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ADP - Q3 2017 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Co. reported 3Q17 revenues of $3.4b, reported net earnings of $588m and diluted EPS of $1.31. Expects FY17 total revenue growth to be about 6%.

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PRESENTATION

Operator

Good morning. My name is Crystal, and I will be your conference operator. At this time, I would like to welcome everyone to ADP's Third Quarter Fiscal 2017 Earnings Call.

I would like to inform you that this conference is being recorded. (Operator Instructions)

I will now turn the conference over to Mr. Christian Greyenbuhl, Vice President, Investor Relations. Please go ahead.

Christian Greyenbuhl

Thank you, Crystal. And good morning, everyone. This is Christian Greyenbuhl, ADP's Vice President, Investor Relations.

I'm here today with Carlos Rodriguez, ADP's President and Chief Executive Officer; and Jan Siegmund, ADP's Chief Financial Officer. Thank you for joining us for our Third Quarter Fiscal 2017 Earnings Call and Webcast.

During our call today, we will reference certain non-GAAP financial measures, which we believe to be useful to investors. A reconciliation of these non-GAAP financial measures to their comparable GAAP measures is included in our earnings release and in the supplemental slides on our Investor Relations website.

I'd like to remind everyone that today's call will contain forward-looking statements that refer to future events and, as such, involve some risks. We encourage you to review our filings with the SEC for additional information on risk factors that could cause actual results to differ materially from our current expectations.

Now let me turn the call over to Carlos.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Thank you, Christian. And thank you all for joining our call this morning. We appreciate your interest in ADP.

Today, we released our third quarter fiscal 2017 results, with reported revenue growth of 5% to $3.4 billion. This revenue growth includes about 1 percentage point of pressure from the second quarter disposition of our spending accounts in COBRA businesses. Our diluted earnings per share grew 12% to $1.31. Jan will take you through the key contributing factors to our performance in more detail shortly.

Our new business bookings this quarter declined by 7% as we continued to overcome the strong fiscal 2016 sales of solutions that assist our clients in complying with the Affordable Care Act. I'd like to remind you that the Affordable Care Act factor was quite unique in that it helped accelerate various buying decisions across our mid- and upmarkets both from new client share and our existing base. Nevertheless, our pipeline of HCM opportunities continues to be strong as we leverage our investments in our strategic cloud platforms Vantage and Workforce Now.

Now let me discuss client retention. As we reported, retention declined 170 basis points for the quarter. The losses that contributed to this decline were concentrated on our legacy platforms, and we believe some of these losses were triggered by our upgrade activities in the mid- and upmarket. We maintain our core belief that these migrations are the right thing to do for our clients as well as for ADP. Our mid-market migrations are anticipated to be completed by the end of this calendar year, while the migration efforts upmarket will be phased-in over time in partnership with our clients. Client satisfaction and retention remain high on our strategic platforms, and we are seeing that with our mid-market Workforce Now platform. The feedback from clients on this platform has been positive. In fact, a report from G2 Crowd, a leading business solutions review platform, recently added ADP Workforce Now to its best software 2017 list in the core HR category. This list is based exclusively on feedback from users of the product. We ranked highest for ease of use, quality of support, which is especially gratifying given our focus on service and the user experience.

ADP's success over the past 68 years is tied to our ability to keep pace with our clients' evolving needs across economic cycles. As our recent workforce vitality report indicated, the labor market continues to be robust. And we see our clients becoming increasingly focused on talent, finding, retaining and engaging critical staff in a much more competitive environment. Our recent acquisition of The Marcus Buckingham Company, which we completed in the third quarter, is an example of our commitment to assist clients in meeting their talent needs. When it comes to talent and performance management, we know the needs of each client and each team are unique. By adding TMBC's content, coaching and technology solutions to the ADP portfolio, we now offer a suite of proven products to help leaders unleash the talent of their teams and create value for our clients.

We've talked before about our focus on the user experience and delivering solutions that our clients and their employees find easier and more intuitive to use. We've applied that same thinking to our channel partners with the introduction of ADP Accountant Connect. We are particularly proud of the continued strength and robust growth of our downmarket, where we now have over 500,000 clients on our own platform. And this unique solution provides our accountant channel partners with a unified view of payroll as well as reporting and tax information for all our shared clients. This solution was developed in collaboration with our accountant channel partners to meet their needs and has already been recognized by Accounting Today as one of its 2017 top new products in the accountant resources category. We believe solutions like ADP Accountant Connect will help further enhance our relationships with this important referral channel while creating a better experience for our shared clients.

