

# ADP Investor Presentation

## Overview and Strategy | Governance and ESG

December 2020

# Forward Looking Statements

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 and 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.

## Non-GAAP Measures

Adjusted EBIT, adjusted EBIT margin, adjusted diluted earnings per share, adjusted effective tax rate, and organic constant currency are all non-GAAP financial measures. Please refer to the Q1 fiscal 2021 earnings release available at [investors.adp.com](https://investors.adp.com) 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.

This presentation is a supplement to our Q1 fiscal 2021 earnings release; it is intended to be read in conjunction with, not as a substitute for, or in isolation from, the earnings release.

# At a Glance: ADP is the Pioneer and Global Leader of HCM

## Company Overview

- Global leader in Human Capital Management (HCM) software and solutions
- Delivers payroll for **22 million (1 in 6)** US workers and **14 million** international workers
- Partners with over **7,000 tax agencies** across all levels of government throughout the US
- Moved **\$2.2 trillion** of US payroll and taxes on behalf of our clients and our clients' employees in FY20

**58,000**  
Employees

**860,000+**  
Clients

**140**  
Countries

## Financial Overview

FY20 Revenue	\$14.6B	FY20 Adjusted EBIT <sup>1</sup>	\$3.3B
FY20 Client Revenue Retention	90.5%	S&P / Moody's Ratings	AA / Aa3
June 30, 2020 Market Cap	\$64B	Years of Consecutive Dividend Increases	46

## Our Strategic Pillars



Grow a complete suite of cloud-based **HCM Solutions**

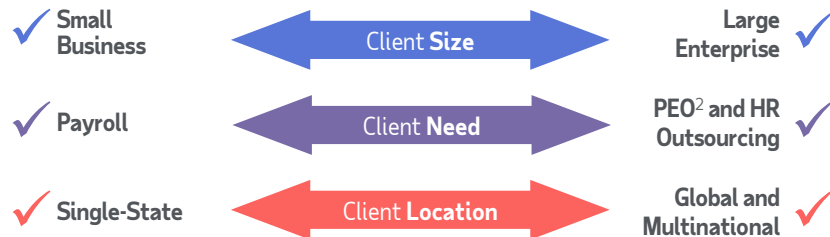


Scale our market leading **HRO<sup>2</sup> Solutions**



Leverage our **global presence** to offer HCM Solutions wherever clients do business

## Unrivaled Client Footprint



1. Adjusted EBIT is a non-GAAP metric. For a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics see our Q1 2021 earnings release and Fiscal 2020 Form 10-K available at investors.adp.com

2. Human Resource Outsourcing (HRO), Professional Employer Organization (PEO)

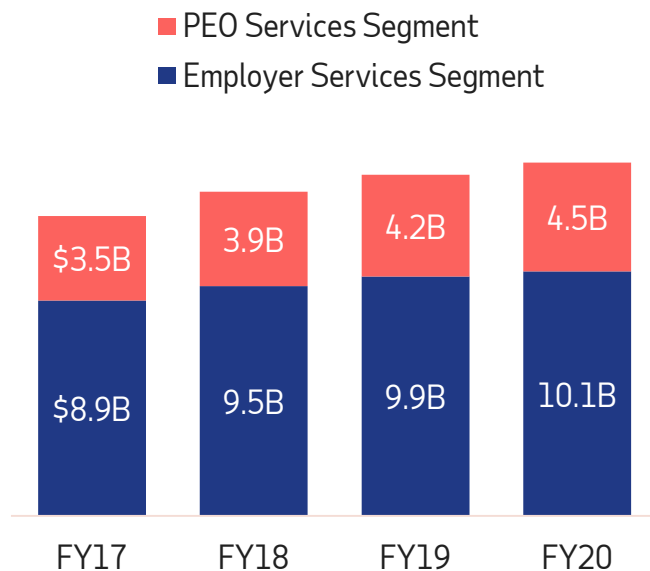
# COVID-19: Macroeconomic Impacts and Assumptions for ADP

COVID-19 Related Headwind	Q4 FY 2020	Q1 FY 2021	FY 2021 Expectation <sup>1</sup>
<b>Pays Per Control (i.e. Employment)</b>	(11)%	(9)%	(4) to (3)% average for full year
<b>Out-of-Business</b>	Elevated out-of-business losses in down and mid-market	Record Q1 retention	Elevated losses in Q2 and Q3
<b>Client Funds Balances and Interest</b>	(8)% balance decline (30) bps change in average yield	(7)% balance decline (30) bps change in average yield	(3) to (1)% balance decline (50) bps change in average yield
<b>New Business Bookings (ES)</b>	(67)% decline	2% growth; Record Q1 bookings	Growth of 10% to 20%

1. As of ADP Q1 2021 earnings presentation on October 28, 2020  
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# Impact of COVID-19 on our Revenue Growth

A history of consistent revenue growth...



