increased spends across the board, including all the way at the very highest levels where we had, for us, a -- I would call it, a significant decrease in overhead, if you will, in terms of our most senior levels. And so I think we're benefiting from all of those items. And that's helping the margin. So we feel pretty good about where we are in terms of costs and margin. We have a lot of transformation initiatives around costs and margins. And obviously, we want to make sure that we be focused on growth in new business bookings as well.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. Not too much to add to that. A lot of -- Carlos covered a lot of the points, but we're seeing the operating efficiency come through. We're executing on the transformation projects that we have in flight right now, saw a little bit better-than-expected margin expansion in the second quarter, primarily some timing on some of the transformation work. But look, the team's executing really nicely on that, particularly on the procurement side. And we're focused on continuing to do that and building the pipeline of additional opportunities.

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

And just one little item in terms of color. You'll see from the queue that credit to the organization, but again, a lot of these transformation initiatives have been -- some of them, when we talk about some of the big ones, we have dozens of other initiatives that are really improving the way we work, automating things, taking out kind of non-value-added work. And when you look at our Q, you'll see that it's really R&D and selling expense that have increased. And we really are holding the line on the rest of our operating expenses, due in large part to some of these initiatives that we have underway that are making work a little bit easier for our associates and also taking some of the workout. And so that's the key because we want to make sure that we keep, and we are keeping our NPS scores and our retention high. And so that's the magic formula there. I think keeping our expenses low and improving margin, if it results in lower client satisfaction and lower retention, is not going to help us in the long term. But fortunately, again, credit to the associates and to the management team, we're actually pulling it off, where we're getting both of those things right now.

Operator

Our next question comes from Tien-Tsin Huang from JPMorgan.

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

Congrats to Christian and Danny. I want to ask on, well, I guess, a bigger picture question maybe for the team. Just balancing -- you're balancing the new tech investments, and you just mentioned the transformation initiatives in the pipeline there. But just given that you're a year early, you're on track to get to your fiscal year targets this year -- for fiscal '21, I'm sorry, are you more willing to invest, let's say, in the short to midterm to maybe energize revenue growth and get that up a little bit more? Or is your preference to still hit the higher end of your long-term margin target? I'm just trying to understand how you might be balancing revenue growth and margin expansion given where you are now.

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

That's a great -- it's a great question. And I think our Board obviously has that discussion with us as well. And I think our Board is very long-term oriented. And so as much as we're committed to hitting all the individual components, it's about balancing all of those factors to really create long-term sustainable growth. And we would love to have as much growth as possible. And when I think about where are some of those places that we could invest, as an example, like in our sales organization, we are fully staffed. I think we're probably a little bit ahead of our plans in terms of headcount. So we clearly have some execution issues there, especially, as we mentioned, in our international and multinational businesses and some difficult compared to over last year. But we have really strong performance in the downmarket and in the mid-market and even in the domestic upmarket this quarter. So it doesn't feel like we're under-investing. In fact, I'm pretty sure that we're not under-investing in sales and marketing. We also have a brand campaign that we've invested in over the last year, which has added some expense. So I think we've put our money where our mouth is when it comes to sales and marketing. And then turning to the other obvious places where we could invest, again, for growth and product in our R&D organization, again, our R&D group would always say that we could spend more. But when I look at the year-over-year and even a 3-year growth of our investments in our next-gen platforms and even some of the additional feature functionality that we're adding to our existing products, including user experience, that's, again, a place where our investments are growing. So we are -- you can see it from our depreciation and amortization line, when you see it in the Q and you can see it from our and hear from our words that we are -- and you can see in our balance sheet in terms of capitalized software. So we believe that we are investing for the future. And that when we have sometimes, you have these timing issues because we do have a lot of enthusiasm, for example, about our next-gen platforms. But relative to the size of the company, when -- this is the year -- this is the first year where we have, over the last 12 months is the first time we've actually got clients now live on our next-gen platforms, including next-gen payroll and next-gen HCM, which we call Lifion. So we're excited. We're ahead of plan, but you have less than 10 clients on one of the platforms and call it, 30 to 40 clients on another one of those platforms. So it just doesn't make a difference yet in terms of the sales results or the revenue results, but it doesn't dampen our enthusiasm around the future. So again, I guess, the long and short of it is, I don't think it's a lack of investment, but trust us that if we see an opportunity to invest for growth, we'll take it.

