



ADP Reports Fourth Quarter and Fiscal 2021 Results; Provides Fiscal 2022 Outlook

- Revenues increased 3% to \$15.0 billion for the year; 2% organic constant currency
- Employer Services new business bookings increased 23% for the year
- Net earnings increased 5% to \$2.6 billion for the year, and adjusted net earnings increased 1% to \$2.6 billion
- Adjusted EBIT increased 1% to \$3.4 billion for the year, and adjusted EBIT margin decreased 40 basis points to 22.6%
- Diluted earnings per share ("EPS") increased 6% to \$6.07 for the year; adjusted diluted EPS increased 2% to \$6.02
- Providing fiscal 2022 outlook including Employer Services new business bookings growth of 10% to 15%, consolidated revenue growth of 6% to 7%, adjusted EBIT margin expansion of 25 to 50 basis points, and adjusted diluted EPS growth of 9% to 11%

ROSELAND, N.J. – July 28, 2021 – ADP (Nasdaq: ADP), a leading global technology company providing human capital management (HCM) solutions, today announced its fourth quarter and fiscal 2021 financial results and provided its fiscal 2022 outlook.

Fourth Quarter and Fiscal 2021 Consolidated Results

Compared to last year's fourth quarter, revenues increased 11% to \$3.7 billion and increased 9% on an organic constant currency basis. Net earnings increased 31% to \$538 million, and adjusted net earnings increased 4% to \$512 million. Adjusted EBIT increased 4% to \$678 million, representing an adjusted EBIT margin decrease of 120 basis points in the quarter to 18.1%, as higher revenues were offset by increases in selling expenses and other incentive compensation costs, implementation costs, and continued reinvestment in the business. ADP's effective tax rate for the quarter was 22.8% on a reported basis and 22.7% on an adjusted basis. Diluted EPS increased 31% to \$1.26, and adjusted diluted EPS increased 5% to \$1.20.

For the full year, revenues increased 3% to \$15.0 billion, 2% organic constant currency. Net earnings increased 5% to \$2.6 billion, and adjusted net earnings increased 1% to \$2.6 billion. Adjusted EBIT increased 1% to \$3.4 billion, and adjusted EBIT margin decreased 40 basis points to 22.6%. The adjusted EBIT margin decrease was driven by higher incentive costs and growth investments partially offset by gains from operating efficiencies and digital transformation and procurement initiatives. ADP's full year tax rate was 22.7% on both an effective basis and an adjusted basis. Diluted EPS increased 6% to \$6.07, and adjusted diluted EPS increased 2% to \$6.02 due to the factors discussed above and a net share count reduction.

"This past year brought unprecedented change for employers and workers around the world, but as always we remained focused on delivering exceptional value to our clients. We are proud of our results for fiscal year 2021. The dedication and resilience demonstrated by our associates resulted in sales, revenue, and earnings growth that was consistently ahead of our own expectations," said Carlos Rodriguez, President and Chief Executive Officer, ADP. "Our strong outlook for fiscal year 2022 reflects our conviction that ADP will continue to lead the market as demand for our world-class HCM solutions and expertise grows."

"Excellent execution across our business, together with our steady investments in sales, product, technology, and our digital transformation, have positioned us favorably for an improving global economy," said Kathleen Winters, Chief Financial Officer, ADP. "Our new guidance anticipates solid revenue and bookings growth and improved profitability supported by growth in pays-per-control, further gains in sales productivity, and a continued disciplined approach to expenses."

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.

Fourth Quarter and Fiscal 2021 Segment Results

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

- Employer Services revenues increased 10% on a reported basis and 8% on an organic constant currency basis for the fourth quarter, and increased 1% on a reported basis and were flat on an organic constant currency basis for the fiscal year
- Employer Services new business bookings increased 174% for the fourth quarter and increased 23% for the fiscal year
- Employer Services client revenue retention was up 170 basis points for the fiscal year to 92.2%
- U.S. pays per control increased 8% for the fourth quarter and decreased 3% for the fiscal year
- Employer Services segment margin decreased 90 basis points for the fourth quarter and decreased 40 basis points for the fiscal year

PEO Services – PEO Services provides comprehensive employment administration outsourcing solutions. Compared to last year:

