

ADP Reports Third Quarter Fiscal 2021 Results

- Revenues increased 1% to \$4.1 billion; raising full year guidance to up 2% to 3%
- Employer Services New Business Bookings increased 7%; raising full year guidance to up 20% to 25%
- Net earnings decreased 1% to \$811 million, and adjusted net earnings decreased 2% to \$810 million
- Adjusted EBIT decreased 2% to \$1.1 billion, and adjusted EBIT margin declined 90 basis points to 26.3%
- Diluted earnings per share ("EPS") flat at \$1.90 for the quarter; adjusted diluted EPS decreased 2% to \$1.89
- Guidance updated to reflect nine months of strong performance and signs of an economic recovery into year-end; raising full year guidance for revenue, bookings, retention, and adjusted diluted EPS

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

Third Quarter Fiscal 2021 Consolidated Results

Compared to last year's third quarter, revenues increased 1% to \$4.1 billion and increased 1% on an organic constant currency basis. Net earnings decreased 1% to \$811 million, and adjusted net earnings decreased 2% to \$810 million. Adjusted EBIT decreased 2% to \$1.1 billion, representing an adjusted EBIT margin reduction of 90 basis points in the quarter to 26.3%, as higher revenues were offset by increases in incentive compensation costs, implementation costs, and other growth investments. ADP's effective tax rate for the quarter was 24.0% on a reported basis and 23.9% on an adjusted basis. Diluted EPS were flat at \$1.90, and adjusted diluted EPS decreased 2% to \$1.89.

"Our strong results this quarter provide further evidence that our decision to maintain our investment in our associates, client service, and product has positioned us well for a recovering global economy," said Carlos Rodriguez, President and Chief Executive Officer, ADP. "We remain focused on driving greater client satisfaction, retention, and market share, and as we continue to press ahead with our Next Gen products and our digital transformation, we are emerging from this challenging economic environment a more nimble and efficient organization ready for the growth opportunities ahead."

"Our sales force continued to build momentum during the third quarter and delivered solid growth in New Business Bookings, and we are on track to achieve substantial positive sales growth for the full year," said Kathleen Winters, Chief Financial Officer, ADP. "Throughout the pandemic, our consistent commitment to investment for growth, and our focus on execution, have helped drive strong performance for both revenue and Adjusted EBIT margin. Our updated full year outlook reflects high confidence in our performance over the remainder of the fiscal year, and our competitive position is strong."

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.

Third Quarter Segment Results

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

- Employer Services revenues decreased 1% on a reported basis and 2% on an organic constant currency basis
- Employer Services New Business Bookings increased 7%
- U.S. pays per control decreased 6%
- Employer Services segment margin decreased 120 basis points

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

- PEO Services revenues increased 7%
- PEO Services revenues excluding zero-margin benefits pass-throughs increased 10%
- Average Worksite Employees paid by PEO Services remained effectively flat at about 594,000
- PEO Services segment margin increased 100 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 third quarter:

- Interest on funds held for clients decreased 32% to \$107 million
- Average client funds balances increased 6% to \$33.2 billion
- The average interest yield on client funds declined 70 basis points to 1.3%

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 less than \$5 million related to transformation initiatives

Consolidated Fiscal 2021 Outlook

- Revenue growth of 2% to 3%
- Adjusted EBIT margin decline of (75) to (50) basis points
- Adjusted effective tax rate of 23.0%
- Diluted EPS growth of 4% to 5%
- Adjusted diluted EPS growth of flat to 1%

Employer Services Segment Fiscal 2021 Outlook

- Employer Services revenue growth of about 1%
- Employer Services margin decline of (75) to (50) basis points
- Employer Services New Business Bookings growth of 20% to 25%
- Employer Services client revenue retention increase of at least 125 basis points
- Decrease in U.S. pays per control of (4)% to (3)%

PEO Services Segment Fiscal 2021 Outlook

- PEO Services revenue growth of 5% to 6%
- PEO Services revenue, excluding zero-margin benefits, growth of 5% to 6%
- PEO Services margin increase of about 75 basis points
- PEO Services Average Worksite Employee count growth of 1% to 2%

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 April 27, 2021. 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 April 27, 2021 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 about \$415 million; this is based on anticipated growth in client funds balances of 2% to 3% 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 about \$450 million