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

Understood. And then just maybe on that point, with the ES bookings, it sounds like it's more international again. So I'm curious if this is more cyclical or is there -- some very broad base? Or is it more just [fees] like clients that you're looking for a decision? Just trying to better understand how -- the visibility here on the international side.

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

I think the most obvious one in terms of -- because it's easy to see and quantify, is in our large global view, multinational deals. We had a very difficult compare. Now of course, that means that 12 months ago, we were celebrating getting those deals and those sales. And hopefully, we talked about it, that, that was giving us tailwind at the time. And I think we did, but we'd have to go back to the transcripts. And now -- unfortunately, now we have a very difficult compare. Now we just had our rethink meeting. We call it rethink meeting, where we have all of our large multinational prospects and clients. And I think we walked away with a very solid pipeline and a lot of enthusiasm. And so we feel good about, hopefully, the second half. And whether it's the second half or next year, but any less enthusiastic about our multinational solutions, but we just have a very difficult compare. So that's an obvious place. We do have a couple of, what we call, in-country or best-of-breed locations that are also having some challenges that I think also have some difficult compares. But it's hard to point at any kind of cyclical or product issues because we've been strengthening our products overseas as well and I think, investing in our sales force. So again, and the European economy in particular seems to be at a minimum stabilizing, if not improving. So I don't think we can point to anything cyclical, which is why we remain optimistic about a turnaround.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. So maybe I'll just add a little more color and talk about it in terms of kind of ES bookings overall. I guess, what I'd say is that, look, as you go into the year, there's always going to be areas where you do better and areas where you do worse than you may have planned. And thus far, into the year, we've seen particular strength in downmarket, as we've noted in our comments. And actually, internationally, we've also seen strength in our Celergo streamline product, which was quite nice to see. And as you saw, the multinational global view is where we're seeing really the slowness or the weakness for the last 2 quarters now. Hard to say that it's -- we're not really seeing that it's attributable to any change from an economic landscape or environment standpoint, but more so just seeing delayed decision-making. And it's taking time to get these larger and sometimes much more complex deals through the decision-making process. So we've seen it 2 quarters in a row. The pipeline looks pretty decent. We've got some of these deals in the pipeline, but it remains to be seen exactly how much longer it takes to get them closed.

Operator

Our next question comes from Ramsey El-Assal from Barclays.

Ramsey Clark El-Assal ***Barclays Bank PLC, Research Division - Research Analyst***

Can I ask you to give us kind of a brief macro overview in terms of what you're seeing in your various markets, given everything that's going on in the world today? Any call-outs or any changes in the environment?

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

So when we look at -- we have a few things that we obviously look at in terms of, call it, economic macro indicators. The ones that are kind of relatively stable, I would call them relatively stable, our pays per control and wage growth. And we look at, obviously, our own data as we get ready for this earnings call, but we also have the ADP Research Institute that publishes its own kind of wage growth information and other factors around the economy. And I think all those signs positive -- point to, what I would call, stability. Our pays per control was slightly lower than it was the previous quarter and the trend, but we've seen that many times before where we go 2.5% one quarter, and then we go a little bit lower than next quarter, but then it comes back to 2.5%. It does seem, and we've been saying it, and we've been wrong so far that as the labor markets tighten, there's just not enough people available in the U.S. to continue to drive the kind of pays per control growth that we've experienced. But obviously, labor force participation has been ticking up slightly. And for a variety of reasons, that continued to hum along. And again, we see the same kind of indicators that all of you see around consumer spending, et cetera. So when we look at across all of our domestic businesses, the pays per control growth seems to be a reasonable indicator that the economy is on stable ground. And wage growth, we think, should continue to accelerate, but that's moderated slightly also for the last couple of quarters, but it's still at robust levels and should drive continued consumer spending and continued consumer confidence. We do look at pays per control also outside of the U.S. And I think there, we, again, in our numbers, see some signs of stabilization in Europe when it comes through in the unemployment and pays per control metrics there. So for us, I think that everything looks -- bankruptcies are -- we're seeing the same things in our own business that you see through external metrics. We don't see any kind of elevation of -- or increase in out-of-business or bankruptcies in our downmarket business, which is the canary in the coal mines, the first place you would see it. So our sales are also strong in the downmarket and the mid-market, so it doesn't feel like the weakness we had this quarter is anything other than the lumpiness that we talked about around multinationals because new business bookings would be another, I think, macro indicator that could weaken. We've talked about our retention continuing to improve. Retention doesn't improve in a bad economy because it -- that's one of the things that really suffers as a result of out-of-business in the down market. And that has stayed strong and solid, so no negatives that we can see in the macro.