- PEO Services revenues increased 12% for the fourth quarter and increased 7% for the fiscal year
- PEO Services revenues excluding zero-margin benefits pass-throughs increased 20% for the fourth quarter and increased 8% for the fiscal year
- Average worksite employees paid by PEO Services increased 12% to about 616,000 for the fourth quarter and increased 2% to about 582,000 for the fiscal year
- PEO Services segment margin increased 340 basis points for the fourth quarter and increased 140 basis points for the fiscal year

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:

- Interest on funds held for clients decreased 10% to \$103 million for the fourth quarter and decreased 23% to \$422 million for the fiscal year
- Average client funds balances increased 22% to \$29.3 billion for the fourth quarter and increased 5% to \$27.4 billion for the fiscal year
- The average interest yield on client funds decreased 50 basis points to 1.4% for the fourth quarter and decreased 60 basis points to 1.5% for the fiscal year

Fiscal 2022 Outlook

Certain components of ADP's fiscal 2022 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 2021 pre-tax charges of \$3 million related to transformation initiatives and pre-tax gains of approximately \$31 million related to legal settlements
- Fiscal 2022 expected pre-tax charges of approximately \$10 million related to transformation initiatives

Consolidated Fiscal 2022 Outlook

- Revenue growth of 6% to 7%
- Adjusted EBIT margin expansion of 25 to 50 basis points
- Adjusted effective tax rate of approximately 22.5%
- Diluted EPS growth of 8% to 10%
- Adjusted diluted EPS growth of 9% to 11%

Employer Services Segment Fiscal 2022 Outlook

- Employer Services revenue growth of 4% to 6%
- Employer Services margin expansion of 50 to 75 basis points
- Employer Services new business bookings growth of 10% to 15%
- Employer Services client revenue retention decrease of approximately 75 basis points
- Increase in U.S. pays per control of 4% to 5%

PEO Services Segment Fiscal 2022 Outlook

- PEO Services revenue growth of 9% to 11%
- PEO Services revenue, excluding zero-margin benefits pass-throughs, growth of 10% to 12%
- PEO Services margin decrease of 25 to 75 basis points
- PEO Services average worksite employee count growth of 9% to 11%

Client Funds Extended Investment Strategy Fiscal 2022 Outlook

The interest assumptions in our outlook are based on Fed Funds futures contracts and various forward yield curves as of July 27, 2021. The Fed Funds futures contracts are used in the client short and corporate cash interest income outlook. A combination of various forward yield curves that reflect our investment mix, resulting in a blended rate of 1.0%, was used to forecast new purchase rates across the client and corporate extended and client long portfolios over the remainder of the fiscal year.

- Interest on funds held for clients of \$405 to \$415 million; this is based on anticipated growth in client funds balances of 8% to 10% from \$27.4 billion in fiscal 2021, and an average yield that is anticipated to decrease about 10 basis points to 1.4% as compared to 1.5% in fiscal 2021
- Total contribution from the client funds extended investment strategy of \$435 to \$445 million