Fiscal 2021 Outlook

		Fiscal 2020 (unaudited)	January 27, 2021 Fiscal 2021 Outlook (a)	April 28, 2021 Fiscal 2021 Outlook (a)
Total ADP	Revenues	\$14,590M	1 to 3%	2 to 3%
	Adj. EBIT Margin	23.0%	(100) to (50) bps	(75) to (50) bps
	Adj. Effective Tax Rate	22.6%	23.0%	23.0%
	Adj. Diluted EPS	\$5.92	(2) to 2%	Flat to 1%
Employer Services	Revenues	\$10,087M	Flat to 2%	~1%
	Margin	30.3%	(100) to (50) bps	(75) to (50) bps
	ES New Business Bookings	\$1.2B	15 to 25%	20 to 25%
	Client Revenue Retention	90.5%	~100 bps	Up at least 125 bps
	U.S. Pays Per Control	(1.0)%	(4) to (3)%	(4) to (3)%
PEO Services	Revenues	\$4,511M	3 to 5%	5 to 6%
	Revenues Ex Pass-throughs	\$1,604M	3 to 5%	5 to 6%
	Margin	13.5%	50 to 100 bps	~75 bps
	Average WSEs	571,000	Flat to 2%	1 to 2%
Client Funds Interest	Average Client Funds Balances	\$26.0B	(1) to 1%	2 to 3%
	Yield on Client Funds Portfolio	2.1%	(50) bps, to 1.6%	(50) bps, to 1.6%
	Client Funds Interest Revenue	\$545M	\$405 - \$415M	~\$415M
	Extended Investment Strategy	\$561M	\$440 - \$450M	~\$450M

(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, April 28, 2021 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		Nine Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
Revenues:				
Revenues, other than interest on funds held for clients and PEO revenues	\$ 2,671.2	\$ 2,652.1	\$ 7,346.1	\$ 7,356.7
Interest on funds held for clients	107.4	158.9	319.2	430.4
PEO revenues (A) (B) (C)	1,323.4	1,236.8	3,603.1	3,425.9
Total revenues	4,102.0	4,047.8	11,268.4	11,213.0
Expenses:				
Costs of revenues:				
Operating expenses (B) (C)	1,999.5	1,974.1	5,609.5	5,597.8
Systems development and programming costs	178.6	172.1	521.8	509.0
Depreciation and amortization	100.0	92.9	303.5	271.2
Total costs of revenues	2,278.1	2,239.1	6,434.8	6,378.0
Selling, general, and administrative expenses	763.0	756.6	2,199.8	2,237.4
Interest expense	13.5	20.0	42.4	91.5
Total expenses	3,054.6	3,015.7	8,677.0	8,706.9
Other (income)/expense, net	(18.8)	(44.6)	(72.7)	(145.2)
Earnings before income taxes	1,066.2	1,076.7	2,664.1	2,651.3
Provision for income taxes	255.5	255.8	603.8	596.4
Net earnings	\$ 810.7	\$ 820.9	\$ 2,060.3	\$ 2,054.9
Basic earnings per share	\$ 1.90	\$ 1.91	\$ 4.82	\$ 4.76
Diluted earnings per share	\$ 1.90	\$ 1.90	\$ 4.80	\$ 4.74
Components of Other (income)/expense, net:				
Interest income on corporate funds	\$ (4.7)	\$ (12.1)	\$ (28.9)	\$ (70.1)
Realized (gains) / losses on available-for-sale securities, net	0.4	(2.5)	(7.6)	(11.9)
Impairment of assets	2.6	—	7.6	—
Gain on sale of assets	(1.6)	—	(3.4)	(2.1)
Non-service components of pension income, net (D)	(15.5)	(30.0)	(40.4)	(61.1)
Other (income)/expense, net	\$ (18.8)	\$ (44.6)	\$ (72.7)	\$ (145.2)

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes of \$13,894.6 million and \$12,643.6 million for the three months ended March 31, 2021 and 2020, respectively, and \$38,259.5 million and \$35,525.8 million for the nine months ended March 31, 2021 and 2020, respectively.

(B) PEO revenues and operating expenses include zero-margin benefits pass-through costs of \$784.7 million and \$747.9 million, and \$2,291.7 million and \$2,169.4 million for the three and nine months ended March 31, 2021 and 2020, respectively.

(C) PEO revenues and operating expenses include costs related to workers' compensation coverage and state unemployment taxes for worksite employees of \$222.2 million and \$192.1 million, and \$422.1 million and \$401.4 million for the three and nine months ended March 31, 2021 and 2020, 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 nine months ended March 31, 2020.