Ramsey Clark El-Assal ***Barclays Bank PLC, Research Division - Research Analyst***

Okay. And you sort of addressed this. Dovetailing with Kathleen's last answer and your answer just now, but can you talk a little bit about the competitive environment? And that doesn't -- manifesting itself as sort of pricing-related actions or an intensification of maybe more an increase in opposing bidders showing up for contract processes or new business models emerging out there. I'm just trying to explore whether there's any other peripheral causes for some of the, I think, what are timing-related delays and things like bookings, especially maybe in Europe, but elsewhere as well.

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

Sure. So back to maybe a little bit of what Kathleen said about, there's always -- there's positive and there's negative. When it comes to competitors, it's the same thing. We have a lot of competitors in each of our each of our segments. And some years we do better, some of the years we do worse, but we do have the overall balance of trade. And our situation there is better. And you would think that based on our retention results, and based on the comment we just gave you about new business bookings in our downmarket, mid-market and domestic upmarket business. So I think in North America, I think if you look at those results, I would say our competitive situation has improved. And it shows in our net balance of trade that we keep track of. In particular, I would point out, besides the continued strength in our downmarket business, which has been growing market share here for a few years, if you look at our mid-market business, the last 2 quarters in particular were quite strong in terms of what we call new logos against a variety of competitors. But again, we can't point to any one competitor because we have a large set of competitors. Some of them are geographically concentrated, and some of them are national. But I think we're very pleased with this quarter's performance against those competitors in the mid-market. And then in the upmarket, I would say that the addition of Workforce Now and call it, the 1,000 to 5,000 range, so the lower end of our upmarket, which we did a couple of years ago, has really been an important generator of win-loss and balance of trade success for us in the upmarket. So we've had a robust growth in units, in revenue and sales dollars from introduction of Workforce Now into that 1,000 to 5,000, which addresses a segment of the market where that platform really has a lot of appeal.

Operator

Our next question comes from Jason Kupferberg from Bank of America.

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

I just wanted to drill in a little bit more on the commentary around the delayed decision-making. Have you guys been down-selected for these contracts already? Or is the actual RFP process still kind of dragging along?

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

I wish I could tell you that I have that level of detail. I don't. So this is really -- ties back to the comment I made before about we have a certain number of salespeople in the field. We have a certain pipeline of dollars that we track year-over-year. And we know what our sales results were the previous year in the same period, whether it was the first quarter or the first 2 quarters of the year. So we are attributing the weakness to the late decision-making. But this is not -- we do have large contracts, particularly in multinational, and they definitely move the number from one quarter to the other, but we don't have $50 million, $100 million contracts. It's not that kind of a business. So we don't -- I know our sales leaders have that level of detail. I don't have it available in my fingertips here.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. I mean, maybe you're asking kind of have we seen any particular shift in where things are in terms of stages of the cycle and stages in the pipeline? Nothing that we've seen or heard that we can draw any conclusion from or point to any trends.