Fiscal 2022 Outlook

		Fiscal 2021 (unaudited)	July 28, 2021 Fiscal 2022 Outlook (a)
Total ADP	Revenues	\$15,005M	6 to 7%
	Adj. EBIT Margin	22.6%	25 to 50 bps
	Adj. Effective Tax Rate	22.7%	~22.5%
	Adj. Diluted EPS	\$6.02	9 to 11%
Employer Services	Revenues	\$10,195M	4 to 6%
	Margin	29.9%	50 to 75 bps
	ES New Business Bookings	\$1.5B	10 to 15%
	Client Revenue Retention	92.2%	~(75) bps
	U.S. Pays Per Control	(3)%	4 to 5%
PEO Services	Revenues	\$4,818M	9 to 11%
	Revenues Ex Pass-throughs	\$1,726M	10 to 12%
	Margin	14.9%	(75) to (25) bps
	Average WSEs	582,000	9 to 11%
Client Funds Interest	Average Client Funds Balances	\$27.4B	8 to 10%
	Yield on Client Funds Portfolio	1.5%	(10) bps, to 1.4%
	Client Funds Interest Revenue	\$422M	\$405 to \$415M
	Extended Investment Strategy	\$450M	\$435 to \$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, July 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		Twelve Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Revenues:				
Revenues, other than interest on funds held for clients and PEO revenues	\$ 2,422.4	\$ 2,181.4	\$ 9,768.6	\$ 9,538.1
Interest on funds held for clients	103.2	114.8	422.4	545.2
PEO revenues (A) (B) (C)	1,211.3	1,080.6	4,814.4	4,506.5
Total revenues	3,736.9	3,376.8	15,005.4	14,589.8
Expenses:				
Costs of revenues:				
Operating expenses (B) (C)	1,911.1	1,806.4	7,520.7	7,404.1
Systems development and programming costs	194.9	165.1	716.6	674.1
Depreciation and amortization	99.5	95.7	403.0	366.9
Total costs of revenues	2,205.5	2,067.2	8,640.3	8,445.1
Selling, general, and administrative expenses	840.7	765.6	3,040.5	3,003.0
Interest expense	17.2	15.6	59.7	107.1
Total expenses	3,063.4	2,848.4	11,740.5	11,555.2
Other (income)/expense, net	(23.6)	(2.9)	(96.3)	(148.0)
Earnings before income taxes	697.1	531.3	3,361.2	3,182.6
Provision for income taxes	158.9	119.8	762.7	716.1
Net earnings	\$ 538.2	\$ 411.5	\$ 2,598.5	\$ 2,466.5
Basic earnings per share	\$ 1.27	\$ 0.96	\$ 6.10	\$ 5.73
Diluted earnings per share	\$ 1.26	\$ 0.96	\$ 6.07	\$ 5.70
Components of Other (income)/expense, net:				
Interest income on corporate funds	\$ (7.5)	\$ (14.5)	\$ (36.5)	\$ (84.5)
Realized (gains)/losses on available-for-sale securities, net	(3.6)	(1.0)	(11.3)	(12.9)
Impairment of assets	12.2	29.9	19.9	29.9
Gain on sale of assets	(6.4)	(3.9)	(8.1)	(5.8)
Gain on sale of investment	—	—	(1.7)	(0.2)
Non-service components of pension income, net (D)	(18.3)	(13.4)	(58.6)	(74.5)
Other (income)/expense, net	\$ (23.6)	\$ (2.9)	\$ (96.3)	\$ (148.0)

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes of \$13,102.8 million and \$10,300.3 million for the three months ended June 30, 2021 and 2020, respectively, and \$51,362.3 million and \$45,826.1 million for the twelve months ended June 30, 2021 and 2020, respectively.

(B) PEO revenues and operating expenses include zero-margin benefits pass-through costs of \$800.3 million and \$738.3 million, and \$3,092.0 million and \$2,907.7 million for the three and twelve months ended June 30, 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 \$111.7 million and \$72.7 million, and \$533.9 million and \$474.1 million for the three and twelve months ended June 30, 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 twelve months ended June 30, 2020.

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

	June 30, 2021	June 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,575.2	\$ 1,908.5
Accounts receivable, net of allowance for doubtful accounts of \$79.6 and \$92.5, respectively	2,727.4	2,441.3
Other current assets	533.4	506.2
Total current assets before funds held for clients	5,836.0	4,856.0
Funds held for clients	34,905.8	26,708.1
Total current assets	40,741.8	31,564.1
Long-term receivables, net of allowance for doubtful accounts of \$0.3 and \$0.5, respectively	11.5	18.6
Property, plant and equipment, net	684.5	703.9
Operating lease right-of-use asset	462.2	493.7
Deferred contract costs	2,498.2	2,401.6
Other assets	825.8	458.4
Goodwill	2,338.4	2,309.4
Intangible assets, net	1,210.1	1,215.8
Total assets	<u>\$ 48,772.5</u>	<u>\$ 39,165.5</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 141.1	\$ 102.0
Accrued expenses and other current liabilities	1,963.3	1,980.7
Accrued payroll and payroll-related expenses	910.2	557.0
Dividends payable	390.8	387.3
Short-term deferred revenues	203.9	212.5
Obligations under reverse repurchase agreements (A)	23.5	13.6
Short-term debt	—	1,001.8
Income taxes payable	58.2	40.1
Total current liabilities before client funds obligations	3,691.0	4,295.0
Client funds obligations	34,403.8	25,831.6
Total current liabilities	38,094.8	30,126.6
Long-term debt	2,985.0	1,002.8
Operating lease liabilities	343.2	344.4
Other liabilities	834.1	837.0
Deferred income taxes	482.9	731.9
Long-term deferred revenues	362.4	370.6
Total liabilities	<u>43,102.4</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 June 30, 2021 and June 30, 2020; outstanding, 423.7 and 429.9 shares at June 30, 2021 and June 30, 2020, respectively	63.9	63.9
Capital in excess of par value	1,531.3	1,333.8
Retained earnings	19,451.1	18,436.3
Treasury stock - at cost: 215.0 and 208.9 shares at June 30, 2021 and June 30, 2020, respectively	(15,386.8)	(14,067.0)
Accumulated other comprehensive income (loss)	10.6	(14.8)
Total stockholders' equity	<u>5,670.1</u>	<u>5,752.2</u>
Total liabilities and stockholders' equity	<u>\$ 48,772.5</u>	<u>\$ 39,165.5</u>