...temporarily impacted by headwinds related to COVID-19

	10-Year CAGR <sup>1</sup> through FY19	FY20	FY21 Guidance <sup>2</sup>
ES Segment	5%	1%	(2)% to flat
PEO Segment	14%	8%	Flat to 3%
Total ES & PEO	7%	3%	(1) to 1%

1. Calculated using geometric average of annual growth rates to account for FY19 change in segment reporting

2. As of ADP Q1 2021 earnings presentation on October 28, 2020

# Long-Term Structural Implications of COVID-19 on HCM

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**Too early to be certain on long-term effects, but here are some considerations:**

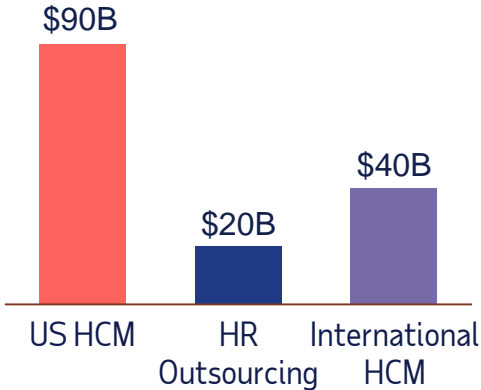
- **Rapid global legislation changes** make it more challenging for companies to navigate the tax, regulatory, and compliance environments on their own
- **A remote workforce** also makes it more difficult for our clients to manage their workers and keep them engaged
- **ADP client satisfaction** has been at record levels across several of our businesses (NPS scores moving higher during COVID-19)
- We may see long-term **operating expense benefits** (real estate footprint, travel) if certain “temporary” changes to operations take permanent hold

# Big Picture: Our Addressable Market is Large, Growing, and Evolving

## Large & Growing Market

**\$150B** Addressable  
Global HCM Market

**5-6%**  
Growth



## Continuous Evolution

HCM landscape continues to be shaped by secular changes across many categories



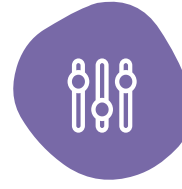
### WORK

- Growth of gig economy
- Emergence of dynamic teams



### PAY

- More workers paid in real-time or on tailored schedules



### HR

- Becoming more analytical, leveraging AI/ML
- Increasing focus on talent and engagement



### BUSINESS

- Globalization of workforce
- Evolving labor markets
- Growing regulatory pressure



### TECH

- HCM tech transforming into platforms + app ecosystems
- Emergence of public cloud

← **Additional potential impacts from COVID-19** →

Source: Census, D&B, IHS, Nelson Hall, Cerulli Associates, Internal Financial Reporting; growth rates FY17-20

# And as the Market Evolves, We Remain Positioned to Win

## HCM Evolution



**WORK**

## ADP Positioning

- Only HCM provider with a freelancer labor solution (**WorkMarket**)
- Next Gen HCM platform uniquely built to serve **dynamic, team-based organizations**



**PAY**

- Industry-leading mobile HCM and payments platforms (**Global Cash Card**®)
- **Next Gen payroll and tax engine** with on-demand payroll calculation and real-time pay capability, supplemented by early wage access partner offerings



**HR**

- World's richest and most accurate dataset (**DataCloud**)
- Pioneering Next Gen talent solutions (**TMBC**®) built natively into Next Gen HCM platform
- Proprietary and market-leading **HRO solutions**



**BUSINESS**

- **Unmatched global footprint** (**GlobalView/Celergo**) leveraging both local ADP in-country presence and global partner network; Next Gen platforms built global at its core
- Deep **compliance** expertise