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

But we do have a pipeline of deals. I mean, sure, we wanted to rethink this year with more participants, more attendees in a larger pipeline of dollar opportunities than we had the previous year.

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

Right. Yes. No, I was just curious if you were just kind of waiting for some final signatures to make the bookings official or if it really is a matter of kind of just broader pipeline conversion. Just my second quick follow-up, just on the margins, you had the 70 bps up overall in the quarter, which was better than you expected. But at the segment level, I know ES was up only 30. And PEO was down 30, if I'm not mistaken. So I think it was some of the below-the-line drivers that got you to the 70. Can you elaborate on those? Because I know you have some add-backs in your adjusted EBIT margin calculation.

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

Yes, I can help maybe a little bit with that. It's -- as you know, the transformation initiatives that we are undergoing right now, some of those are sort of back-office-facing as well. So if you think about procurement and the workforce optimization initiative, those will have impacts to items that are, what we would deem, other in the segment review. So corporate functions, for example, that's where the delta probably sits for you.

Operator

Our next question comes from Mark Marcon from Baird.

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

Let me add my congratulations to both Christian and Danny. With regards to the bookings, just looking ahead, and thinking about the comparisons for the third and fourth quarters, are there any things that we should think from a sequencing perspective in terms of they're both -- one's up 10%, one's up 11%? Is there anything that's particular in one versus the other that would make it a more difficult comp? Or how should we think about the bookings over the next 2 quarters in terms of the sequencing?

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

Well, I think our #1 goal is to obviously maintain the momentum we have in everything other than our international and multinational businesses. And again, these businesses, not just because there's a big ocean between them, they are fairly separate, right, in terms of how they're managed in terms of sales and sales execution and so forth even though we have one worldwide sales organization. So we feel good that we're going to be able to maintain the momentum we have in the rest of the business. And then hopefully, we get a little bit of a tailwind with some of this stuff going our way in terms of the larger deals and some of the international stuff that we've talked about. We do have -- in the second half, particularly in the last quarter, we do have a difficult compare. Because last year, as you recall, we purchased -- it was a client-based acquisition -- an acquisition of the company with a client-based acquisition of Wells Fargo's payroll business. And that helped our new business bookings and obviously our -- translated into some revenue help in the downmarket and as part of what's given us some tailwind from a revenue growth standpoint in that business. But since it was a client-based acquisition, it does -- and it wasn't an acquisition of a business, it does roll through our new business bookings. And that was, I believe, in the fourth quarter.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Fourth quarter.

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

Fourth quarter.

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

Yes, yes. That's not -- probably not show as well. So -- and that's part of the reason for asking the question. So arguably, the third quarter should be a little bit of an easier comp.

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

And there's one reason -- for some reason, they never feel easy. But mathematically, you're probably mathematically correct, but we have a lot of things that we're cooking to make sure that we hit the -- obviously, our intention is to achieve the guidance we've provided. And we wouldn't -- we don't provide it lightly.

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

Great. And then, Carlos, obviously, you've got a long-standing sort of experiences with the PEO market. How are you feeling about the longer-term trajectory of the market? What are you seeing? What do you think are thinking? Or ex pass-throughs, the sustainable growth rate is there? And what are you seeing from -- on the competitive front, it seems like there's a little bit more private capital that's coming into the space. So just wondering what your -- how you're thinking about that space and the legislative outlook there.

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

Well, when you look at the -- again, the balance of trade information there, I feel pretty good about our competitive situation, right? So you always feel good about your own children and about your businesses. But you've got to look at the facts, right? And I think the facts are pretty good for us in terms of our win-loss and our balance of trade. So that feels pretty good. And then the second thing that makes me feel really good, particularly this quarter versus last year and started to feel it last quarter, is we really took a while to kind of filter through to make sure that we had our incentives properly aligned to make sure that our sales force was focused on, obviously, number one, selling the right thing to our clients, but making sure that they're properly incented to make sure that the PEO is something that they raised. Because it is a difficult sale because it's a high-involvement sale. And so you have to have the right incentives in order for the sales force to really want to sell it. And so I think we did that, and I think we talked about that. It's got to be 12 months ago, I think it was. So that feels like it's starting to filter through. And I think we talked about very strong double-digit new business bookings for the quarter, which that's the most important metric to -- for the future to really give us confidence that the business model is still strong and intact. So that feels pretty good.