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

	March 31, 2021	June 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,891.5	\$ 1,908.5
Accounts receivable, net of allowance for doubtful accounts of \$83.1 and \$92.5, respectively	2,765.4	2,441.3
Other current assets	604.5	506.2
Total current assets before funds held for clients	5,261.4	4,856.0
Funds held for clients	41,491.0	26,708.1
Total current assets	46,752.4	31,564.1
Long-term receivables, net of allowance for doubtful accounts of \$0.5 and \$0.5, respectively	12.9	18.6
Property, plant and equipment, net	701.4	703.9
Operating lease right-of-use asset	493.8	493.7
Deferred contract costs	2,425.5	2,401.6
Other assets	475.1	458.4
Goodwill	2,333.8	2,309.4
Intangible assets, net	1,212.8	1,215.8
Total assets	<u>\$ 54,407.7</u>	<u>\$ 39,165.5</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 112.2	\$ 102.0
Accrued expenses and other current liabilities	2,000.9	1,980.7
Accrued payroll and payroll-related expenses	762.1	557.0
Dividends payable	392.7	387.3
Short-term deferred revenues	200.7	212.5
Obligations under reverse repurchase agreements (A)	—	13.6
Short-term debt	—	1,001.8
Income taxes payable	103.6	40.1
Total current liabilities before client funds obligations	3,572.2	4,295.0
Client funds obligations	41,043.0	25,831.6
Total current liabilities	44,615.2	30,126.6
Long-term debt	1,994.3	1,002.8
Operating lease liabilities	360.9	344.4
Other liabilities	806.5	837.0
Deferred income taxes	592.0	731.9
Long-term deferred revenues	364.9	370.6
Total liabilities	<u>48,733.8</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 March 31, 2021 and June 30, 2020; outstanding, 426.0 and 429.9 shares at March 31, 2021 and June 30, 2020, respectively	63.9	63.9
Capital in excess of par value	1,479.8	1,333.8
Retained earnings	19,307.5	18,436.3
Treasury stock - at cost: 212.7 and 208.9 shares at March 31, 2021 and June 30, 2020, respectively	(14,919.6)	(14,067.0)
Accumulated other comprehensive income (loss)	(257.7)	(14.8)
Total stockholders' equity	<u>5,673.9</u>	<u>5,752.2</u>
Total liabilities and stockholders' equity	<u>\$ 54,407.7</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)

	Nine Months Ended	
	March 31,	
	2021	2020
Cash Flows from Operating Activities:		
Net earnings	\$ 2,060.3	\$ 2,054.9
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	384.7	355.5
Amortization of deferred contract costs	700.5	687.4
Deferred income taxes	(38.3)	57.7
Stock-based compensation expense	126.4	106.7
Net pension income	(35.9)	(14.6)
Net amortization of premiums and accretion of discounts on available-for-sale securities	48.7	40.7
Impairment of assets	7.6	—
Gain on sale of assets	(3.4)	(2.1)
Other	18.2	44.9
Changes in operating assets and liabilities:		
Increase in accounts receivable	(365.2)	(281.6)
Increase in other assets	(794.0)	(762.3)
Increase/(Decrease) in accounts payable	9.8	(3.6)
Increase/(Decrease) in accrued expenses and other liabilities	321.1	(34.0)
Net cash flows provided by operating activities	<u>2,440.5</u>	<u>2,249.6</u>
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(7,148.3)	(3,894.6)
Proceeds from the sales and maturities of corporate and client funds marketable securities	5,159.6	4,749.9
Capital expenditures	(145.3)	(139.3)
Additions to intangibles	(240.2)	(261.0)
Proceeds from sale of property, plant, and equipment and other assets	7.8	23.6
Net cash flows (used in)/provided by investing activities	<u>(2,366.4)</u>	<u>478.6</u>
Cash Flows from Financing Activities:		
Net increase in client funds obligations	14,999.9	1,351.5
Payments of debt	(1,001.6)	(1.6)
Proceeds from the issuance of debt	991.1	—
Settlement of cash flow hedges	(43.6)	—
Repurchases of common stock	(902.5)	(1,006.3)
Net proceeds from stock purchase plan and stock-based compensation plans	73.5	33.3
Dividends paid	(1,179.5)	(1,078.9)
Net payments related to reverse repurchase agreements	(13.6)	(262.0)
Net cash flows provided by/(used in) financing activities	<u>12,923.7</u>	<u>(964.0)</u>
Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	70.4	(41.4)
Net change in cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>13,068.2</u>	<u>1,722.8</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>\$ 20,121.8</u>	<u>\$ 8,519.0</u>
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	1,891.5	1,705.0
Restricted cash and restricted cash equivalents included in funds held for clients	18,230.3	6,814.0
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>\$ 20,121.8</u>	<u>\$ 8,519.0</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 52.3	\$ 103.8
Cash paid for income taxes, net of income tax refunds	\$ 570.1	\$ 520.2