(A) As of June 30, 2021, \$23.5 million of long-term marketable securities have been pledged as collateral under the Company's reverse repurchase agreements. 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)

	Twelve Months Ended	
	June 30,	
	2021	2020
Cash Flows from Operating Activities:		
Net earnings	\$ 2,598.5	\$ 2,466.5
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	510.7	480.0
Amortization of deferred contract costs	935.3	915.0
Deferred income taxes	(251.1)	26.0
Stock-based compensation expense	175.3	130.8
Net pension income	(52.8)	(11.6)
Net amortization of premiums and accretion of discounts on available-for-sale securities	69.5	50.2
Impairment of assets	19.9	29.9
Gain on sale of assets	(9.8)	(6.0)
Other	35.2	65.4
Changes in operating assets and liabilities:		
Increase in accounts receivable	(339.8)	(113.8)
Increase in other assets	(1,029.4)	(910.4)
Increase/(Decrease) in accounts payable	36.9	(18.3)
Increase/(Decrease) in accrued expenses and other liabilities	394.9	(77.5)
Net cash flows provided by operating activities	<u>3,093.3</u>	<u>3,026.2</u>
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(9,266.3)	(3,905.1)
Proceeds from the sales and maturities of corporate and client funds marketable securities	6,238.4	7,648.4
Capital expenditures	(178.6)	(172.7)
Additions to intangibles	(327.3)	(443.7)
Proceeds from sale of property, plant, and equipment and other assets	18.8	29.4
Net cash flows (used in)/provided by investing activities	<u>(3,515.0)</u>	<u>3,156.3</u>
Cash Flows from Financing Activities:		
Net increase/(decrease) in client funds obligations	8,336.2	(3,213.2)
Payments of debt	(1,001.8)	(2.2)
Proceeds from the issuance of debt	1,981.5	—
Settlement of cash flow hedges	(44.6)	—
Repurchases of common stock	(1,372.3)	(1,006.3)
Net proceeds from stock purchase plan and stock-based compensation plans	104.1	50.0
Dividends paid	(1,575.5)	(1,470.5)
Net proceeds/(payments) related to reverse repurchase agreements	9.9	(248.4)
Net cash flows provided by/(used in) financing activities	<u>6,437.5</u>	<u>(5,890.6)</u>
Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	73.8	(34.5)
Net change in cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>6,089.6</u>	<u>257.4</u>
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of year	<u>7,053.6</u>	<u>6,796.2</u>
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of year	<u>\$ 13,143.2</u>	<u>\$ 7,053.6</u>
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	2,575.2	1,908.5
Restricted cash and restricted cash equivalents included in funds held for clients	<u>10,568.0</u>	<u>5,145.1</u>
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>\$ 13,143.2</u>	<u>\$ 7,053.6</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 53.1	\$ 104.8
Cash paid for income taxes, net of income tax refunds	\$ 973.7	\$ 677.1