Operator

Our next question comes from Samad Samana from Jefferies.

Samad Saleem Samana ***Jefferies LLC, Research Division - Equity Analyst***

So I wanted to maybe ask a question about the -- what's been going on in terms of bookings and how you're thinking about guidance. Is there -- was guidance updated just to reflect what bookings has done so far this year? Or have you maybe made some changes to the guidance framework to account for some more of the variability or variance that you're seeing in multinational and international deals closing? So I guess, is guidance more conservative? Are you using the same framework that you've historically used? And then maybe just one follow-up.

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

Yes. Again, just a reminder, just given the last comment that I made about the PEO that the guidance that we provide for bookings is ES only, just to be clear. So if you look at our combination of our PEO and ES sales, they're -- it's a better picture and a stronger picture in the first half than what our guidance would depict because we provide guidance for the PEO based on average worksite employee growth, not on new business bookings. But having said that, I think the answer is just in a -- this year, like there's no change in our thinking or our framework, given that we just think there's some large deal delays that I don't think impact our view of the future.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes, no change in framework. No change in kind of the way we're rolling up that forecast or the data we're looking at. For example, we look at things like, okay, where is business coming from in terms of by segment or by geography or new clients versus upsell to existing clients? We're continuing to see fairly consistent trends in terms of the split between new and upsells. So no change in the framework. It's more so just, look, we've seen the slower out of the gates for 2 quarters now, lower than we expected in the international. And so we saw it was given that we're 6 months into the year here, we thought it made sense to give you our best view. And so therefore, we narrowed the view for the year.

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

Yes. Just one other comment that in terms of something a little bit quirky about as we changed our guidance to focus on ES worldwide bookings versus the PEO based on average worksite employees, the reason we gave you some color about the bookings for the PEO this quarter is even though we're not going to change the way we do our guidance is, in some respects, what's good for the PEO, sometimes in the short term if business gets referred to the PEO, can have in the short term a dampening effect on Employer Services. But we still had a great result in the downmarket and in the mid-market in Employer Services. So we definitely can't point to that. But again, it is kind of important to keep in mind that it's really the combination of those 2 that are driving overall ADP bookings and overall ADP revenue growth.

Samad Saleem Samana ***Jefferies LLC, Research Division - Equity Analyst***

Great. That's helpful. And then maybe if I could just ask one follow-up. I think there's a lot of excitement around Lifion coming off of HR Tech and ahead of the Innovation Day that the company is hosting so I just wanted to see if there's any early patterns in terms of customer profile, whether it's by size or whether you think about existing products that they're using, whether it's Vantage or Workforce Now. Maybe where are you seeing the early adopters come from? And any type of profile commentary you could give on that would be helpful.

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

So again, in our case, everybody's maybe approaches this differently. But we started off with smaller, less complex clients. And now we've actually just sold, I would call, consider it to be very large clients, so call it, tens of thousands of employees. And so we've got a couple of very large sales that we've done. And we have a bunch in the middle and then we have a few smaller ones that we did in the early days. Some of the business we've sold is obviously new logo. Some of it has been, as you mentioned, off of some of our existing platforms. I don't think that I can point to one particular platform and say they were like -- we're not targeting because we're not trying to do migrations or upgrades, we're trying to go after clients that have the right profile and the right needs, right? So that we can make them happier ADP clients in the long term. So we know what the capabilities are of the platform, and we try to target the clients and the prospects, whether they're internal or external, in the appropriate manner. So I guess the best way to put it is kind of across the board in terms of from an internal view. And then in terms of industry or size of client, fortunately, it's also kind of a widespread.

Operator

Our next question comes from David Togut from Evercore ISI. .