We are also pleased to recently receive recognition from NelsonHall, a global BPO analyst firm, who identified ADP as a leader in payroll services for the fourth consecutive year. In naming us a leader, the NelsonHall report highlighted our global reach and the breadth of our service offering allowing clients ranging from small businesses to global enterprises to choose how much expertise they wish to retain in house or to outsource. In its report, NelsonHall also recognized ADP's ability to help clients benchmark their workforce metrics against industry averages using the ADP

DataCloud. And they also recognized the ADP Marketplace, which helps clients access an ecosystem of enterprise applications from ADP and our partners to extend the value of their HCM solutions.

It's great to be recognized in the industry, but it's also great when we see our company recognized more broadly, which is why I was especially proud to see Fortune magazine name us to their most admired companies list for the 11th time and ranked us #1 in our category for the fifth straight time. I'm particularly proud of this because it's a testament to the confidence our stakeholders place in us and to the continued dedication of our 57,000 associates.

In closing. Despite the pressure on new business bookings and retention, we remain confident in the enduring qualities of our business. We are pleased with the continued strong performance of our PEO and multinational solutions and with our improving service metrics within the mid-market. We are especially pleased with our success in the downmarket, which continues to demonstrate the value of our strategy to deliver great technology and great service. We are confident that this strategy is the right one to help our clients succeed, which will in turn drive sustained growth for ADP.

With that, I'll turn the call over to Jan for a further review of our third quarter results and an update on the fiscal 2017 outlook.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Thank you very much, Carlos. And good morning, everyone.

ADP revenues for the quarter grew 5% on a reported basis, 6% organic. Our revenue growth this quarter experienced pressure as we began to lap our fiscal year 2016 ACA-related revenues. Pretax earnings from continuing operations before taxes grew 4% on a reported basis to $828 million despite almost 2 percentage points of combined pressure from our second quarter business disposition and our fiscal year 2017 acquisitions. Adjusted earnings before interest and taxes or adjusted EBIT grew 4%. Adjusted EBIT margin decreased about 20 basis points compared to 24.8% in last year's third quarter. Our margins this quarter were impacted by slower revenue growth, as we maintain our investments in product sales and service, including dual operations costs related to our Service Alignment Initiative.

Our net earnings grew 10% on a reported basis to $588 million and benefited from a lower effective tax rate. Our effective tax rate this quarter was aided by an incremental tax benefit related to prior period software development efforts, $0.04 of which was not previously anticipated; and $0.02 tax benefit related to the adoption of new stock-based compensation accounting guidance. Diluted earnings per share grew 12% to $1.31 and benefited from fewer shares outstanding compared with a year ago.

Our new business bookings performance this quarter was disappointing. However, we have continued to make investments into our sales organization to better position us for growth. We're confident in the competitiveness of our portfolio and the strengths of our distribution capabilities and in turn our ability to execute on our pipeline of market opportunities. In our Employer Services segment, revenues grew 2% on a reported basis for the quarter and included 1 percentage points of pressure from the sale of our CHSA and COBRA businesses earlier this fiscal year. Our same-store pays per control metric in the U.S. grew 2.5% in the third quarter. Average client fund balances grew 2% on a reported basis or 3% on a constant dollar basis compared to a year ago. As a result of improving employment, we have continued to see pressure from lower state unemployment insurance collections impact client fund balances. This pressure was offset by a combination of wage inflation and growth in our pays per control metric.

Employer Services margin decreased about 40 basis points in the quarter. This decrease was driven by slower revenue growth, as we maintain our investments in product sales and service, including dual operations related to our Service Alignment Initiative.

PEO revenues grew 12% in the quarter, with average worksite employees growing 12% to 471,000. The PEO continued to experience slowing growth and the benefit pass-through costs resulting from lower health care renewal premiums, which outweighed growth from higher-benefit plan participation of our worksite employees during the quarter. The PEO margins continued to expand through operational efficiencies, which helped drive approximately 100 basis points of margin expansion in the quarter.

