



# ADP Investor Presentation

Overview and Strategy | Governance and ESG

January 2023

# 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 “outlook,” “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 and inflation; 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 associates; the impact of new acquisitions and divestitures; the adequacy, effectiveness and success of our business transformation initiatives; the impact of any uncertainties related to major natural disasters or catastrophic events, including the COVID-19 pandemic; and supply-chain disruptions. 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 Q2 fiscal 2023 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 closest comparable GAAP financial measures.

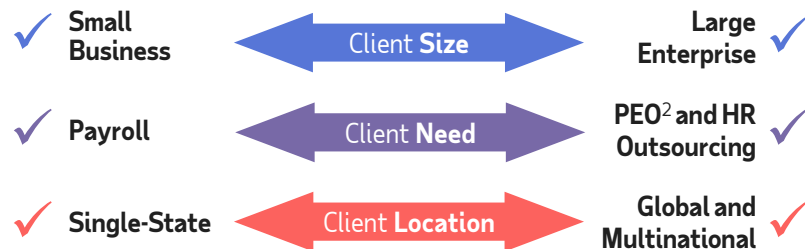
This presentation is a supplement to our Q2 fiscal 2023 earnings release; it is intended to be read in conjunction with, not as a substitute for, or in isolation from, the earnings release. We have not provided a reconciliation of our adjusted EBIT margin outlook, organic constant currency outlook or adjusted EPS outlook to their most comparable GAAP measures for our Medium-Term outlook because it would be potentially misleading and not practical given the difficulty of projecting event-driven transactional and other non-core operating items that are included in the GAAP metrics, including gains/losses on sales of businesses and assets and certain income tax adjustments.

# We are the Pioneer and Global Leader of HCM

## Company Overview

- Leader in Human Capital Management software and solutions
- Deliver payroll for over **40 million** workers globally
  - 25M+** in the US (1 in 6 US workers); **14M+** outside the US
- Partner with **8,000 tax agencies** in the US alone
- Moved **\$2.7 trillion** of US payroll and taxes on behalf of our clients and our clients' employees in FY22
- 1M+** Clients | **140** Countries | **60,000** Global ADP Associates

## Unrivalled Client Footprint



## Financial Overview

FY22 Revenue	<b>\$16.5B</b>	FY22 Adjusted EBIT <sup>1</sup>	<b>\$3.9B</b>
FY22 Client Revenue Retention	<b>92.1%</b>	S&P Rating Moody's Rating Fitch Rating	<b>AA- Aa3 AA-</b>
Dec 31, 2022 Market Cap	<b>\$99B</b>	Years of Consecutive Dividend Increases	<b>48</b>

## Our Strategic Pillars to Drive Growth



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 Q4 2022 earnings release and Fiscal 2022 Form 10-K available at investors.adp.com

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

# Our Market (Global HCM) is Large and Growing

**Our Market is Big**

**\$150B**

**Total addressable market**

Payroll | Workforce Management | HR | Benefits  
Talent | HR Outsourcing | Analytics | Payments

**Our Market is Growing**

**5-6%**

**Expected market growth  
in FY22 and beyond**

Total addressable market data as of FY2021. Source: Census, D&B, IHS, Nelson Hall, Cerulli Associates, Internal Financial Reporting

# Our Market is Constantly Changing, and Change is Good

## PRODUCT

### Work

Global | Distributed | Dynamic | Legal

### Pay

Flexible | Early Wage Access | Card

### HR

Employee-centric | AI/ML

### Tech

Platform + App | Public Cloud | Consumer Grade

## PURCHASE

### Pricing

Transparent | Consumer-like

### Decision Making

More Research | Consultative Sales

### Purchase Process

Live | Digital | Omni

## SERVICE

### Self-Service

Guided | Intuitive | AI-assisted

### Channels

Text | Chat | Email | App

### Expertise

Business Outcomes | "Be-the-Expert"