David Mark Togut ***Evercore ISI Institutional Equities, Research Division - Senior MD***

There have been a few questions on bookings already, but this seems to be the main question of the day, that the one question that I'd like to explore here is, you're still in the critical selling season, which typically runs December to February. So is there anything you see in your pipeline in the U.S. or confidence on international close rates that gives you the confidence that you can close this critical selling season in better shape than we've seen, obviously, in the second quarter and the first quarter bookings results?

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

So again, at the risk of getting too much into the sausage-making, the -- if you remember, like part of our business, particularly the downmarket and into some of our mid-market, we report our sales when they start. So they're -- like bookings and starts are basically equivalent. But when you get to very large deals, that's where you're really recognizing a sale. And then the revenue starts at a later date. It could be 6 months. It could be 12 months. With a very large complex international deal, it could be 18 months later. So to your point about the critical selling season, pretty much now and done because January is the biggest month for us, particularly for our downmarket business and the lower end of our mid-market business as well and the PEO. So just because of the natural cycle of the PEO, a large number of clients, by the way, affect retention as well. But from a new business booking standpoint, January is the critical month for us. So the December-January period is a critical month for us in the PEO. And again, we're in the middle of that quarter. So it's kind of hard to make comments about the quarter since the quarter isn't done yet. But I think in a down market and in our PEO in particular, we had, I'd say, a good start to the quarter.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. The only thing -- other thing I would add, and this is with regard to the ES bookings in particular. If you kind of look at the cadence of the year last year and this year and you look at 6 months year-to-date, we're at about the same point this year as we were last year in comparison to where we ended the year.

David Mark Togut ***Evercore ISI Institutional Equities, Research Division - Senior MD***

So in other words, you see enough in the pipeline at this point and expected close rates that drive your expectation of the 6% to 7% bookings target? Is that accurate?

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

I think that -- again, that is a level of detail to say that we have specific things in the pipeline. I think just to reiterate what we said before, so the #1 driver of our confidence in our sales results in most of our business is headcount and execution. And we believe we're fully staffed, and we have that headcount in place. In the place where we've had the variability or the volatility, if you will, it does come down to what you're describing, which is RFPs, pipeline, et cetera. Yes, we do believe we have the pipeline and the visibility of that pipeline to feel that we will close the gap for the rest of the year. But that's not the -- in our SBS business, in our downmarket business, it doesn't work that way. It's really more about the volume. It's a volume business that's really related to having the proper amount of headcount, the right digital marketing tools and spend. And again, there, we feel good and we feel confident.

Operator

Our next question comes from Jeff Silber from BMO Capital Markets.

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

I'm apologizing for asking another bookings-related question. I just wanted to clarify something. I'm assuming that most of your clients are on calendar year-end as opposed to your June year-end. When you talk about the late decision-making, does this mean that the decisions are being deferred until another year from now? Or is it something that could happen within the next quarter or so?

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

So the good news for ADP is we have clients with all kinds of year-ends because we have a lot of clients. So it really spans the gamut. But you're right that probably the average company in the U.S. has a calendar year-end. But I think most large companies, and particularly multinationals, which ADP -- I would consider ADP to be one of those, we -- typically, when we are negotiating with a vendor for a large contract, we'd be focused more on their fiscal year-end rather than our own fiscal year-end. And so you're right that there are some drivers around people's budgets and so forth, but a lot of procurement departments tend to focus on the vendor's year-end. And so we've seen, historically, it doesn't mean that it will happen again this year, is that our fourth quarter for large domestic and especially for large multinational deals is a particularly important quarter. Because prospects are recognized that even though we're not like a typical software company that -- negotiating towards a company's fiscal year-end, at least in their minds, tends to be a good time to sign deals or negotiate.

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

Okay, I appreciate the....

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

Sorry, Jeff. Just one reminder. I know we said it before, but the 1% impact on an annual basis in business bookings equating to about $17 million, I mean, these multinational, particularly global view deals, you can imagine that if you take that on a quarterly basis, it does have -- just put it in perspective, that outsized impact. So it's just from a framing perspective. It is a pretty meaningful adjustment if you have some of these deals that flow in from one quarter to the next given that sensitivity.