New business bookings this quarter were down 7%, and as a result, we now expect new business bookings for fiscal year 2017 to decline about 5% to 7% compared to the $1.75 billion sold in fiscal year 2016. We have also updated certain other elements of our fiscal 2017 forecast, which I will now take you through.

Despite our revised new business bookings guidance and this quarter's revenue retention decline, our revenue outlook remains unchanged at about 6%. This forecast continues to include 1 percentage point of combined pressure from the sale of our CHSA and COBRA businesses and the impacts from foreign currency. For our Employer Services segment, consistent with our prior forecast, revenue growth is anticipated to be 3% to 4%, which continues to include 1 percentage point of combined pressure from the sale of our CHSA and COBRA businesses and the impacts from foreign currency. For the PEO, ADP continues to anticipate revenue growth of 13%. We continue to expect our consolidated adjusted EBIT margin expansion to be about 50 basis points, which includes about 20 basis points of pressure from dual operations pertaining to our Service Alignment Initiative, which was not part of our non-GAAP charges. On a segment level, we continue to anticipate margin expansion in Employer Services of 25 to 50 basis points. For the PEO, we expect continued operating efficiencies and slower growth in our pass-through revenues, as compared to fiscal year 2016, to help drive margin expansion on a full year basis. Accordingly, we continue to expect fiscal year 2017 PEO margin expansion of at least 100 basis points.

We are also now expecting growth in client funds interest revenue to increase to about $20 million compared with our prior forecasted increase of about $15 million. The total impact from the client funds extended investment strategy is now expected to be up about $15 million compared to the prior forecast of about $10 million. The details of this forecast can be found in the supplemental slides on our investors relations website.

As a result of the software development-related tax benefit, some of which was not previously contemplated in our prior guidance; and the additional benefit of -- related to the stock-based compensation accounting change, we now estimate our adjusted effective tax rate for fiscal year 2017 to be 31.4%, as compared to our prior forecasted rate of 32.4%. Based upon our revision of our effective tax rate guidance, adjusted diluted earnings per share is now expected to grow 13% to 14% compared to our prior forecast of 11% to 13%. Our forecast also continues to contemplate a return of excess cash to shareholders via share repurchases of $1.2 billion to $1.4 billion, subject to market conditions during fiscal year 2017. This forecast includes any repurchases required to offset dilution related to employee benefit plans.

So with that, I will turn the call back to our operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from David Togut from Evercore ISI.

David Mark Togut - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Last quarter, last quarter I'm thinking of as the December quarter, you showed an improvement in client retention, I believe, 10 basis points; in this quarter, the March quarter, down 170. What was the major change between the December quarter and the March quarter that laid to -- led to that decline in client revenue retention?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Well, I think, as we mentioned, I think, in our opening comments, it was concentrated in our legacy platforms in the mid-market and in the upmarket, but it was particularly skewed towards the upmarket this quarter. Some of the losses we -- as you know, we don't provide guidance. And in a December quarter, we wouldn't have talked about forward-looking retention, but some of the deterioration that we experienced in the quarter was anticipated as a result of some known large losses. We typically have a reasonable amount of visibility, sometimes several quarters, if not a year or more, for very large clients when they are moving off of one of our solutions. But I guess the core message we were trying to deliver in our comments is that it's continues to be concentrated in our legacy platforms.

David Mark Togut - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Understood. And just as a quick follow-up: It would seem that the decline in new bookings this year and some of the pressure on client revenue retention would be more consequential for fiscal '18 given the way your revenue model works. Can you give us some preliminary thoughts about fiscal '18 based on the retention trends and the booking trends you're seeing in FY '17?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Well, I think you're right about the way the math works for our business. And I think that's why Jan was very clear in kind of reaffirming our guidance for obviously the rest of the year, because we're so far into the year that these variations in retention and sales have a very low impact on the current next quarter and even maybe 1 quarter after that. But clearly, going forward for the next fiscal year, it does roll into the math in terms of that waterfall chart that we've shared with you. As you know, we don't provide guidance for fiscal year '18 until our August call. So we're really in the middle of our operating plan process, and we'll obviously have better information then in terms of how that waterfall chart exactly falls through in terms of the various factors that impact our revenue growth in fiscal year '18.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

I think that's true, but David, you are mathematically correct that our new business bookings and -- get implemented and turn into revenue after 6 months approximately. And so some of the impact of our lower retention and lower sales will be seen in the revenue growth next year as you roll it forward.