# Our HCM Portfolio is Strong and Diversified

## Our HCM Portfolio FY21 Revenue (\$15B total):

**\$2.5B** Small Business

**\$2.4B** Major Accounts

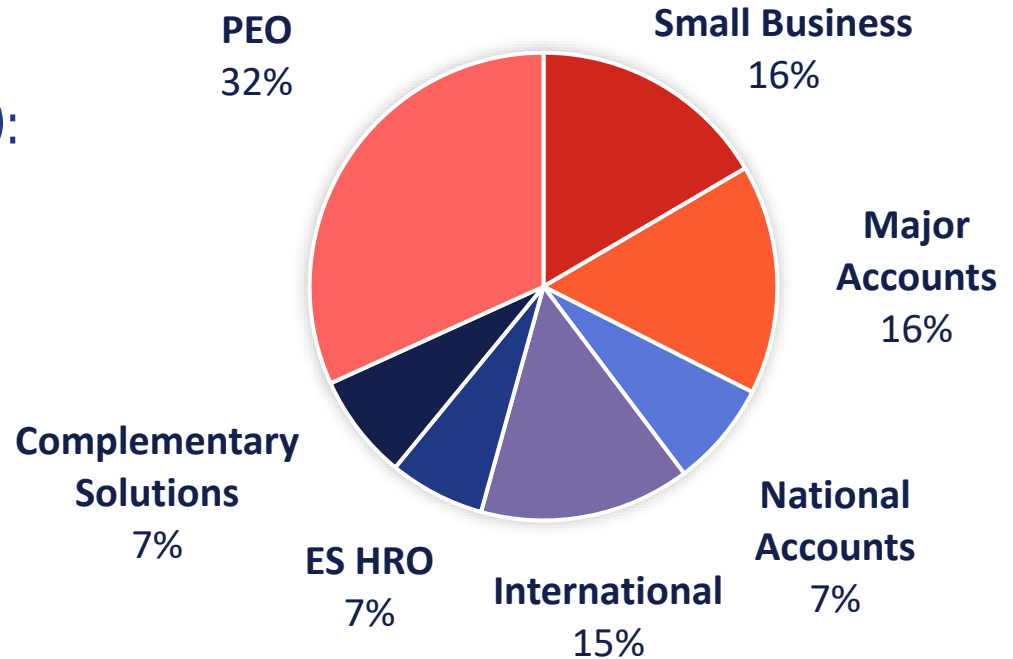
**\$1.1B** National Accounts

**\$2.2B** International

**\$1.0B** ES HRO

**\$1.1B** Complementary Solutions

**\$4.8B** PEO



# We are Innovating Across our Product Portfolio

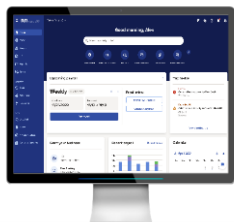
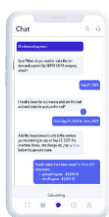
## New User Experience