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

On the new business bookings results.

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

On the new business bookings results.

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

Right. Because on a revenue, as you just described, the irony of the situation is that as it doesn't have a big impact on revenue, like we're having issues with FX and with client funds interest in particular that are hurting us, it's not to deny that the bookings eventually will have some impact, but the types of bookings that we have fallen short on in the first half are not particularly revenue impactful.

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

Okay, that's helpful. I do appreciate the color on that. And then I know you don't give quarterly guidance, but you called out, I guess, the comp on the, I guess, "acquisition" of the Wells Fargo payroll business last year. Anything else to call out between 3Q and 4Q that might affect the cadence of those quarters?

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

In terms of new business bookings?

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

No. No. The overall business, either revenues or margins.

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

Well, I mean, again, back to revenues and margins, the -- this client funds interest issue, and again, going back to kind of the 3-year guidance that we gave a few years ago, again, obviously not expecting a lot of sympathy from this crowd, but we're probably about $100 million less than what we expected to be in terms of client funds interest that we're obviously able to -- which we're overcoming some of that as we go forward here. And the -- so that in the second half is actually going to -- according to what I'm seeing in terms of our forecast, that's going to start to have an impact on revenue growth as well. It's not a huge impact, but where we were getting, call it, 1% lift in terms of revenue growth last year in the second quarter, I think this second quarter, it was a much smaller number. And in the second half, it goes to probably no help to actually hurting our revenue growth. So that's a headwind for us. But when I really take out all these issues, FX, client funds interest and other kind of calendar noise issues, when you look at the net impact of new business bookings starts, not new business booking sales, but new business bookings starts minus losses, so if you take retention and new business that started, if you compare last year's second quarter to this year's second quarter, and that, hopefully, the same thing continues into the second half, we have a slight acceleration. It's not a huge acceleration, but a slight acceleration. And so that's what makes me feel good about the strength in the underlying business. Because there's a lot of noise happening in between with calendar. And remember, last year, we also had a one-time item that we mentioned that we call a SUI pull-forward, and the PEO is an accounting change that we were obligated to make that helped the second quarter revenue growth. So all those things, you have to kind of separate all of those and get down to the core of the business and how the core business is performing. And on that basis, I feel good about the quarter, and I feel good about the second half.

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes. The only other thing I would add to your question about kind of quarterly linearity in the balance of the year. Just as a reminder, in the second half of last year, we had much, much more margin expansion in Q3 than in Q4. So therefore, tougher comps for us this year, Q3 versus Q4, in terms of margin expansion. So while we don't give quarterly guidance, I would expect not a whole lot in Q3 and then potentially much more in Q4.

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

But again, back to like in terms of what I mentioned in terms of some of these comparisons that were difficult versus last year's second quarter, some of those things then get easier on a revenue standpoint. Notwithstanding the issues from client funds interest, the SUI pull-forward actually helped last year's second quarter, but depressed our third quarter. So that's going to make an easier comparison. So we do expect slight improvement in our revenue growth in the second half.

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

And just a brief reminder on the fourth quarter. So as a reminder, so we did the client-based acquisition. So that added some amortization expense, which we'll lap in the fourth quarter, and obviously with bookings -- increased booking expense related to the client-based acquisition as well. So just keep that in mind. And then we obviously launched our brand campaign, I think, in the third quarter, but most of that was really -- the expense was kicking off in the fourth quarter as well. So that will be lapped as well.

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

I guess what we're saying is we have some tailwinds in the fourth quarter.

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

Yes.

Operator

And we have time for one final question. And our last question will come from Lisa Ellis from MoffettNathanson.

Lisa Ann Dejong Ellis ***MoffettNathanson LLC - Partner***

Congrats to Christian and Danny from me as well. Carlos, you mentioned a couple of times, and I think in the presentation, the progress on both Lifion as well as the next-gen payroll and tax, can you give an update of where you are on the deployments of the next-gen payroll and tax engines and how they're impacting your business perhaps on the retention side or some of the other impacts?

