



ADP Reports First Quarter Fiscal 2021 Results

- Revenues decreased 1% to \$3.5 billion; decreased 1% organic constant currency
- Employer Services New Business Bookings grew 2%, reflecting record first quarter bookings
- Net earnings increased 3% to \$602 million, and adjusted net earnings increased 4% to \$605 million
- Adjusted EBIT increased 5% to \$781 million, and adjusted EBIT margin expanded 120 basis points to 22.5%
- Diluted earnings per share ("EPS") increased 4% to \$1.40 for the quarter; adjusted diluted EPS increased 5% to \$1.41
- Guidance raised on strong first quarter performance and improved outlook for remainder of fiscal 2021; raising bookings, revenue, margin, and EPS guidance

ROSELAND, N.J. – October 28, 2020 – ADP (Nasdaq: ADP), a leading global technology company providing human capital management (HCM) solutions, today announced its first quarter fiscal 2021 financial results and updated its fiscal 2021 outlook.

First Quarter Fiscal 2021 Consolidated Results

Compared to last year's first quarter, revenues decreased 1% to \$3.5 billion, 1% organic constant currency. Net earnings increased 3% to \$602 million, and adjusted net earnings increased 4% to \$605 million. Adjusted EBIT increased 5% to \$781 million, representing an adjusted EBIT margin increase of 120 basis points in the quarter to 22.5%, driven by transformation initiatives and disciplined expense management offset by lower client fund interest revenue and growth in PEO zero-margin pass-throughs. ADP's effective tax rate for the quarter was 21.3% on a reported and an adjusted basis. Diluted EPS increased 4% to \$1.40, and adjusted diluted EPS increased 5% to \$1.41 due to the factors above as well as a net share count reduction.

"ADP's strong performance at the start of the 2021 fiscal year reflected the strength of our company's unmatched scale and diversification, even as the COVID-19 pandemic remains a source of worldwide economic uncertainty," said Carlos Rodriguez, President and Chief Executive Officer, ADP. "We are encouraged by the gradual improvement made by the global economy as seen in higher employment levels and increased business activity, and we will continue to focus on our strategic investments and position ourselves to gain additional momentum as we emerge from the current environment."

"Our first quarter results significantly exceeded our expectations across the board, which was a result of outstanding execution through a period where employment levels among our clients still showed high single-digit declines compared to last year," said Kathleen Winters, Chief Financial Officer, ADP. "We are encouraged by the strong start to the year for our new business bookings, and continue to manage costs prudently. While we still expect to face headwinds over the course of the year, we will continue to look for ways to drive strong performance in both the near and long-term."

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.

First Quarter Segment Results

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

- Employer Services revenues decreased 3% on a reported basis and 3% on an organic constant currency basis
- Employer Services New Business Bookings increased 2%
- Pays per control decreased 9%
- Employer Services segment margin increased by 120 basis points

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

- PEO Services revenues increased 4%
- PEO Services revenues excluding zero-margin benefits pass-throughs decreased 1%
- Average Worksite Employees paid by PEO Services decreased 3% to about 547,000
- PEO Services segment margin increased 40 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 first quarter:

- Interest on funds held for clients decreased 20% to \$106 million
- Average client funds balances decreased 7% to \$22.0 billion
- The average interest yield on client funds declined 30 basis points to 1.9%

Fiscal 2021 Outlook

Certain components of ADP's fiscal 2021 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 2020 pre-tax charges totaling \$128 million related to transformation initiatives, severance charges and charges related to the settlement of certain legal matters
- Fiscal 2021 expected pre-tax charges of about \$50 million related to transformation initiatives

Consolidated Fiscal 2021 Outlook

- Revenue decline of (1)% to growth of 1%
- Adjusted EBIT margin decline of (150) to (100) basis points
- Adjusted effective tax rate of 23.1%
- Diluted EPS decline of (4)% to flat
- Adjusted diluted EPS decline of (7)% to (3)%