Operator

Our next question comes from Rick Eskelsen from Wells Fargo.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Just the first one, if I heard you correctly, it sounded like the mid-market client migrations have been pushed out by 2 quarters. The question, I guess, is why do you push that out. And then expanding on that a little bit further, as you're starting, it sounds like, with the upmarket, how has what you've seen in the mid-market colored your expectations and how you're going to approach the upmarket?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Yes, I think the -- you're right about the timing, that we were hoping that we would be done -- I think our wording was that we would be done somewhere around the end of this fiscal year. And so now we're saying by the end of the calendar year. Realistically, we really don't do migrations in November and December because we have year-end and a lot of activities going on. So it's really a few months. And it's a few clients or a few thousand clients because in the mid-market we're talking about clients in the thousands. And just as a reminder, there was tens of thousands. I think the total number of client migrations was 60,000 -- somewhere around 50,000 or 60,000 clients. And so what we're talking about is, I would say, a couple thousand stragglers that we felt, in order to just meet an artificial deadline, wasn't worth -- we learned our lesson, I think, 1.5 years ago around, when we had to accelerate in some cases, we were forced to accelerate migrations as a result of ACA to get clients on our new platform in order to be able to give them that solution. We learned through that process that you really want to -- you want to really truly upgrade the clients; and have them feel that it's an upgrade, not a forced march or a negative experience. And so we're just focused on making sure that it's the right kind of experience. And we felt like a couple thousand clients falling over from 1 fiscal year to the other is really not that big of a deal, in our minds.

And I think it's the right thing to do. And I think, to answer your question about how that colors, how that experience colors our approach in the upmarket, again I think we learned some lessons in terms of making sure that we do things at the proper pace and that we do it in partnership with our clients. And I think that becomes much more important in the upmarket, where it's much more complex and clients have in many cases to provide a lot of their own internal resources in order to make a migration happen. In the small market, when we did those migrations, there was very little effort and very little need for clients to be involved. In the mid-market, there was a little bit more effort and a little more involvement by the clients. And in the upmarket, there's quite a lot of involvement, and hence it has to be much more carefully planned. And hence, you're probably hearing from us that it's going to be longer -- a longer process in terms of getting those upgrades completed.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Then just to follow up. As you've had a little more time in the new service delivery geographies, how was the ability to find talent then? How is it compared to your expectations for shifting to those locations?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

I think it's fair to say that we are -- again, we're early in our goals here, but we're -- really we're on track, so we're actually quite pleased. We've got several thousand people already hired in our new locations in Orlando; in Maitland, which is near Orlando; in Norfolk, Virginia. And we're already hiring also in Tempe. And this is in addition to Augusta and El Paso, where we already had 2 strategic locations. And we have a few other couple of other key locations, but those are the ones that we've been talking the most about regarding our Strategic Alignment Initiative. So I'd say we're pleased with the talent. We're pleased with the pace. I think we're on plan in terms of the number of people we were intended to hire. We're on plan in terms of the wage levels and the quality of the talent. I have obviously visited, and I think, Jan, we've all visited, these locations. In fact, we had a very large associate town hall meeting in our Norfolk, Virginia location. And it may be a honeymoon phase, but it's an incredibly energetic environment. People are very positive and very bullish on ADP. I think we're considered a great employer in the markets that we are entering. And we've got a lot of help from other parts of the organization getting these folks trained and ready to be able to actually deliver service. And in some cases, they are -- obviously already are. And that's why we have some of these dual operations costs that Jan has referred to a couple of times, because we're trying to make sure that we do this in a very careful and methodical way.

Operator

And our next question comes from Tien-tsin Huang from JPMorgan.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just a couple of questions. Just on the pricing front on successfully migrated clients to the new strategic platforms, any surprises there? Did that contribute at all to the bookings forecast?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

We are -- just to be clear, when we migrate our clients and -- their migration itself is not counting as a new business booking because in business bookings account only incremental recurring revenue that we report. So the migration is generally cost neutral to our clients. And they have enhanced feature functionality with a new product that they get. In the process, clients continue to make buying decisions and buy incremental modules as they do. And we have seen that trend continue and particularly in the mid-market, but the actual migration is revenue neutral as we approach it. And that will be the same for all our market clients.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I wasn't sure if the change might get captured in the sold business bookings...