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

	Three Months Ended			Nine Months Ended		
	March 31,			March 31,		
	2021	2020	% Change	2021	2020	% Change
<u>Revenues</u>						
Employer Services	\$ 2,780.0	\$ 2,811.7	(1) %	\$ 7,667.4	\$ 7,790.6	(2) %
PEO Services	1,324.1	1,238.3	7 %	3,606.1	3,429.8	5 %
Other	(2.1)	(2.2)	n/m	(5.1)	(7.4)	n/m
Total revenues	\$ 4,102.0	\$ 4,047.8	1 %	\$11,268.4	\$11,213.0	— %
<u>Segment earnings</u>						
Employer Services	\$ 980.0	\$ 1,023.7	(4) %	\$ 2,427.8	\$ 2,469.4	(2) %
PEO Services	198.7	173.6	14 %	545.5	490.9	11 %
Other	(112.5)	(120.6)	n/m	(309.2)	(309.0)	n/m
Total pretax earnings	\$ 1,066.2	\$ 1,076.7	(1) %	\$ 2,664.1	\$ 2,651.3	— %
<u>Segment margin</u>						
Employer Services	35.3 %	36.4 %	(1.2) %	31.7 %	31.7 %	— %
PEO Services	15.0 %	14.0 %	1.0 %	15.1 %	14.3 %	0.8 %
Other	n/m	n/m	n/m	n/m	n/m	n/m
Total pretax margin	26.0 %	26.6 %	(0.6) %	23.6 %	23.6 %	— %

	Three Months Ended			Nine Months Ended		
	March 31,			March 31,		
	2021	2020	% Change	2021	2020	% Change
<u>Earnings per share information:</u>						
Net earnings	\$ 810.7	\$ 820.9	(1) %	\$ 2,060.3	\$ 2,054.9	— %
Basic weighted average shares outstanding	425.8	430.0	(1) %	427.3	431.4	(1) %
Basic earnings per share	\$ 1.90	\$ 1.91	— %	\$ 4.82	\$ 4.76	1 %
Diluted weighted average shares outstanding	427.7	431.8	(1) %	428.9	433.5	(1) %
Diluted earnings per share	\$ 1.90	\$ 1.90	— %	\$ 4.80	\$ 4.74	1 %

	Three Months Ended		Nine Months Ended		
	March 31,		March 31,		
	2021	2020	2021	2020	
<u>Key Statistics:</u>					
<u>Employer Services:</u>					
Change in pays per control - U.S. (A)		(6) %	2 %	(7) %	2 %
Employer Services New Business Bookings growth		7 %	(9)%	1 %	(1)%
<u>PEO Services:</u>					
Paid PEO Worksite Employees at end of period		595,000	595,000	595,000	595,000
Average paid PEO Worksite Employees during the period		594,000	595,000	570,000	579,000
<u>Significant PEO expenses included within Operating expenses</u>					
Zero-margin benefits pass-through costs		\$ 784.7	\$ 747.9	\$ 2,291.7	\$ 2,169.4
Workers' compensation and state unemployment taxes		\$ 222.2	\$ 192.1	\$ 422.1	\$ 401.4

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

Automatic Data Processing, Inc. and Subsidiaries

Other Selected Financial Data, Continued

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

(Unaudited)