Employer Services Segment Fiscal 2021 Outlook

- Employer Services revenue decline of (2)% to flat
- Employer Services margin decline of (150) to (100) basis points
- Employer Services New Business Bookings growth of 10% to 20%
- Employer Services client revenue retention decline of (50) basis points to flat
- Decrease in pays per control of (4)% to (3)%

PEO Services Segment Fiscal 2021 Outlook

- PEO Services revenue flat to growth of 3%
- PEO Services revenue, excluding zero-margin benefits, decline of (1)% to growth of 1%
- PEO Services margin decline of (50) basis points to flat
- PEO Services Average Worksite Employee count decline of (1)% to growth of 1%

Client Funds Extended Investment Strategy Fiscal 2021 Outlook

The interest assumptions in our outlook are based on Fed Funds futures contracts and forward yield curves as of October 27, 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 October 27, 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 \$400 to \$410 million; this is based on an anticipated decline in client funds balances of about (3)% to (1)% from \$26.0 billion in fiscal 2020, and an average yield which is anticipated to decrease about (50) basis points to 1.6% as compared to 2.1% in fiscal 2020
- Total contribution from the client funds extended investment strategy of \$435 to \$445 million

Fiscal 2021 Outlook

		Fiscal 2020 (unaudited)	July 29, 2020 Fiscal 2021 Outlook (a)	October 28, 2020 Fiscal 2021 Outlook (a)
Total ADP	Revenues	\$14,590M	(4) to (1)%	(1) to 1%
	Adj. EBIT Margin	23.0%	~(300) bps	(150) to (100) bps
	Adj. Effective Tax Rate	22.6%	23.1%	23.1%
	Adj. Diluted EPS	\$5.92	(18) to (13)%	(7) to (3)%
Employer Services	Revenues	\$10,087M	(5) to (3)%	(2)% to flat
	Margin	30.3%	~(300) bps	(150) to (100) bps
	ES New Business Bookings	\$1.2B	Flat to 10%	10 to 20%
	Client Revenue Retention	90.5%	(100) to (50) bps	(50) bps to flat
	Pays Per Control	(1.0)%	(4) to (3)%	(4) to (3)%
PEO Services	Revenues	\$4,511M	(2) to 2%	Flat to 3%
	Revenues Ex Pass-throughs	\$1,604M	(4) to (1)%	(1) to 1%
	Margin	13.5%	~(100) bps	(50) bps to flat
	Average WSEs	571,000	(3)% to flat	(1) to 1%
Client Funds Interest	Average Client Funds Balances	\$26.0B	(8) to (6)%	(3) to (1)%
	Yield on Client Funds Portfolio	2.1%	(50) bps to 1.6%	(50) bps to 1.6%
	Client Funds Interest Revenue	\$545M	\$390 - \$400M	\$400 - \$410M
	Extended Investment Strategy	\$561M	\$430 - \$440M	\$435 - \$445M

(a) Outlook contemplates the 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, October 28, 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 2019, 2020, and 2021, as well as quarterly details of the fiscal 2021 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	
	September 30,	
	2020	2019
Revenues:		
Revenues, other than interest on funds held for clients and PEO revenues	\$ 2,269.6	\$ 2,306.2
Interest on funds held for clients	106.5	133.9
PEO revenues (A) (B) (C)	1,094.6	1,055.6
Total revenues	3,470.7	3,495.7
Expenses:		
Costs of revenues:		
Operating expenses (B) (C)	1,762.1	1,787.7
Systems development and programming costs	168.7	168.2
Depreciation and amortization	103.5	88.9
Total costs of revenues	2,034.3	2,044.8
Selling, general, and administrative expenses	681.0	726.5
Interest expense	15.1	39.9
Total expenses	2,730.4	2,811.2
Other (income)/expense, net	(24.9)	(54.6)
Earnings before income taxes	765.2	739.1
Provision for income taxes	163.1	156.7
Net earnings	\$ 602.1	\$ 582.4
Basic earnings per share	\$ 1.40	\$ 1.35
Diluted earnings per share	\$ 1.40	\$ 1.34
Components of Other (income)/expense, net:		
Interest income on corporate funds	\$ (13.8)	\$ (32.3)
Realized (gains) / losses on available-for-sale securities, net	(0.3)	(2.3)
Impairment of assets	2.8	—
Gain on sale of assets	(0.2)	(1.9)
Non-service components of pension income, net (D)	(13.4)	(18.1)
Other (income)/expense, net	\$ (24.9)	\$ (54.6)

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes of \$10,925.8 million and \$10,510.6 million for the three months ended September 30, 2020 and 2019, respectively.