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes, well, the change as the client buys more, I don't have the most recent statistics here, but I think the trends continue that they continue -- that a number of clients purchases incremental modules as they see the power of the integrated platform. And so there is some slight revenue uptick that we do see for the clients who choose that. And that -- only that incremental revenue would be reflected, but it would be immaterial for the new business bookings number in total.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Got it. One more quick follow-up. I know we -- Jan, Carlos, you've been sort of, I guess, signaling or suggesting that some of these things could happen with ACA, but I'm just curious just looking back now. Some of the reduction in this bookings outlook, how much -- is there a way to quantify how much might be related to the weak follow-through on ACA module sales and the related tough comp on ACA modules versus maybe a pull forward of broader payroll, HCM sales related to ACA? Do you follow my question?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

I do. I do. And I think that it is -- as I think we've been trying to signal for, I think, probably 3 years, if we go back to my notes, it's very hard because we're obviously in uncharted territories because we were in something completely new. And it was a very comprehensive regulatory framework that required a lot of information from HR platforms, payroll platforms, benefit platforms et cetera. And when you look back, we had 2 years of more than 12% new business bookings growth. And this is why we were cautious all along, because that is a little strong. We were happy with it, and we take it. It's good for our shareholders. It's good for ADP and it's good for our revenues, but it definitely felt like a fairly significant tailwind. And I think in hindsight it was obviously a big tailwind. Now -- what has now added, I think, potential to that pressure, which again we can't quantify scientifically, is that we have, I think, a different environment politically that's creating some uncertainty. That certainly has impacted our new business bookings. We just can't put our finger on exactly to what extent. So as an example: We knew we had a grow-over issue just for ACA itself because we had already sold 50% of our addressable client base, but we did have some planned sales of ACA this year. And even though we've gotten some, it's significantly lower than planned, which is not surprising given the headlines and the frequent votes on repeal and replace of ACA. So I think that's a second factor that I think was not certainly anticipated as we entered into this fiscal year in terms of our planning process. But we knew we had the grow-over, the mathematical grow-over issue. Now we have what I would call the political issue. And then the third one that you mentioned, which again it's very hard for us to put our finger on but I think you're on to something because we experienced the same thing back when we had the Y2K phenomenon in year 2000, where you do have some amount of pull forward, if you will, of business because -- we've seen this particularly on some of our wins last year from ERPs were quite high and elevated. And I think some of that, it appears, with the benefit of hindsight, is people on kind of older legacy technology trying to find a new solution for ACA. And by the way, some of that happened to us. So as we mentioned, before, we think some of our retention issues last year may have been related to the same factor of people kind of just out looking for new solutions as a result of what I would call an event, which was a significant event called ACA. So I think all 3 things are a factor. I really, we really wish we could put our finger on exactly how much each one is accountable, but unfortunately, we can't.

Operator

(Operator Instructions) Our next question will come from Jim Schneider from Goldman Sachs.

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James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

Maybe just to follow up on a prior question on the new bookings weakness you're seeing and specifically the revision to guidance obviously going from flat to down 5% for the full year. I think you talked last quarter about seeing confidence in improving bookings rates as you head through the end of the year. I guess, maybe you could talk anecdotally about what changed from 3 months ago to today. And in terms of specific client conversations you're having, is it simply the regulatory environment uncertainty seizing things up in terms of purchasing decisions? And then if you've got any color on what clients are telling you about what they'd have to see to get more confidence to book.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Yes. I think that -- a couple of comments. And then maybe Jan can add some of his observations. We've obviously been meeting frequently with our sales leaders. And I've been going around to sales meetings; trying to get, put my finger on the pulse. And it's -- doesn't appear that it's the economy because we have very robust and strong results in our downmarket. Our PEO is still doing well. Our MNC business had a great quarter. A lot of the channels that we sell through small business like our insurance services products and our retirement services products are also doing quite well, so it's really not an across-the-board weakness. It does appear to be concentrated in places where we had the ACA phenomenon, if you will. And then how much of it is related to just the grow-over itself versus uncertainty about the political environment and the fact that people maybe are sitting and waiting, we do have some information around our pipeline, which is not the same as bookings. So bookings are bookings. And we are very clear about how we count revenues. I think Jan just went through the math, but we do have pipeline reports, like any sales force would have pipeline reports. And in our mid-market and our upmarket, we feel pretty good, like we did last quarter, about our pipeline. So if we say we feel pretty good and the sales are not materializing, that can lead to one conclusion, which is the decision making is getting elongated or is slowing. And we can't quite put our finger on why, but that's exactly what the math is showing versus our pipeline right now.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

I think the only thing, Jim, just keep in mind our new guidance is down 5% to 7%. That's our expected new business bookings guidance, and I think Carlos captured it.