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

Sure. Thanks. Very excited about the next-gen payroll as well as the back office tax. But the payroll engine, even though it's somewhat back-office, I think, has some positive qualities in terms of potentially helping us, both in terms of, in the future, both around bookings but also around efficiency and costs. I think we have somewhere between 30 and 40 live clients in our next-generation payroll platform. So as you can imagine, in comparison to the size of ADP, it's a relatively small impact in terms of revenue retention or any of the other actual metrics. But an enormous amount of enthusiasm around what we're doing there, both at the team level. I think the team is incredibly enthusiastic. And I think the rest of the organization is very enthusiastic as well in terms of what we're seeing in the early days, especially around the flexibility of how quickly we can, for example, make changes. And that's just related really to the investments in the platform itself. So we've already kind of experimented, and I think we maybe talked about this in the past, with kind of federation, as you call it, in trying to have others develop and build on that platform. We've done the same thing on Lifion. So now we have a team, for example, in Australia that has actually built Australian payroll, and we have 1 or 2 clients on that as well. And so we're incredibly happy with what we're seeing. We're really happy that we have live clients. And this is the first year that, again, even though it was, call it, 30 to 40 clients, this is the first time we've gone through year-end. So who we actually had to go through a year-end and do all the year-end closing activities are probably, enthused, et cetera. So it's still very early days just because of the size of ADP. But if we were a start-up, this would be like really great news. Like if this is a discussion about a start-up, like we've gotten now a lot of technical risk behind us, if you will, and now we have scaling and execution risk that's still in front of us, but that's a hell of a lot better than where we would have been 2 to 3 years ago. And I think it could really add to our competitiveness here in the long run, not to mention it could help a lot in terms of back-office costs. On the tax side, that's probably more focused on back-office costs and efficiency, but that also has an impact on our associates in terms of their ability to deliver service and also the experience that our clients have when we do things like amendments and tax notices. And so again, the news there is very positive. We have -- I think it's close to 140,000 to 150,000 clients?

Kathleen A. Winters ***Automatic Data Processing, Inc. - Corporate VP & CFO***

Yes, about 140,000 clients.

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

About 140,000 clients. Obviously, those are smaller downmarket clients in a limited number of jurisdictions. But I think we've -- now we're up to 20 -- more than 20 jurisdictions. Jurisdictions, by the way, refers the number of states, in addition to the federal places where we can actually do the taxes. And so I'd say that that's progressing also very, very well. Again, highly flexible platform that -- very optimistic in terms of what it can do to us down the road and seeing no scaling issues so far in either of those platforms.

Operator

And this concludes our question-and-answer portion for today. I am pleased to hand the program over to Carlos Rodríguez for any closing remarks.

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

So as you can tell, we're pretty -- we're pleased with the progress we continue to make on both the financials, but also on our strategy. Obviously, as we keep saying over and over again, we're trying to build on our success in the past, but also transform for the future here, so we can continue to deliver sustainable growth for many years to come. I also want to mention that this time of the year, somebody mentioned about this being a busy time of the year for us from a sales standpoint. It's also a very busy time for our associates to deliver service and also our year-end commitments to our clients very long hours and very hard work, and I really appreciate the commitment of our associates. And again, it's one of the great differentiators we have in terms of being able to deliver that level of service, especially in a very busy time of the year like we are right now. Obviously, we wouldn't be able to be successful in the long run without strong products. And so when we have our Investor Day, we're going to hopefully lay out a plan for you about how the sustainability of the strength of ADP will be, I think, helped by the investments we've been making over the last 5 years in our next-generation products. So we look forward to spending time with you on February 10 to discuss all these innovations that we've been investing in, in addition to the next-gen platform and also discussing a little bit of our vision for the future about how we expect work to change and the HCM industry to change.

And with that, I want to thank you once again for your interest in ADP and for joining us today. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a wonderful day.