(B) PEO revenues and operating expenses include zero-margin benefits pass-through costs of \$741.0 million and \$699.1 million for the three months ended September 30, 2020 and 2019, respectively.

(C) PEO revenues and operating expenses include costs related to workers' compensation coverage and state unemployment taxes for worksite employees of \$88.0 million and \$91.9 million for the three months ended September 30, 2020 and 2019, 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 three months ended September 30, 2019.

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

	September 30, 2020	June 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,613.1	\$ 1,908.5
Accounts receivable, net of allowance for doubtful accounts of \$89.1 and \$92.5, respectively	2,489.1	2,441.3
Other current assets	762.9	506.2
Total current assets before funds held for clients	4,865.1	4,856.0
Funds held for clients	29,950.3	26,708.1
Total current assets	34,815.4	31,564.1
Long-term receivables, net of allowance for doubtful accounts of \$0.6 and \$0.5, respectively	16.1	18.6
Property, plant and equipment, net	701.5	703.9
Operating lease right-of-use asset	479.0	493.7
Deferred contract costs	2,397.9	2,401.6
Other assets	438.0	458.4
Goodwill	2,326.3	2,309.4
Intangible assets, net	1,215.9	1,215.8
Total assets	<u>\$ 42,390.1</u>	<u>\$ 39,165.5</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 111.2	\$ 102.0
Accrued expenses and other current liabilities	1,900.2	1,980.7
Accrued payroll and payroll-related expenses	494.7	557.0
Dividends payable	387.1	387.3
Short-term deferred revenues	205.0	212.5
Obligations under reverse repurchase agreements (A)	—	13.6
Short-term debt	—	1,001.8
Income taxes payable	133.0	40.1
Total current liabilities before client funds obligations	3,231.2	4,295.0
Client funds obligations	29,098.4	25,831.6
Total current liabilities	32,329.6	30,126.6
Long-term debt	1,993.9	1,002.8
Operating lease liabilities	330.4	344.4
Other liabilities	813.9	837.0
Deferred income taxes	743.0	731.9
Long-term deferred revenues	370.4	370.6
Total liabilities	<u>36,581.2</u>	<u>33,413.3</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 September 30, 2020 and June 30, 2020; outstanding, 429.3 and 429.9 shares at September 30, 2020 and June 30, 2020, respectively	63.9	63.9
Capital in excess of par value	1,348.4	1,333.8
Retained earnings	18,644.7	18,436.3
Treasury stock - at cost: 209.4 and 208.9 shares at September 30, 2020 and June 30, 2020, respectively	(14,264.0)	(14,067.0)
Accumulated other comprehensive income (loss)	15.9	(14.8)
Total stockholders' equity	<u>5,808.9</u>	<u>5,752.2</u>
Total liabilities and stockholders' equity	<u>\$ 42,390.1</u>	<u>\$ 39,165.5</u>

(A) As of June 30, 2020, \$13.6 million of long-term marketable securities 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)