James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

Understand. And then maybe just a follow-up. Can you maybe just talk about the regulatory environment changes and what impact that could have on the PEO business? And specifically, what's your confidence level in that PEO business kind of sustaining double-digit growth for the foreseeable future?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Good question. Actually, let me finish also. Like I think you mentioned about like tone in the sales force. And one of the kind of surprising things for me at least is the tone in the sales force is still very positive. Like we've done some things to try to encourage people not to "throw in the towel," because this is another factor that we have to -- that I have to worry about, right, that we are close to our end of our fiscal year. And we do have -- the way our incentive systems work, there's a big incentive, when you're exceeding plan, to over-exceed it. And likewise, there's a bit of an incentive to throw in the towel, if you will, if you're having a bad year. So we've done some things to try to -- and that may be why the sales force still remains upbeat, or maybe because they think these issues are transitory. It's very, again, hard just to put a scientific answer on it. But it feels positive in terms of the tone in the sales force. On the question about PEO and the regulatory environment, I think I mentioned multiple times also in PEO over the last couple of years that it felt like we were getting some tailwind as a result of ACA, if for no other reason, because it was creating conversation opportunities, right? Because people are looking for a solution and they're looking at maybe different alternatives, and someone is able to talk to them about the PEO. And I think it's compelling value proposition they're able to close the business. So I would put the PEO in the same category that we were watching, if you will. It's not quite the same in the sense that many of the clients in the PEO are not necessarily buying only ACA and were not rushing to make a decision of that magnitude only because of ACA. So I think there's a subtle but important difference. So I'm not convinced. And we certainly aren't seeing it in the numbers yet, that the PEO will have the same kind of difficulties, if you will, growing over.

But it's definitely a more difficult sales environment for the PEO. But having said that, just again, we've said this multiple times, but the PEO has grown double digits for, I think it's, 17 years now. And so I mean it's just a very compelling value proposition. And if for example there are changes in the regulatory landscape, some parts of our business may be affected, like our direct ACA product. If the entire thing gets repealed and the whole thing goes away, that would not be good news for that part of the business. But as we know now from what we're hearing of what's going through congress, there is not going to be a complete repeal. There is going to be some kind of new framework. Those types of new frameworks are always good for the PEO because they tend to be more state-based regulation, which is what the PEO is really good at and what small companies are not very good at in having to deal with. And so I think that I would remain generally optimistic and positive, more optimistic and more positive about the PEO.

Operator

And our next question comes from James Berkley from Barclays.

James Robert Berkley - *Barclays PLC, Research Division - Research Analyst*

Just first, I just wanted to start off. I know you just touched on this a little bit, but a little more color would be helpful. I mean I understand why businesses are holding off with regards to ACA solutions just given the uncertainty that you mentioned around health care and the U.S. as a whole, but at the end of the day, the law is the law, right? So kind of like at what point, if (inaudible) keeps being delayed, do you think employers will start to demand the solutions you're offering around ACA and just make other buying decisions in general they may have been holding off on because of the uncertainty?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

We were hoping that, that would happen 2 weeks ago or 3 weeks ago, when the President said that he was done with it and that we're moving on the tax reform. And unfortunately, that was not -- it appears not to have been the case. So I think, in a -- we're watching the same news you're watching. We do have obviously some access to and some information that we get from people in Washington about what's happening on the hill and the regulation and so forth, but we have kind of similar information to what everyone else has. And these things always, when you're in the middle of them, feel like your feet are in cement. And that's how it feels like to us right now. And it's very frustrating, but these things pass. We will look back a year or 2 from now, and there will either be the existing ACA or some other version or some more complicated state regime or a complex regulatory framework at the state level. And we'll, hopefully, be looking back and seeing this as yet another opportunity for ADP to shine and to help our clients, but right now it is what it is and it doesn't feel great.