HCM Platforms

Small Business

**roll**

**Run**



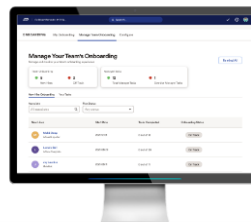
Midmarket / Upmarket

**Workforce Now**



Upmarket / International

**Next Gen HCM**

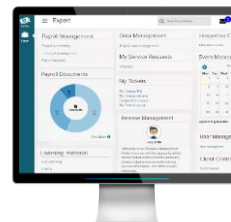


International

**iHCM**



**Global Payroll**



ADP Ecosystem

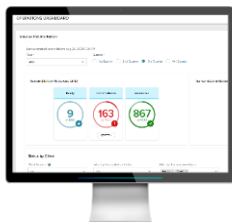
**DataCloud**



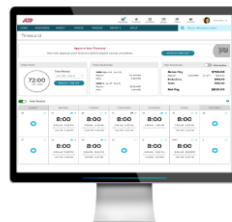
**wisely**



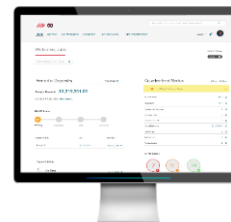
**Next Gen Payroll**



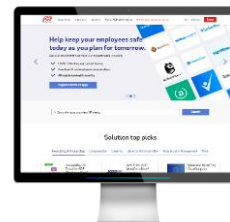
**Workforce Management**



**Next Gen Tax**

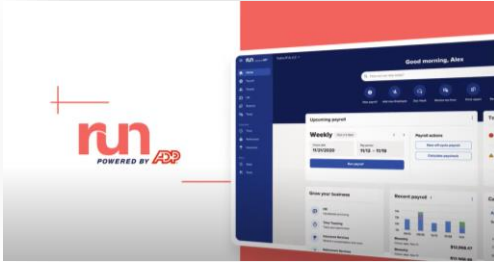


**Marketplace**

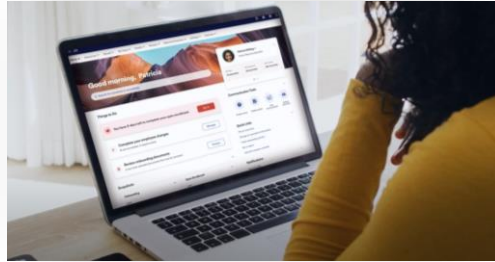


## Digital Service and Implementation

# Explore Some of Our Platforms



**ADP Run**



**ADP Workforce Now**



**ADP Mobile App**



# Distribution: Our Market Leadership Drives Scale Benefits

**\$2B+**

in worldwide new  
business bookings

**7.5K+**

sellers, all  
virtually enabled

**170K+**

new logos  
sold annually

**140**

countries with  
sales coverage

**50%+**

of new logos sold  
through partnership

**800+**

Marketplace apps  
globally

# Service: We are Becoming More Digitally Enabled

A modern client and associate experience for satisfaction, speed and efficiency

## Efficient onboarding



Digital tools that automate implementation processes

Early results



**36%+**

Run clients self-onboarding

## Intuitive client self-service



Empowering clients to view data and complete tasks easily in-product

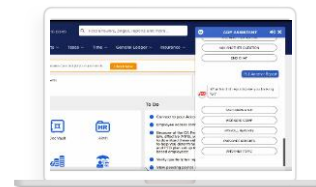
Early results



**20%+**

Reduction in service contacts per client last 5 years

## Digital support



Automated or interactive, real-time digital support for faster resolution

Early results



**34%+**

Service requests supported digitally with ~20% fully contained

# We Have Strengthened our Foundation in Several Key Ways

**25%+**

Increase in revenue per FTE

**20%+**

Decrease in contacts per client

**40%+**

Increase in total client count

**↑30 pt**

Average relationship NPS

**↑40 pt**

Average implementation NPS

**92.1%**

Near-record level retention in ES  
Segment in FY22

**8 Years**

of consecutive Top HR Product  
Awards at HR Tech

**50 bps**

Average annual ES margin expansion, overcoming pressure  
related to Covid-19 and lower client funds interest

Note: All changes are over a five-year period through FY21

Copyright © 2023 ADP, Inc.

# We Take a Disciplined Approach to Capital Allocation

## 1 **Organic reinvestment** to drive both revenue and margins

- **Product:** FY22 \$1.2B invested in Systems Development & Programming, 10%+ CAGR in Innovation R&D and product spend FY18-FY22
- **Go-To-Market:** Investing in sales headcount, marketing, distribution channels and productivity efforts
- **Service:** Investing in digital transformation efforts and investing to drive further gains in client satisfaction

## 2 **M&A** that meet our strategic goals

- Thoughtful and disciplined M&A approach; focus on transactions with high strategic value balanced against desire for simplification within ADP
- In FY18 invested ~\$615M to acquire Global Cash Card and WorkMarket; in FY19 invested ~\$120M to acquire Celergo

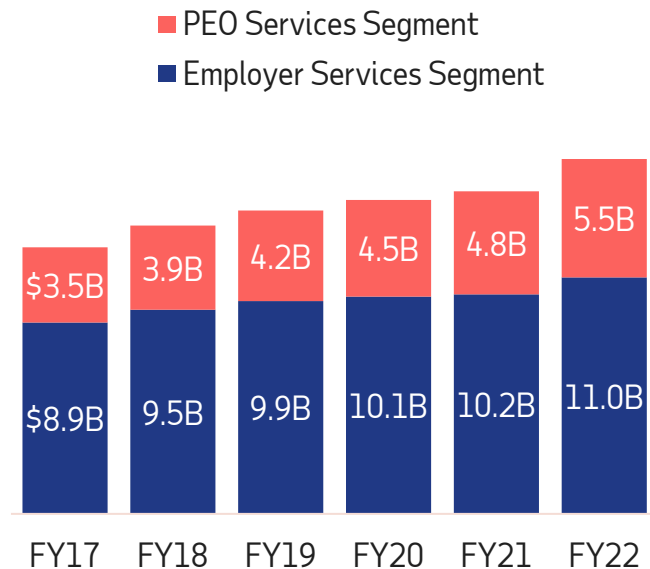
## 3 **Return cash to shareholders** balancing dividends and repurchases

- Target dividend payout ratio is 55-60%
- 48 years of consecutive dividend increases
- Long-standing share repurchase program to return excess cash, averaging ~1% share count reduction per year over the past 10 years
- \$1B incremental debt issued in May 2021 to further supplement repurchases

# Covid-19: We've Been Able to Grow Through the Pandemic

A history of consistent revenue growth...