	Three Months Ended	
	September 30,	
	2020	2019
Cash Flows from Operating Activities:		
Net earnings	\$ 602.1	\$ 582.4
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	131.1	117.3
Amortization of deferred contract costs	232.3	227.3
Deferred income taxes	23.5	44.4
Stock-based compensation expense	33.8	37.1
Net pension income	(11.1)	(2.7)
Net amortization of premiums and accretion of discounts on available-for-sale securities	12.4	12.2
Impairment of assets	2.8	—
Gain on sale of assets	(0.2)	(1.9)
Other	6.1	11.9
Changes in operating assets and liabilities:		
Increase in accounts receivable	(78.7)	(96.8)
Increase in other assets	(454.8)	(391.7)
Increase/(Decrease) in accounts payable	5.7	(15.1)
Decrease in accrued expenses and other liabilities	(23.1)	(91.6)
Net cash flows provided by operating activities	<u>481.9</u>	<u>432.8</u>
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(812.8)	(1,409.9)
Proceeds from the sales and maturities of corporate and client funds marketable securities	1,196.7	1,653.7
Capital expenditures	(43.5)	(56.8)
Additions to intangibles	(76.4)	(88.2)
Proceeds from sale of property, plant, and equipment and other assets	0.2	23.4
Net cash flows provided by investing activities	<u>264.2</u>	<u>122.2</u>
Cash Flows from Financing Activities:		
Net increase/(decrease) in client funds obligations	3,203.3	(8,063.3)
Payments of debt	(1,000.6)	(0.5)
Proceeds from the issuance of debt	991.1	—
Settlement of cash flow hedges	(43.6)	—
Repurchases of common stock	(213.6)	(309.7)
Net proceeds from stock purchase plan and stock-based compensation plans	(7.9)	(32.1)
Dividends paid	(391.0)	(343.3)
Net (payments)/proceeds related to reverse repurchase agreements	(13.6)	166.3
Net proceeds of commercial paper borrowings	—	3,536.7
Net cash flows provided by/(used in) financing activities	<u>2,524.1</u>	<u>(5,045.9)</u>
Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	37.9	(33.1)
Net change in cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>3,308.1</u>	<u>(4,524.0)</u>
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	7,053.6	6,796.2
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	<u>\$ 10,361.7</u>	<u>\$ 2,272.2</u>
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	1,613.1	1,403.9
Restricted cash and restricted cash equivalents included in funds held for clients	8,748.6	868.3
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>\$ 10,361.7</u>	<u>\$ 2,272.2</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 27.3	\$ 53.6
Cash paid for income taxes, net of income tax refunds	\$ 45.4	\$ 45.6

Automatic Data Processing, Inc. and Subsidiaries
Other Selected Financial Data
(Dollars in millions, except per share amounts)
(Unaudited)

	Three Months Ended		
	September 30,		
	2020	2019	% Change
<u>Revenues</u>			
Employer Services	\$ 2,376.8	\$ 2,441.4	(3) %
PEO Services	1,095.9	1,056.9	4 %
Other	(2.0)	(2.6)	n/m
Total revenues	\$ 3,470.7	\$ 3,495.7	(1) %
<u>Segment earnings</u>			
Employer Services	\$ 689.3	\$ 679.4	1 %
PEO Services	159.4	149.3	7 %
Other	(83.5)	(89.6)	n/m
Total pretax earnings	\$ 765.2	\$ 739.1	4 %
<u>Segment margin</u>			
Employer Services	29.0 %	27.8 %	1.2 %
PEO Services	14.5 %	14.1 %	0.4 %
Other	n/m	n/m	n/m
Total pretax margin	22.0 %	21.1 %	0.9 %

	Three Months Ended		
	September 30,		
	2020	2019	% Change
<u>Earnings per share information:</u>			
Net earnings	\$ 602.1	\$ 582.4	3 %
Basic weighted average shares outstanding	428.6	432.7	(1) %
Basic earnings per share	\$ 1.40	\$ 1.35	4 %
Diluted weighted average shares outstanding	430.0	435.4	(1) %
Diluted earnings per share	\$ 1.40	\$ 1.34	4 %

	Three Months Ended	
	September 30,	
	2020	2019
<u>Key Statistics:</u>		
<u>Employer Services:</u>		
Change in pays per control - U.S. (A)	(9) %	2 %
Employer Services New Business Bookings growth	2 %	6 %
<u>PEO Services:</u>		
Paid PEO Worksite Employees at end of period	555,000	569,000
Average paid PEO Worksite Employees during the period	547,000	563,000
Significant PEO expenses included within Operating expenses		
Zero-margin benefits pass-through costs	\$ 741.0	\$ 699.1
Workers' compensation and state unemployment taxes	\$ 88.0	\$ 91.9