James Robert Berkley - *Barclays PLC, Research Division - Research Analyst*

Okay. And then just to follow up. When you think about the slide that you guys put out, just your long-term growth driver, the 7% to 9% that you think of the longer term; and I think you have like a 14% to 15% new business bookings and then 7% to 8% reduction from client losses, just how does that math change given the bookings guidance that you're seeing right now? And I know '18 is a little early, but just any color you can give us on how to think about how that 7% to 9% growth might be impacted for fiscal '18?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes, our longer-term expectations for organic growth is 7% to 9%, as you correctly quoted, and it's driven by growth of new business bookings in the range of 8% to 10% growth. And it always was meant to cover a multiple-year type of cycle elongated. And it was not a commitment, obviously, as you see, not realistically -- not a commitment to perform every single fiscal year. So we are not updating our long-term growth outlook at this point in time. But clearly our new business bookings are falling a little bit behind, but relative to a 3- or a 4-year cycle of new business bookings, we still feel good about our growth opportunities.

Operator

And our next question comes from Danyal Hussain from Morgan Stanley.

Danyal Hussain - *Morgan Stanley, Research Division - Equity Analyst*

I just want to understand the bookings a little bit more, so a two-part question, part math, part more subjective. So the math is just to get the full year guidance. It seems like you're implying potentially further deterioration in the fourth quarter unless maybe the waiting from the third quarter is disproportionate. So maybe some clarification there. And then the second part of that is maybe you can just talk about the cadence -- exiting the selling season and into April? Carlos, you already talked a little bit about hoping to see some change as of 2 weeks ago but not seeing it, but maybe just a little bit more color?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Yes. I think you're right that the third quarter is disproportionate. So we have a lot of disproportionate number of dollar sales in the third quarter compared to the entire year. And that's just the way the seasonality has always worked. So the fourth quarter would not be materially different in terms of the momentum or just kind of 5% to 7% down range. It's in that ballpark. So there's really no real news I think, there. I think the cadence in terms of the exit for the -- the one thing that we're grappling with is, obviously, we have the realities, right? Of the political environment and we're hoping that there will be resolution here relatively soon. Our fiscal year, obviously, starts on July 1. We're hoping to have some kind of -- we thought 2, 3 weeks ago, we had clarity. So we're hoping that we get that behind us, and we get some clarity. Because we have lots of other products. We have lots of other parts of our business that are performing well, and we just want to get on with it, right? And be able to continue to sell the other suite of products that we have available, both in the midmarket and also in the upmarket. So I think, as I mentioned before, it feels like exiting the year our pipelines are robust. It feels like the tone and the confidence in the sales force is high. But the results are the results. And I think Jan and I live in the world of reality, not in the world of make-believe. And so we're being cautious and careful but it's hard enough to be optimistic because the economy is picking up, it feels like. The labor markets are tightening. And we have some very compelling value propositions in that kind of environment where employers now are going to be, "engaging in a war for talent" again, which we haven't seen. So these things, we forget that 10 years ago, there was a real issue in terms of finding people. And we benefited back then from that kind of environment in terms of our HCM solutions. And we're hoping that we're entering a period here where all of our solutions, the entire suite becomes very compelling as client become focused on attracting people and holding onto the people that they have. And we see all kinds of metrics in our own numbers and in the government data around higher voluntary turnover, higher wage growth, lots of signals that the labor markets are tightening. And I think our value propositions are very compelling in that kind of environment. So we just want to get this uncertainty and these delays and this slow decision-making behind us so that we can get onto business.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

And maybe just I'll add a comment to this on the outlook, which Carlos described correctly, kind of roughly in line with the fourth quarter and the full year guidance. But we'll also continue to put our dollars where our statements are and the investments into the sales force, the incentives that we're bringing out to get the sales force ready and the hiring and preparing for growth in the next year are actually fully underway and have actually to some degree impacted our third quarter and fourth quarter results because we believe we have that opportunity going forward. So we're preparing for growth in the future.