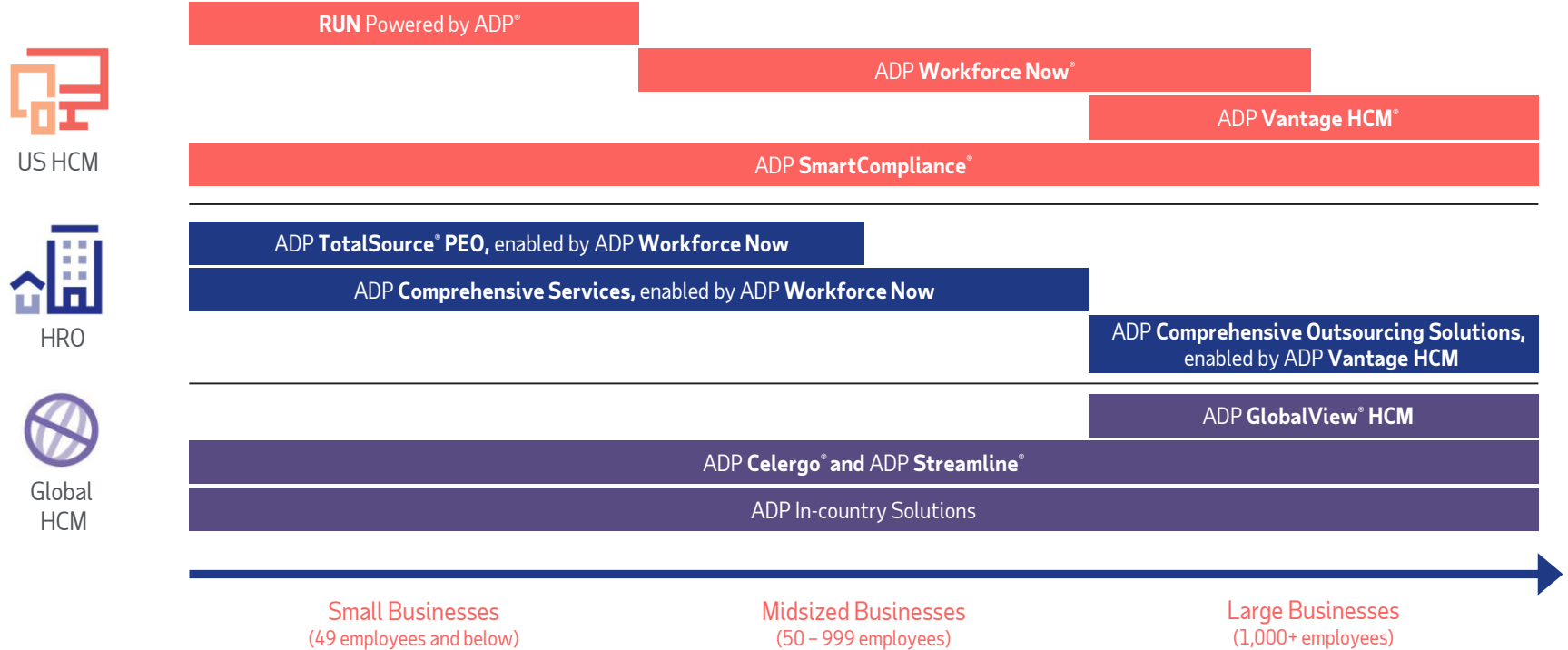


**TECH**

- Industry-leading **HCM Marketplace** and API portfolio
- Next Gen HCM open platform with "**mini-apps**" strategy
- Predictive models leveraging our differentiated big data (**DataCloud**)



# Our Product – An Unmatched Suite of Software and Services



# Our Distribution – Market Leadership Driving Scale Benefits

**7,500**

TOTAL SELLERS

Our sellers are enabled to sell the best fit HCM platform as well as value-added complementary products

**140**

COUNTRIES

We serve clients in 140 countries worldwide

**20K+**

REFERRING PARTNERS

Our partner ecosystem is unmatched with over 20K partners referring clients each year