(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		
	September 30,		% Change
	2020	2019	
Average investment balances at cost (in billions):			
Corporate, other than corporate extended	\$ 1.6	\$ 1.7	0 %
Corporate extended (A)	2.6	4.4	(42) %
Total corporate	4.2	6.1	(30) %
Funds held for clients	22.0	23.7	(7) %
Total	<u>\$ 26.2</u>	<u>\$ 29.7</u>	<u>(12) %</u>
Average interest rates earned exclusive of realized losses (gains) on:			
Corporate, other than corporate extended	0.4 %	2.0 %	
Corporate extended (A)	1.9 %	2.2 %	
Total corporate	1.3 %	2.1 %	
Funds held for clients	1.9 %	2.3 %	
Total	<u>1.8 %</u>	<u>2.2 %</u>	
Net unrealized gain position at end of period	\$ 851.9	\$ 381.3	
Average short-term financing (in billions):			
U.S. commercial paper borrowings	\$ 2.4	\$ 4.0	
U.S., Canadian & U.K. reverse repurchase agreement borrowings	0.2	0.4	
	<u>\$ 2.6</u>	<u>\$ 4.4</u>	
Average interest rates paid on:			
U.S. commercial paper borrowings	0.1 %	2.3 %	
U.S., Canadian & U.K. reverse repurchase agreement borrowings	0.3 %	2.0 %	
Interest on funds held for clients	\$ 106.5	\$ 133.9	(20) %
Corporate extended interest income (B)	12.0	23.9	(50) %
Corporate interest expense-short-term financing (B)	(1.0)	(25.2)	96 %
Net Impact from Client Fund Strategy	<u>\$ 117.5</u>	<u>\$ 132.6</u>	<u>(11) %</u>

	Three Months Ended	
	September 30,	
	2020	2019
Corporate extended interest income (B)	\$ 12.0	\$ 23.9
All other interest income	1.8	8.4
Total interest income on corporate funds (component of Other (income)/expense, net)	<u>\$ 13.8</u>	<u>\$ 32.3</u>
Corporate interest expense-short-term financing (B)	\$ 1.0	\$ 25.2
All other interest expense	14.1	14.8
Total interest expense	<u>\$ 15.1</u>	<u>\$ 39.9</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
	September 30,		
	2020	2019	As Reported
Net earnings	\$ 602.1	\$ 582.4	3 %
Adjustments:			
Provision for income taxes	163.1	156.7	
All other interest expense (a)	14.1	14.8	
All other interest income (a)	(1.8)	(8.4)	
Transformation initiatives (b)	0.8	(0.6)	
Excess capacity severance charges (c)	2.4	—	
Adjusted EBIT	\$ 780.7	\$ 744.9	5 %
<i>Adjusted EBIT Margin</i>	<i>22.5 %</i>	<i>21.3 %</i>	
Provision for income taxes	\$ 163.1	\$ 156.7	4 %
Adjustments:			
Transformation initiatives (d)	0.2	(0.2)	
Excess capacity severance charges (d)	0.6	—	
Adjusted provision for income taxes	\$ 163.9	\$ 156.5	5 %
<i>Adjusted effective tax rate (e)</i>	<i>21.3 %</i>	<i>21.2 %</i>	
Net earnings	\$ 602.1	\$ 582.4	3 %
Adjustments:			
Transformation initiatives (b)	0.8	(0.6)	
Income tax (benefit)/ provision for transformation initiatives (d)	(0.2)	0.2	
Excess capacity severance charges (c)	2.4	—	
Income tax benefit for excess capacity severance charges (d)	(0.6)	—	
Adjusted net earnings	\$ 604.5	\$ 582.0	4 %
Diluted EPS	\$ 1.40	\$ 1.34	4 %
Adjustments:			
Transformation initiatives (b) (d)	—	—	
Excess capacity severance charges (c) (d)	—	—	
Adjusted diluted EPS	\$ 1.41	\$ 1.34	5 %