	Three Months Ended			Nine Months Ended		
	March 31,			March 31,		
	2021	2020	% Change	2021	2020	% Change
Average investment balances at cost (in billions):						
Corporate, other than corporate extended	\$ 1.8	\$ 1.6	11 %	\$ 1.7	\$ 1.5	9 %
Corporate extended (A)	0.7	1.3	(46) %	1.7	3.2	(45) %
Total corporate	2.5	2.9	(15) %	3.4	4.7	(27) %
Funds held for clients	33.2	31.3	6 %	26.7	26.7	— %
Total	<u>\$ 35.7</u>	<u>\$ 34.2</u>	<u>4 %</u>	<u>\$ 30.1</u>	<u>\$ 31.4</u>	<u>(4) %</u>
Average interest rates earned exclusive of realized losses (gains) on:						
Corporate, other than corporate extended	0.4 %	1.3 %		0.4 %	1.7 %	
Corporate extended (A)	1.7 %	2.1 %		1.8 %	2.1 %	
Total corporate	0.7 %	1.7 %		1.1 %	2.0 %	
Funds held for clients	1.3 %	2.0 %		1.6 %	2.2 %	
Total	<u>1.3 %</u>	<u>2.0 %</u>		<u>1.5 %</u>	<u>2.1 %</u>	
Net unrealized gain position at end of period	\$ 448.0	\$ 475.5		\$ 448.0	\$ 475.5	
Average short-term financing (in billions):						
U.S. commercial paper borrowings	\$ 0.7	\$ 1.2		\$ 1.6	\$ 2.9	
U.S., Canadian & U.K. reverse repurchase agreement borrowings	0.0	0.1		0.1	0.3	
	<u>\$ 0.7</u>	<u>\$ 1.3</u>		<u>\$ 1.7</u>	<u>\$ 3.2</u>	
Average interest rates paid on:						
U.S. commercial paper borrowings	0.1 %	1.5 %		0.1 %	1.9 %	
U.S., Canadian & U.K. reverse repurchase agreement borrowings	0.2 %	1.6 %		0.3 %	1.8 %	
Interest on funds held for clients	\$ 107.4	\$ 158.9	(32) %	\$ 319.2	\$ 430.4	(26) %
Corporate extended interest income (B)	3.1	7.0	(57) %	24.0	51.2	(53) %
Corporate interest expense-short-term financing (B)	(0.3)	(5.1)	95 %	(1.9)	(47.1)	96 %
Net Impact from Client Fund Strategy	<u>\$ 110.2</u>	<u>\$ 160.8</u>	<u>(32) %</u>	<u>\$ 341.3</u>	<u>\$ 434.5</u>	<u>(21) %</u>

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
Corporate extended interest income (B)	\$ 3.1	\$ 7.0	\$ 24.0	\$ 51.2
All other interest income	1.6	5.1	4.9	18.9
Total interest income on corporate funds (component of Other (income)/expense, net)	<u>\$ 4.7</u>	<u>\$ 12.1</u>	<u>\$ 28.9</u>	<u>\$ 70.1</u>
Corporate interest expense-short-term financing (B)	\$ 0.3	\$ 5.1	\$ 1.9	\$ 47.1
All other interest expense	13.2	14.8	40.5	44.3
Total interest expense	<u>\$ 13.5</u>	<u>\$ 20.0</u>	<u>\$ 42.4</u>	<u>\$ 91.5</u>

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

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

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

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

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

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

	Three Months Ended			Nine Months Ended		
	March 31,		% Change As Reported	March 31,		% Change As Reported
	2021	2020		2021	2020	
Net earnings	\$ 810.7	\$ 820.9	(1) %	\$ 2,060.3	\$ 2,054.9	— %
Adjustments:						
Provision for income taxes	255.5	255.8		603.8	596.4	
All other interest expense (a)	13.2	14.8		40.5	44.3	
All other interest income (a)	(1.6)	(5.1)		(4.9)	(18.9)	
Gain on sale of assets	—	—		—	(0.2)	
Transformation initiatives (b)	(0.6)	11.1		3.5	19.6	
Excess capacity severance charges (c)	—	—		2.9	—	
Adjusted EBIT	\$ 1,077.2	\$ 1,097.5	(2) %	\$ 2,706.1	\$ 2,696.1	— %
<i>Adjusted EBIT Margin</i>	<i>26.3 %</i>	<i>27.1 %</i>		<i>24.0 %</i>	<i>24.0 %</i>	
Provision for income taxes	\$ 255.5	\$ 255.8	— %	\$ 603.8	\$ 596.4	1 %
Adjustments:						
Gain on sale of assets (d)	—	—		—	(0.1)	
Transformation initiatives (d)	(0.3)	2.7		0.7	4.8	
Excess capacity severance charges (d)	—	—		0.7	—	
Adjusted provision for income taxes	\$ 255.2	\$ 258.5	(1) %	\$ 605.2	\$ 601.1	1 %
<i>Adjusted effective tax rate (e)</i>	<i>23.9 %</i>	<i>23.8 %</i>		<i>22.7 %</i>	<i>22.5 %</i>	
Net earnings	\$ 810.7	\$ 820.9	(1) %	\$ 2,060.3	\$ 2,054.9	— %
Adjustments:						
Gain on sale of assets	—	—		—	(0.2)	
Income tax provision on gain on sale of assets (d)	—	—		—	0.1	
Transformation initiatives (b)	(0.6)	11.1		3.5	19.6	
Income tax (benefit) provision for transformation initiatives (d)	0.3	(2.7)		(0.7)	(4.8)	
Excess capacity severance charges (c)	—	—		2.9	—	
Income tax benefit for excess capacity severance charges (d)	—	—		(0.7)	—	
Adjusted net earnings	\$ 810.4	\$ 829.3	(2) %	\$ 2,065.3	\$ 2,069.6	— %
Diluted EPS	\$ 1.90	\$ 1.90	— %	\$ 4.80	\$ 4.74	1 %
Adjustments:						
Gain on sale of assets	—	—		—	—	
Transformation initiatives (b) (d)	—	0.02		0.01	0.03	
Excess capacity severance charges (c) (d)	—	—		0.01	—	
Adjusted diluted EPS	\$ 1.89	\$ 1.92	(2) %	\$ 4.82	\$ 4.77	1 %