...including growing through headwinds related to COVID-19



	10-Year CAGR <sup>1</sup> through FY19	FY20	FY21	FY22	FY23 Guidance <sup>2</sup> (as of Jan 25, 2023)
ES Segment	5%	1%	1%	8%	8 to 9%
PEO Segment	14%	8%	7%	15%	8 to 9%
Total ES & PEO	7%	3%	3%	10%	8 to 9%

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

2. As of ADP Q2 2023 earnings presentation on January 25, 2023. This is not a reaffirmation of that outlook.

# We Issued Medium-Term Targets at our Recent Investor Day

**7 to 8%**

**Revenue Growth**

Organic Constant Currency;  
About 6% ES and 10 to 12% PEO Segment Growth

**10 to 12%**

**Adjusted EBIT Growth**

Supported by approximately 75bps  
annual Adj. EBIT Margin expansion

**11 to 13%**

**Adjusted EPS Growth**

Assuming 1% annual net share count reduction

**13 to 15%**

**Total Shareholder Return**

Assuming 2% dividend yield

These objectives assume no significant impact from change in corporate tax rates, change in yield curve, M&A, or change in ADP multiple. Targets announced at our November 15, 2021 Investor Day. This is not a reaffirmation of that outlook.



# Governance and ESG

# We Remain Focused on Being a Leader in ESG

## Environment

- Commitment to Net-Zero GHG Emissions by 2050
- Reducing Scope 1 & 2 GHG emissions 25.2% by 2025 and 50% by 2030
- Executive compensation linked to environmental objectives

## Social

- Commitment to and recognition for driving diversity and equality efforts
- Key HCM solutions support DEI and financial wellness



## Governance

- Refreshed board with diversity in experience and background
- Strong scores across ESG rating agencies





# 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 2022: 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 30% 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 May 2019, April 2020, November 2020 and February 2022; Committee chair and membership rotations (November 2018, 2019, 2020 and 2022)</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></ul>
Executive Compensation	<ul style="list-style-type: none"><li>• Compensation program and practices, including ADP's increase in focus on performance-based awards in LTI</li><li>• Performance metric selection and weighting, pay mix, and peer group selection</li></ul>	<ul style="list-style-type: none"><li>✓ New FY'23 LTI design for executives, increasing focus on performance-based awards</li><li>✓ Compensation peer group refinements for FY'22 and FY'18</li><li>✓ Amended the charter of our newly re-named compensation and management development committee to formalize its existing practice to review HCM matters such as workplace culture, engagement and diversity and inclusion (April 2021)</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>	<ul style="list-style-type: none"><li>✓ Ongoing enhanced risk management disclosures in proxy statement including in the areas of cyber, privacy and HCM</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>	<ul style="list-style-type: none"><li>✓ Issued fourth CSR report in March 2022 (aligned to SASB and GRI; includes EEO-1 disclosure)</li><li>✓ Pledged to achieve net zero greenhouse gas emissions by 2050; Introduced an environmental footprint objective into annual executive bonus plan for FY'22 (September 2021) and issued short- and medium-term Scope 1 and 2 GHG targets (August 2022)</li><li>✓ Announced enhanced financial disclosures at 2018 Investor Day, which began FY'19</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 (Independent Lead Director as of 2023)
- ✓ 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 poison pill
- ✓ Active shareholder engagement to better understand investor perspective
- ✓ 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 and stock ownership requirements
- ✓ 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**
  - 6 of our 11 Directors have a tenure of 5 years or less<sup>1</sup>
  - Average independent Director tenure of 5.6 years<sup>1</sup>, compared to an S&P 500 average of 7.7 years
  - 36% (4 of 11) women; 27% (3 of 11) racially diverse
- **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, David Goeckeler, 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
- **Ongoing board refreshment**

## Skill Set Aligns and Evolves With Corporate Strategy

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



Source: Spencer Stuart Board Index 2021.

1. As of November 2022 (10 independent directors; 1 management director)

2. Skill set matrix as of November 2022 (11 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, transformation, client satisfaction and ESG 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 FY'22 and FY'18 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