(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) In the three months ended September 30, 2020, transformation initiatives include charges of \$2.8 million related to impairment charges as a result of recognizing certain owned facilities at fair value given intent to sell and accordingly classified as held for sale and net reversals of charges related to transformation initiatives of \$2.0 million. Unlike certain other severance charges and reversals in prior periods that are not included as an adjustment to get to adjusted results, these specific charges and reversals relate to actions that are part of our broad-based, company-wide transformation initiatives.

(c) Represents severance charges related to excess capacity. Unlike certain other severance charges in prior periods that 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 initiatives to address excess capacity across our business and functions.

(d) The income tax (benefit)/ provision was calculated based on the annualized marginal rate in effect during the quarter of the adjustment.

(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	
	September 30,	
	2020	2019
<u>Revenue growth consolidated:</u>		
Employer Services	(3)%	4 %
PEO Services	4 %	8 %
Consolidated revenue growth as reported	(1)%	6 %
<u>Adjustments:</u>		
Impact of acquisitions	— %	— %
Impact of foreign currency	— %	1 %
Consolidated revenue growth, organic constant currency	(1)%	6 %

Segment:

Employer Services revenue growth as reported	(3)%	4 %
<u>Adjustments:</u>		
Impact of acquisitions	— %	— %
Impact of foreign currency	— %	1 %
Employer Services revenue growth, organic constant currency	(3)%	5 %

Automatic Data Processing, Inc. and Subsidiaries
Fiscal 2020 to Fiscal 2021 Non-GAAP Guidance Reconciliation
(Unaudited)

	Fiscal 2020		Fiscal 2021
			Outlook
Earnings before income taxes / margin (GAAP)	\$ 3,182.6	21.8%	(100) to (50) bps
All other interest expense (a)	59.2	40 bps	(5) bps
All other interest income (a)	(20.5)	(15) bps	10 bps
Gain on sale of assets - FY20	(0.2)	-	-
Transformation initiatives, severance charges and charges related to the settlement of certain legal matters - FY20 (b)	127.8	90 bps	(90) bps
Transformation initiatives - FY21		-	35 bps
Excess capacity severance charges - FY21		-	-
Adjusted EBIT margin (Non-GAAP)	\$ 3,348.9	23.0%	(150) to (100) bps
Effective tax rate (GAAP)		22.5%	23.0%
Gain on sale of assets - FY20		-	-
Transformation initiatives, severance charges and charges related to the settlement of certain legal matters - FY20 (b)		0.1%	-
Transformation initiatives - FY21		-	0.1%
Excess capacity severance charges - FY21		-	-
Adjusted effective tax rate (Non-GAAP)		22.6%	23.1%
Diluted earnings per share (GAAP)	\$ 5.70		(4)% to flat
Gain on sale of assets - FY20		-	-
Transformation initiatives, severance charges and charges related to the settlement of certain legal matters - FY20 (b)		0.22	~ (4)%
Transformation initiatives - FY21		-	~ 1%
Excess capacity severance charges - FY21		-	-
Adjusted diluted earnings per share (Non-GAAP)	\$ 5.92		(7)% to (3)%

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) In fiscal 2020, transformation initiatives include: (i) charges of \$29.9 million related to impairment charges as a result of recognizing certain owned facilities at fair value given intent to sell and accordingly classified as held for sale and impairment charges of operating right-of-use assets and certain related fixed assets associated with the vacating of certain leased locations; (ii) charges of \$29.1 million related to severance (which, unlike certain other severance charges in prior periods that are not included as an adjustment to get to adjusted results, relate to actions that are part of our broad-based, company-wide transformation initiatives); and (iii) charges of \$28.5 million related to other transformation initiatives; all of which were partially offset by net reversals of charges related to Voluntary Early Retirement Program ("VERP") and Service Alignment Initiative ("SAI") of \$10.1 million.

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