(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 March 31, 2021, transformation initiatives include gain on sale of assets and net reversals related to other transformation initiatives, including severance. This is partially offset by impairment charges as a result of recognizing certain owned facilities at fair value given intent to sell and accordingly classified as held for sale. In the nine months ended March 31, 2021, transformation initiatives include 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 lease asset impairment charges partially offset by net reversals of charges related to other transformation initiatives, including severance. Unlike other severance charges which are not included as an adjustment to get to adjusted results, these specific charges relate to actions taken as part of our broad-based, company-wide transformation initiative.

(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		Nine Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
<u>Revenue growth consolidated:</u>				
Employer Services	(1)%	3 %	(2)%	4 %
PEO Services	7 %	11 %	5 %	9 %
Consolidated revenue growth as reported	1 %	6 %	— %	5 %
<u>Adjustments:</u>				
Impact of acquisitions	— %	— %	— %	— %
Impact of foreign currency	— %	— %	— %	— %
Consolidated revenue growth, organic constant currency	1 %	6 %	— %	6 %
 <u>Segment:</u>				
Employer Services revenue growth as reported	(1)%	3 %	(2)%	4 %
<u>Adjustments:</u>				
Impact of acquisitions	— %	— %	— %	— %
Impact of foreign currency	(1)%	1 %	— %	1 %
Employer Services revenue growth, organic constant currency	(2)%	4 %	(2)%	4 %

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%	10 to 35 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		-	-
Excess capacity severance charges - FY21		-	-
Adjusted EBIT margin (Non-GAAP)	\$ 3,348.9	23.0%	(75) to (50) 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		-	-
Excess capacity severance charges - FY21		-	-
Adjusted effective tax rate (Non-GAAP)		22.6%	23.0%
Diluted earnings per share (GAAP)	\$ 5.70		4 to 5%
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		-	-
Excess capacity severance charges - FY21		-	-
Adjusted diluted earnings per share (Non-GAAP)	\$ 5.92		Flat to 1%

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 our Voluntary Early Retirement Program ("VERP") and Service Alignment Initiative ("SAI") of \$10.1 million.

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This document and other written or oral statements made from time to time by ADP may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature and which may be identified by the use of words like “expects,” “assumes,” “projects,” “anticipates,” “estimates,” “we believe,” “could” “is designed to” and other words of similar meaning, are forward-looking statements. These statements are based on management’s expectations and assumptions and depend upon or refer to future events or conditions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements or that could contribute to such difference include: ADP’s success in obtaining, and retaining, clients, and selling additional services to clients; the pricing of products and services; the success of our new solutions; compliance with existing or new legislation or regulations; changes in, or interpretations of, existing legislation or regulations; overall market, political and economic conditions, including interest rate and foreign currency trends; competitive conditions; our ability to maintain our current credit ratings and the impact on our funding costs and profitability; security or cyber breaches, fraudulent acts, and system interruptions and failures; employment and wage levels; changes in technology; availability of skilled technical associates; the impact of new acquisitions and divestitures; the adequacy, effectiveness and success of our business transformation initiatives; and the impact of any uncertainties related to major natural disasters or catastrophic events, including the COVID-19 pandemic. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. These risks and uncertainties, along with the risk factors discussed under “Item 1A. Risk Factors” of our most recent Annual Report on Form 10-K, and in other written or oral statements made from time to time by ADP, should be considered in evaluating any forward-looking statements contained herein.

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