**1/3**

INSIDE SALES

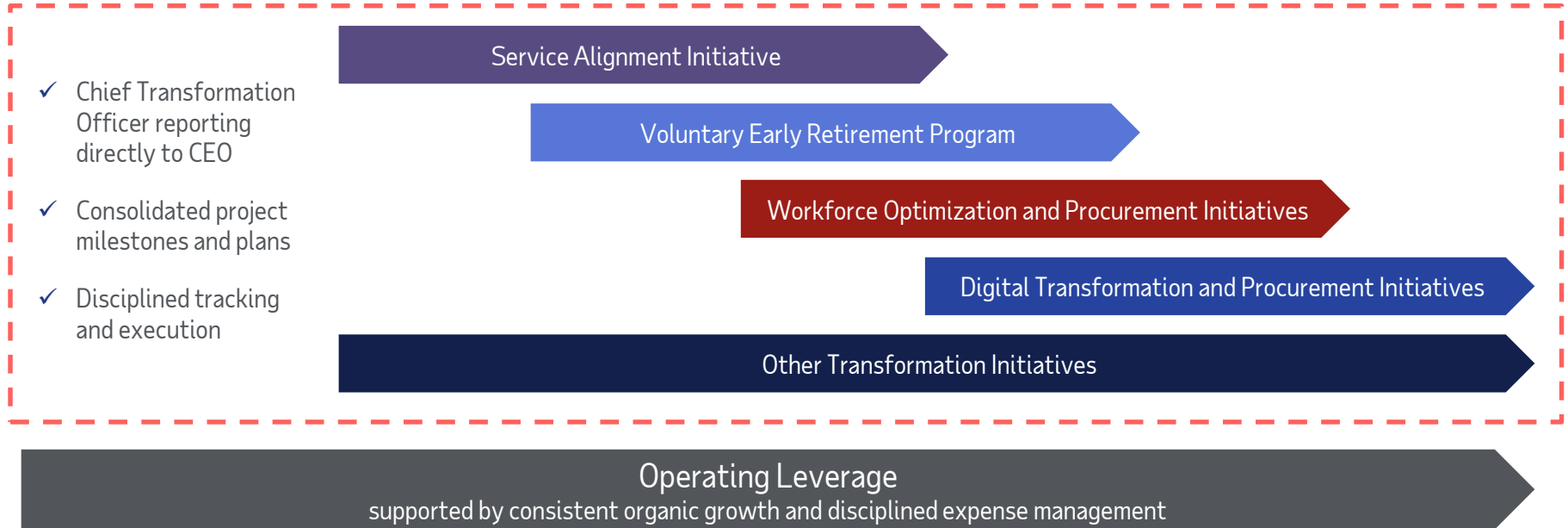
We are growing our inside sales organization to capitalize on digital sales and share of wallet

**500+**

MARKETPLACE APPS

We digitally distribute over 500 apps through the ADP Marketplace, the world's largest HCM marketplace

# Our Margin Performance is Supported by our Transformation



# We Take a Disciplined Approach to Capital Allocation

INVESTMENT PRIORITY	PROGRESS
<b>1</b> Reinvest in the business to drive organic revenue growth and margin improvement	<ul style="list-style-type: none"><li>+ FY20 ~\$1B invested in Systems Development &amp; Programming, continue to keep strategic platforms differentiated and continue to scale Next Gen platforms</li><li>+ Reinvesting in growing sales force and enhancing productivity</li><li>+ Invested in transformation initiatives to drive hundreds of millions in run-rate savings</li></ul>
<b>2</b> Invest in acquisitions to supplement ADP's existing strategy and capabilities	<ul style="list-style-type: none"><li>+ Maintain disciplined M&amp;A approach and focus on transactions with high strategic value</li><li>+ In FY18 invested ~\$615M to acquire Global Cash Card and WorkMarket; in FY19 invested ~\$120M to acquire Celergo</li></ul>
<b>3</b> Return cash to shareholders via dividend and shares repurchases	<ul style="list-style-type: none"><li>+ Target dividend payout ratio 55-60%</li><li>+ 46 years of consecutive dividend increases</li><li>+ Incremental dividend increase in April '18 due to tax reform; board approved another dividend increase in Nov '18, Nov '19, and Nov '20</li><li>+ Long-standing share buyback program to return excess cash, averaging ~1% share count reduction per year over the past 10 years</li></ul>



# Governance and ESG Focus

# Governance – Committed to Shareholder Engagement

**We are committed to proactively engaging with shareholders; our Board is highly attuned to shareholder feedback, including governance & compensation best practices**

## Monitoring & Assessment

- Board and management review:
  - ✓ Annual meeting voting results
  - ✓ Investor feedback from IR & governance engagement
  - ✓ Trends and best practices across the governance, executive compensation, regulatory, and environmental & social landscape
- This review allows ADP to identify and prioritize topics for discussion

## Outreach & Engagement

- ADP regularly meets with shareholders to actively gather feedback on a range of issues
- Fiscal Year 2020: We invited shareholders representing nearly half of our shares outstanding to discuss our strategy, corporate governance and executive compensation programs, and held meetings with shareholders representing over 40% of our shares outstanding