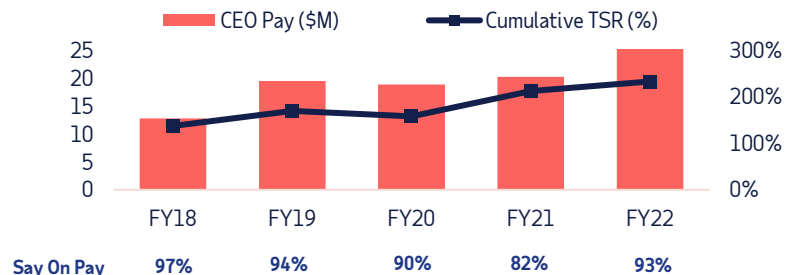
- Designed to incentivize sustainable value creation
  - Thoughtful design to encourage strategic transformation while mitigating excessive risk-taking
  - Approved by independent compensation committee using independent compensation consultant
  - CEO compensation was below Proxy Peer Median for FY16 - FY19, near the median for FY20-FY21 and slightly above the median for FY22
  - Robust clawback policy allows for cash and stock recovery
- Emphasizes equity-based compensation to foster commonality of interest between management and shareholders

## Transformation, Client Satisfaction and ESG Objectives

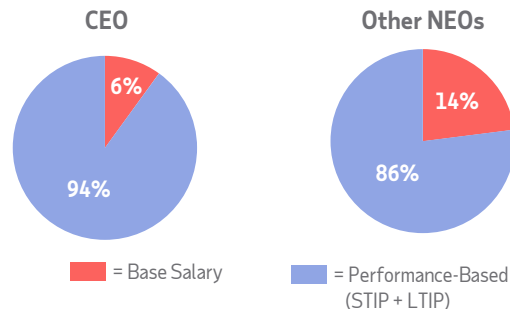
- Transformation, Client Satisfaction and ESG objectives represent 20%, 10% and 10%, respectively, of the short-term incentive compensation for our executive officers
- Important leading indicators of our transformation, creation of long-term value and future success
- These objectives are measurable and pay out formulaically

Transformation	Client Satisfaction	ESG
<ul style="list-style-type: none"> <li>Reduce low value contacts per client</li> <li>Digital sales goal</li> <li>Client count % on Next Gen</li> <li>% of revenues on strategic platforms</li> <li>Sales from newest products</li> </ul>	<ul style="list-style-type: none"> <li>Improve client experience through net promoter score goals</li> <li>Client retention goal</li> </ul>	<ul style="list-style-type: none"> <li>Increase % of paperless direct deposit paystubs</li> <li>Improve % of female executives</li> <li>Improve % of executives from underrepresented groups</li> </ul>

## Strong Performance Alignment & Shareholder Support



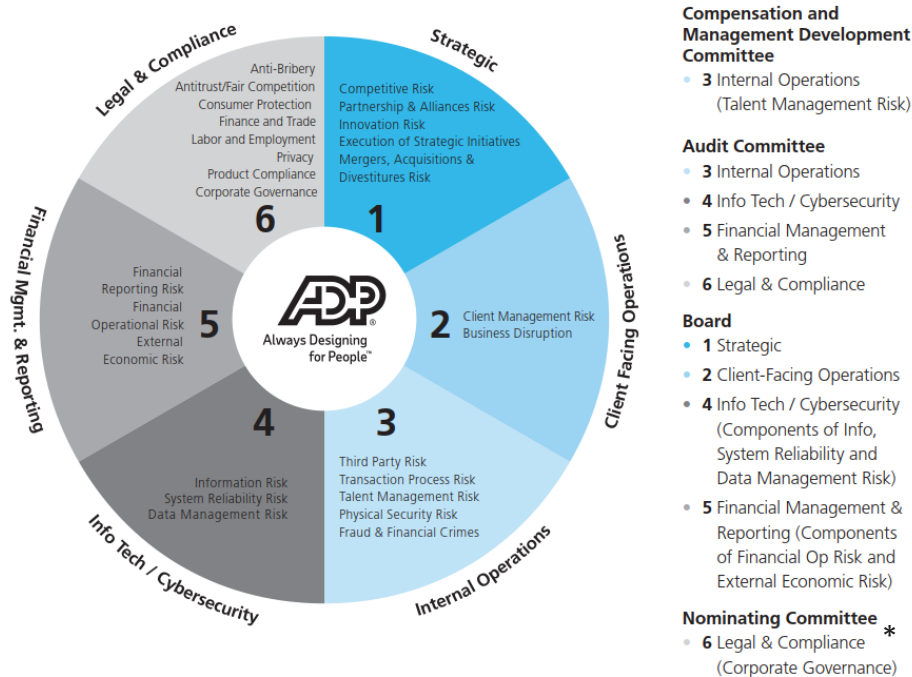
## Significant Pay at Risk



Sources: Institutional Shareholder Services 2022 Report on ADP; ADP 2022 Proxy Statement.

# Enterprise Risk Management

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



# Corporate Social Responsibility Report

## Most Recent CSR Report Issued March 2022



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