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

	Three Months Ended			Twelve Months Ended		
	June 30,			June 30,		
	2021	2020	% Change	2021	2020	% Change
<u>Segment revenues</u>						
Employer Services	\$ 2,527.8	\$ 2,296.0	10 %	\$10,195.2	\$10,086.6	1 %
PEO Services	1,212.3	1,081.7	12 %	4,818.3	4,511.5	7 %
Other	(3.2)	(0.9)	n/m	(8.1)	(8.3)	n/m
Total revenues	<u>\$ 3,736.9</u>	<u>\$ 3,376.8</u>	<u>11 %</u>	<u>\$15,005.4</u>	<u>\$14,589.8</u>	<u>3 %</u>
<u>Segment earnings</u>						
Employer Services	\$ 624.3	\$ 588.8	6 %	\$ 3,052.1	\$ 3,058.2	0 %
PEO Services	173.3	118.3	46 %	718.8	609.3	18 %
Other	(100.5)	(175.8)	n/m	(409.7)	(484.9)	n/m
Total pretax earnings	<u>\$ 697.1</u>	<u>\$ 531.3</u>	<u>31 %</u>	<u>\$ 3,361.2</u>	<u>\$ 3,182.6</u>	<u>6 %</u>
<u>Segment margin</u>						
Employer Services	24.7 %	25.6 %	(0.9) %	29.9 %	30.3 %	(0.4) %
PEO Services	14.3 %	10.9 %	3.4 %	14.9 %	13.5 %	1.4 %
Other	n/m	n/m	n/m	n/m	n/m	n/m
Total pretax margin	<u>18.7 %</u>	<u>15.7 %</u>	<u>2.9 %</u>	<u>22.4 %</u>	<u>21.8 %</u>	<u>0.6 %</u>

	Three Months Ended			Twelve Months Ended		
	June 30,			June 30,		
	2021	2020	% Change	2021	2020	% Change
<u>Earnings per share information:</u>						
Net earnings	\$ 538.2	\$ 411.5	31 %	\$ 2,598.5	\$ 2,466.5	5 %
Basic weighted average shares outstanding	423.5	429.1	(1) %	426.3	430.8	(1) %
Basic earnings per share	\$ 1.27	\$ 0.96	33 %	\$ 6.10	\$ 5.73	6 %
Diluted weighted average shares outstanding	425.9	430.6	(1) %	428.1	432.7	(1) %
Diluted earnings per share	\$ 1.26	\$ 0.96	31 %	\$ 6.07	\$ 5.70	6 %

	Three Months Ended		Twelve Months Ended		
	June 30,		June 30,		
	2021	2020	2021	2020	
<u>Key Statistics:</u>					
<u>Employer Services:</u>					
Change in pays per control - U.S. (A)		8 %	(11)%	(3) %	(1)%
Employer Services New Business Bookings growth		174 %	(67)%	23 %	(21)%
<u>PEO Services:</u>					
Paid PEO Worksite Employees at end of period		624,000	537,000	624,000	537,000
Average paid PEO Worksite Employees during the period		616,000	548,000	582,000	571,000
<u>Significant PEO expenses included within Operating expenses</u>					
Zero-margin benefits pass-through costs		\$ 800.3	\$ 738.3	\$ 3,092.0	\$ 2,907.7
Workers' compensation and state unemployment taxes		\$ 111.7	\$ 72.7	\$ 533.9	\$ 474.1

(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			Twelve Months Ended		
	June 30,			June 30,		
	2021	2020	% Change	2021	2020	% Change
Average investment balances at cost (in billions):						
Corporate, other than corporate extended	\$ 2.3	\$ 1.6	44 %	\$ 1.8	\$ 1.6	18 %
Corporate extended (A)	1.5	2.5	(38) %	1.7	3.0	(44) %
Total corporate	3.8	4.1	(6) %	3.5	4.6	(23) %
Funds held for clients	29.3	24.0	22 %	27.4	26.0	5 %
Total	<u>\$ 33.2</u>	<u>\$ 28.1</u>	<u>18 %</u>	<u>\$ 30.9</u>	<u>\$ 30.6</u>	<u>1 %</u>

Average interest rates earned exclusive of realized losses (gains) on:

Corporate, other than corporate extended	0.3 %	0.4 %	0.4 %	1.3 %
Corporate extended (A)	1.6 %	2.1 %	1.8 %	2.1 %
Total corporate	0.8 %	1.4 %	1.0 %	1.9 %
Funds held for clients	1.4 %	1.9 %	1.5 %	2.1 %
Total	<u>1.3 %</u>	<u>1.8 %</u>	<u>1.5 %</u>	<u>2.1 %</u>