## Evaluation & Response

- ✓ Board of Directors & key committees evaluate and discuss feedback from stockholders and key stakeholders
- ✓ ADP enhances disclosure and practices, as appropriate
- ✓ ADP updates governance practices and documents to align with best practices, and incorporates feedback, as appropriate

# Governance – Responsive to Shareholder Feedback

	Topics of Discussion	ADP Actions Taken
Board & Governance	<ul style="list-style-type: none"><li>• Board composition, self-assessment, and refreshment process</li><li>• Governance practices and oversight structures (<i>proxy access proactively adopted in Aug 2016</i>)</li></ul>	<ul style="list-style-type: none"><li>✓ Ongoing Board Refreshment: New Board members joined in April 2018, May 2019, April 2020 and November 2020</li><li>✓ Committee chair and membership rotations (November 2018, 2019 and 2020)</li><li>✓ Reduced the % of the voting power of the company's outstanding shares required to call of special meeting of shareholders from 33% to 25% (August 2020)</li><li>✓ Amended Corporate Governance Principles to adopt more stringent overboarding policy (April 2018)</li><li>✓ Shareholder friendly Equity Plan (November 2018)</li><li>✓ Compensation peer group refinements for FY'18</li><li>✓ Approved freeze of corporate officer supplemental retirement plan as of July 1, 2019 (previously closed to new entrants in FY'14)</li><li>✓ Ongoing enhanced risk management disclosures in proxy statement including in the areas of cyber, privacy and HCM</li><li>✓ Announced enhanced financial disclosures at 2018 Investor Day, which began FY'19</li><li>✓ Issued second Corporate Social Responsibility report in November 2019</li></ul>
Executive Compensation	<ul style="list-style-type: none"><li>• Compensation program and practices, including ADP's shift to using Net Income instead of EPS to measure LTIP goals</li><li>• Performance metric selection and weighting, pay mix, and peer group selection</li></ul>	
Risk Management	<ul style="list-style-type: none"><li>• Enterprise risk management structure and how the Board oversees the risk assessment process</li></ul>	
Corporate Social Responsibility	<ul style="list-style-type: none"><li>• Sustainability efforts and the underlying economic rationale for our ESG initiatives</li></ul>	

# Governance – Leading with Best Practices

## ADP is committed to shareholder-friendly corporate governance practices that help to drive long-term value creation

- ✓ Proxy access right at 3% / 3 year ownership threshold (adopted August 2016)
- ✓ Independent Chairman
- ✓ Majority voting standard
- ✓ Shareholder ability to call special meetings
- ✓ Shareholder right to act by written consent
- ✓ No dual-class stock; one share, one vote
- ✓ No overboarding
- ✓ No poison pill
- ✓ Active shareholder engagement to better understand investor perspectives
- ✓ Annually elected Board; directors may be removed without cause
- ✓ Annual succession planning review
- ✓ Significant Board role in strategy and risk oversight
- ✓ Non-employee director pay limits
- ✓ Annual Board assessment of corporate governance best practices
- ✓ Oversight of executive compensation by the Compensation Committee
- ✓ Executive sessions of independent directors held regularly



# Governance – Best-in-Class Board With Balanced Skill Set

## Deliberate Board Composition

- **Commitment to both continuity and fresh perspectives**
  - 7 of our 11 Directors have a tenure of 5 years or less<sup>1</sup>
  - Average independent Director tenure of 4.7 years<sup>1</sup>, compared to an S&P 500 average of 8.0 years
- **Director succession planning**
  - Conducted in the context of a skill set review
  - Skill set used to identify and recruit Directors
- **The right set of skills and experience to set ADP's corporate strategy**
  - 8 of 10 independent Directors are current or former C-Suite of major public companies
  - Leaders with significant technology experience (Peter Bisson, Linnie Haynesworth, Fran Katsoudas, Nazzic Keene, Tom Lynch, Bill Ready)
- **Independent mindset and focus on accountability to shareholders**
  - 10 of 11 Directors are independent
  - All Board Committees are composed of independent Directors
  - Committed to formal shareholder engagement program
  - 8 out of 10 independent Directors have shorter tenure than CEO
- **Ongoing board refreshment**

## Skill Set Aligns and Evolves With Corporate Strategy

### Director Skill Set<sup>2</sup>



Source: Spencer Stuart Board Index 2019

1. As of November 2020 Annual Meeting (10 independent directors; 1 management director)

2. Skill set matrix as of 2020 Annual Meeting (11 Directors)

# Governance – Strong Independent Chair Role

## John Jones assumed role of Chairman of the Board in November 2015



### Background:

- Brings substantial knowledge of ADP to the role, having served on the Board prior to current CEO
- Retired Chairman & CEO of Air Products and Chemicals; former director at Sunoco
- Extensive expertise in solving issues facing public companies and multinational businesses, including organizational management, strategic planning, enterprise risk management and corporate governance matters
- Significant experience in businesses operating within strict/shifting regulatory frameworks

## Significant Chairman Responsibility

- ✓ Leads Board of Directors in its oversight, advisory, and risk management roles
- ✓ Plans, reviews, and approves board meeting agendas and schedules in coordination with the CEO
- ✓ Ensures effective functioning of and communication between Board Committees
- ✓ Authority to call meeting of independent directors

# Compensation – Rigorous Approach

## Five Guiding Principles

- 1 Emphasize variable, performance-based compensation to ensure that pay and performance are closely aligned
- 2 Rigorous metric selection and goal-setting process to support ADP's financial and strategic objectives
- 3 Pay competitively to attract and retain executives critical to our long-term success
- 4 Commitment to high standards of corporate governance and best practices
- 5 Thoughtful design to minimize excessive risk-taking and to ensure high integrity

## Compensation Governance Ensures Alignment with Principles

- Robust Clawback Policy applicable to cash and equity incentives
- Stock Ownership Guidelines for CEO (6x) & NEOs (3x)
- No option repricing
- Target pay levels generally benchmarked to median, with variation based on tenure and experience
- Regular peer group analysis (peer group refined for FY2018 to enhance alignment with ADP strategy)
- Double-trigger change-in-control severance and equity vesting provisions
- Limited perquisites
- Anti-Hedging and Pledging Policy
- No tax-gross ups
- No dividends on unearned performance stock

# Compensation – Pay Closely Aligned to Performance

## Balanced, Performance-Based Compensation Policy

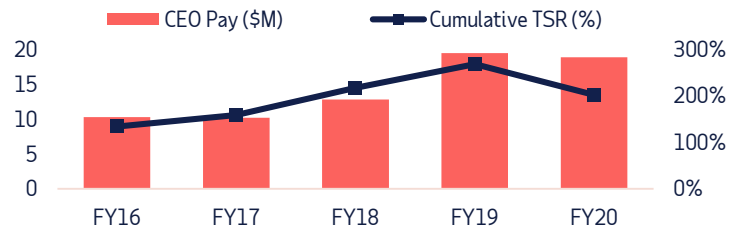
- Designed to incentivize sustainable value creation
  - Thoughtful design to encourage strategic transformation while mitigating excessive risk-taking
  - Approved by independent compensation committee using independent compensation consultant
  - FY16 - FY19 CEO compensation was below Proxy Peer Median and near the median for FY20
  - Robust clawback policy allows for cash and stock recovery
- Emphasizes equity-based compensation to foster commonality of interest between management and shareholders

## Strategic Objectives at the Core of Executive Compensation

- Strategic objectives represent 40% of the short-term incentive compensation for our executive officers
- Important leading indicators of our transformation, creation of long-term value and future success
- Strategic objectives are measurable and pay out formulaically

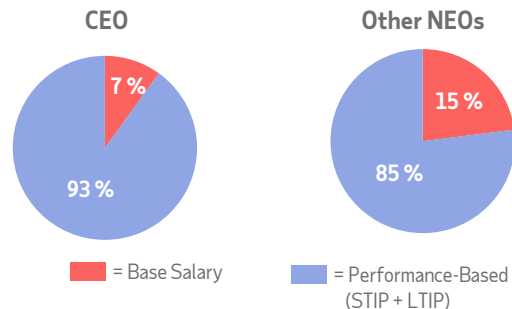
Simplify	Innovate	Grow
↑ Adoption/utilization of client engagement hub	↑ % of clients on Next Gen solutions	↑ Improve client retention
↓ Reduce low value contacts per client	↑ % of revenues on strategic platforms	↑ Improvement in net promoter scores, improving client experience
↑ Digital Sales	↑ Sales from newest products	↑ Improve workforce diversity