Net unrealized gain position at end of period \$ 502.2 \$ 876.8 \$ 502.2 \$ 876.8

Average short-term financing (in billions):

U.S. commercial paper borrowings	\$ 1.3	\$ 2.3	\$ 1.6	\$ 2.7
U.S., Canadian & U.K. reverse repurchase agreement borrowings	0.3	0.2	0.1	0.3
	<u>\$ 1.5</u>	<u>\$ 2.5</u>	<u>\$ 1.7</u>	<u>\$ 3.0</u>

Average interest rates paid on:

U.S. commercial paper borrowings	0.1 %	0.1 %	0.1 %	1.6 %
U.S., Canadian & U.K. reverse repurchase agreement borrowings	0.2 %	0.3 %	0.2 %	1.6 %

Interest on funds held for clients	\$ 103.2	\$ 114.8	(10) %	\$ 422.4	\$ 545.2	(23) %
Corporate extended interest income (B)	6.0	12.8	(53) %	30.0	64.0	(53) %
Corporate interest expense-short-term financing (B)	(0.4)	(0.8)	50 %	(2.4)	(47.9)	95 %
Net Impact from Client Fund Strategy	<u>\$ 108.7</u>	<u>\$ 126.8</u>	<u>(14) %</u>	<u>\$ 450.0</u>	<u>\$ 561.3</u>	<u>(20) %</u>

	Three Months Ended		Twelve Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Corporate extended interest income (B)	\$ 6.0	\$ 12.8	\$ 30.0	\$ 64.0
All other interest income	1.5	1.6	6.5	20.5
Total interest income on corporate funds (component of Other (income)/expense, net)	<u>\$ 7.5</u>	<u>\$ 14.5</u>	<u>\$ 36.5</u>	<u>\$ 84.5</u>
Corporate interest expense-short-term financing (B)	\$ 0.4	\$ 0.8	\$ 2.4	\$ 47.9
All other interest expense	16.8	14.8	57.3	59.2
Total interest expense	<u>\$ 17.2</u>	<u>\$ 15.6</u>	<u>\$ 59.7</u>	<u>\$ 107.1</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			Twelve Months Ended		
	June 30,		%	June 30,		%
	2021	2020	Change As Reported	2021	2020	Change As Reported
Net earnings	\$ 538.2	\$ 411.5	31 %	\$2,598.5	\$2,466.5	5 %
Adjustments:						
Provision for income taxes	158.9	119.8		762.7	716.1	
All other interest expense (a)	16.8	14.8		57.3	59.2	
All other interest income (a)	(1.5)	(1.6)		(6.5)	(20.5)	
Gain on sale of assets	—	—		—	(0.2)	
Transformation initiatives (b)	(3.5)	57.9		—	77.4	
Excess capacity severance charges (c)	—	25.4		2.9	25.4	
Legal settlements (d)	(30.7)	25.0		(30.7)	25.0	
Adjusted EBIT	\$ 678.2	\$ 652.8	4 %	\$3,384.2	\$3,348.9	1 %
Adjusted EBIT Margin	18.1 %	19.3 %		22.6 %	23.0 %	
Provision for income taxes	\$ 158.9	\$ 119.8	33 %	\$ 762.7	\$ 716.1	7 %
Adjustments:						
Gain on sale of assets (e)	—	—		—	(0.1)	
Transformation initiatives (e)	(0.9)	14.3		—	19.2	
Excess capacity severance charges (e)	—	6.3		0.5	6.3	
Legal settlements (e)	(7.5)	6.2		(7.5)	6.2	
Adjusted provision for income taxes	\$ 150.5	\$ 146.6	3 %	\$ 755.7	\$ 747.7	1 %
Adjusted effective tax rate (f)	22.7 %	22.9 %		22.7 %	22.6 %	
Net earnings	\$ 538.2	\$ 411.5	31 %	\$2,598.5	\$2,466.5	5 %
Adjustments:						
Gain on sale of assets	—	—		—	(0.2)	
Income tax provision on gain on sale of assets (e)	—	—		—	0.1	
Transformation initiatives (b)	(3.5)	57.9		—	77.4	
Income tax provision/(benefit) for transformation initiatives (e)	0.9	(14.3)		—	(19.2)	
Excess capacity severance charges (c)	—	25.4		2.9	25.4	
Income tax benefit for excess capacity severance charges (e)	—	(6.3)		(0.5)	(6.3)	
Legal settlements (d)	(30.7)	25.0		(30.7)	25.0	
Income tax provision/(benefit) for legal settlements (e)	7.5	(6.2)		7.5	(6.2)	
Adjusted net earnings	\$ 512.4	\$ 493.0	4 %	\$2,577.7	\$2,562.5	1 %
Diluted EPS	\$ 1.26	\$ 0.96	31 %	\$ 6.07	\$ 5.70	6 %
Adjustments:						
Gain on sale of assets (e)	—	—		—	—	
Transformation initiatives (b) (e)	(0.01)	0.10		—	0.13	
Excess capacity severance charges (c) (e)	—	0.04		0.01	0.04	
Legal settlements (d) (e)	(0.05)	0.04		(0.05)	0.04	
Adjusted diluted EPS	\$ 1.20	\$ 1.14	5 %	\$ 6.02	\$ 5.92	2 %