## Strong Performance Alignment & Shareholder Support



Say On Pay 96% 93% 97% 94% 90%

## Significant Pay at Risk



# Enterprise Risk Management

Board and key committees maintain disciplined risk assessment process to effectively pursue strategic goals



## Compensation Committee

- 3 Internal Operations (Talent Management Risk)

## Audit Committee

- 3 Internal Operations
- 4 Info Tech / Cybersecurity
- 5 Financial Management & Reporting
- 6 Legal & Compliance

## Board

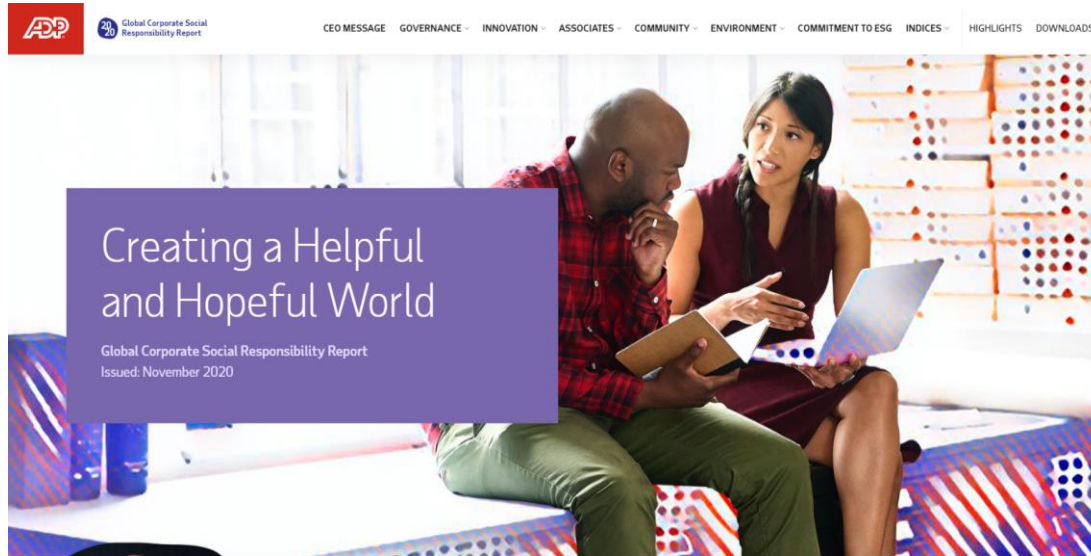
- 1 Strategic
- 2 Client-Facing Operations
- 4 Info Tech / Cybersecurity (Components of Info and System Reliability Risk)
- 5 Financial Management & Reporting (Components of Financial Op Risk and External Economic Risk)

## Nominating Committee

- 6 Legal & Compliance (Corporate Governance)

# Corporate Social Responsibility Report

## Most Recent CSR Report Issued November 2020



- ✓ Commitment to Strong Governance, Ethics, and Compliance
- ✓ Associate Diversity, Engagement, and Wellness
- ✓ Client Betterment Through Innovation
- ✓ Community Engagement and Volunteer Involvement
- ✓ Environmental Sustainability

# Financial Disclosures – Leading Transparency

Disclosure			Peer 1	Peer 2	Peer 3	Peer 4	Peer 5	Peer 6	Peer 7	Peer 8	Peer 9	Peer 10	Peer 11
Segmentation		2	1	1	1	1	1	1	1	1	2	3	2
Metrics	Revenue	3	3	2	2	1	4	2	2	3	3	4	1
	Adj. Profitability	2	1	2	2	1	2	1	2	3	3	1	3
	Operational	5+	4	1	2	3	2	4	3	3	5+	3	3
Guidance	Near-Term <sup>1</sup>	A	A	A	Q	Q	×	A/Q	Q	Q	A	Q	A
	Longer-Term	✓	×	×	×	×	×	×	×	×	✓	×	×
	Revenue	✓	✓	✓	✓	×	×	✓	✓	✓	✓	✓	✓
	Profitability	✓	✓	×	✓	✓	×	✓	✓	✓	✓	✓	✓
	KPI's / Drivers	✓	×	×	×	✓	×	×	×	×	×	✓	×
Relative Score													

Source: Company filings, third party providers

Note: Disclosure based on metrics explicitly stated in filings as opposed to those that can be calculated.

<sup>1</sup> A = Annual, Q = Quarterly

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