(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 are 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 June 30, 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 of operating right-of-use assets and certain related fixed assets associated with the vacating of certain leased locations (“lease asset impairment”).

In fiscal 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, offset by gain on sale of assets and 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 net severance cost 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, including charges in fiscal 2020 due to the COVID-19 pandemic.

(d) Represents legal settlements including an insurance recovery in fiscal 2021.

(e) The income tax provision/(benefit) was calculated based on the marginal rate in effect for the year ended June 30, 2021.

(f) 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		Twelve Months Ended	
	June 30,		June 30,	
Revenue growth consolidated:	2021	2020	2021	2020
Employer Services	10 %	(6) %	1 %	1 %
PEO Services	12 %	4 %	7 %	8 %
Consolidated revenue growth as reported	11 %	(3) %	3 %	3 %
Adjustments:				
Impact of acquisitions	— %	— %	— %	— %
Impact of foreign currency	(2)%	1 %	(1)%	1 %
Consolidated revenue growth, organic constant currency	9 %	(2) %	2 %	4 %
<u>Segment:</u>				
Employer Services revenue growth as reported	10 %	(6) %	1 %	1 %
Adjustments:				
Impact of acquisitions	— %	— %	— %	— %
Impact of foreign currency	(2)%	1 %	(1)%	1 %
Employer Services revenue growth, organic constant currency	8 %	(5) %	— %	2 %

Automatic Data Processing, Inc. and Subsidiaries
Fiscal 2021 to Fiscal 2022 Non-GAAP Guidance Reconciliation
(Unaudited)

	Fiscal 2021		Fiscal 2022
			Outlook
Earnings before income taxes / margin (GAAP)	\$ 3,361.2	22.4%	(10) to 15 bps
All other interest expense (a)	57.3	40 bps	5 bps
All other interest income (a)	(6.5)	-	-
Transformation initiatives (b) - FY21	0.0	-	-
Transformation initiatives - FY22	-	-	10 bps
Excess capacity severance charges - FY21	2.9	-	-
Legal settlements - FY21	(30.7)	(20) bps	20 bps
Adjusted EBIT margin (Non-GAAP)	<u>\$ 3,384.2</u>	<u>22.6%</u>	<u>25 to 50 bps</u>
Effective tax rate (GAAP)		22.7%	22.5 %
Transformation initiatives (b) - FY21		-	-
Transformation initiatives - FY22		-	-
Excess capacity severance charges - FY21		-	-
Legal settlements - FY21		-	-
Adjusted effective tax rate (Non-GAAP)		<u>22.7%</u>	<u>22.5 %</u>
Diluted earnings per share (GAAP)	\$ 6.07		8% to 10%
Transformation initiatives (b) - FY21	-		-
Transformation initiatives - FY22	-		-
Excess capacity severance charges - FY21	0.01		-
Legal settlements - FY21	(0.05)		1 %
Adjusted diluted earnings per share (Non-GAAP)	<u>\$ 6.02</u>		<u>9% to 11%</u>

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 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, offset by gain on sale of assets and 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.

Safe Harbor Statement

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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