Danyal Hussain - *Morgan Stanley, Research Division - Equity Analyst*

Okay. And then just a question on retention. I just wanted to clarify. So it sounded like some of the higher attrition is within the upmarket and was partly related to migration. But at the same time, you're taking a more measured pace with your migration relative to what you do with Workforce Now. So just trying to square that and see maybe where any surprises came versus expectations?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Maybe one's connected to other and maybe not. Because I think the reality is that the variability, and I think is -- we've had -- I think we're very sensitive now, obviously to retention for all the right reasons. Because we went through a really difficult period last year. But we've had variability in our retention forever at ADP, because it's a different metric than our other metrics, and it can be volatile. And as an example, in the upmarket, you can have 1 or 2 large clients that can actually move that number. 1 or 2 clients in the upmarket that can move the number for the upmarket and for ADP. And you saw a little bit of that in the first quarter when we lost that large government contract and the business we ended up selling or in the process of selling that had a material impact on our overall retention for the first quarter. So this is not -- this wasn't a one large client like that, but it was a handful of clients. And so this business -- our upmarket business is a little less than 20% of our overall revenues. So just to kind of put things in context, and it's 2,000 to 3,000 clients. And a couple, literally, 3, 4 client losses in a particular quarter can really move the numbers. So I was just trying to help kind of frame the discussion because at least for now I'm not ready to conceive that we have a permanent -- we don't talk about forward guidance on retention. But this is a third quarter issue for now.

Operator

Our next question comes from Lisa Ellis from Bernstein.

Lisa Dejong Ellis - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

One more on the topic of the day, retention. So the upmarket dynamic you're describing, I guess, does feel like it's a little bit new. Is there a change in the competitive landscape in the upmarket? Or what -- is there anything you can identify that triggered, I guess this handful of clients this quarter? Or is it just somewhat anomalous?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

It's a good question. And I think that you'd be generally I think, right, that despite the fact that we do have volatility across quarters, we have generally not paid a lot of attention to it because over the course of kind of rolling 12 months or even in terms of years, calendar years or even fiscal years, our retention in the upmarket has been pretty stable. I mean it's a sticky business. It doesn't change a whole lot. So I'd say this quarter was -- I'd say it's fair to say that it's a little bit anomalous. And I think the answer to the other part of your question, we don't see it as being related any change in the competitive environment. Now as always, in 2 or 3 years or in 2 or 3 quarters, I may be singing a different tune, but we have a lot of data around the reasons for the losses, where -- what platform the losses were on, were they new technology, old technology and what types of product the client had. And I think when we put all that information together, which Jan obviously -- and I obviously, spent a lot of time anticipating this being one of the topics of the day, we spent a lot of time on this issue and looked at the names of the clients, who they are, what platforms they were on. And we don't see any change in the competitive environment. And I think we said before that there isn't any one competitor that causes us a majority of our losses and likewise, there isn't any one competitor where we take a majority of our business from. It's spread out all over the landscape and it remains that way. For some of our competitors that might be different because of their size, where they may have a heavy concentration of taking clients from one particular company. In our case, that is not the case.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

And maybe a tiny bit of further detail, Lisa, is when we look at our competitive position against this multitude of competitors in the quarter, some competitive positions have improved and some have not. And that is a fairly typical thing we see each of these competitors evolving quarter-by-quarter up and down. So when we say, the general competitors dynamic we feel have not changed, it's rooted in this analysis and we see in some cases we have improved in some cases we have not. So it a mixed bag, obviously, and -- but we believe it hasn't changed.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Yes. And I think the -- I didn't maybe answer directly your question about, how does this square with our upgrade or migrations strategy. And I think, the things really are somewhat connected in a maybe an odd way that we think that because as we know what clients we lost and what platforms they were on that it makes it even more compelling for us to move our clients onto our newer technologies. On the other hand, we know that these movements are complex and that the clients need to help us, and they need to be involved, they need to cooperate. And so finding the right clients in the right place at the right time is just different than it was in the midmarket and in the downmarket. But I think it heightens our confidence that the right thing to do over time.

Lisa Dejong Ellis - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Okay. And then I guess the follow-up. As you've been -- we've been living with you through the Workforce Now migrations in the midmarket, I know you've consistently said that the retention levels are higher on the migrated clients. And so there's sort of this nirvana we're going to get to when the migrations are done where retentions should naturally go back up. Are we though now facing a more protracted period in the upmarket kind of go into the same thing?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

So I think the nirvana it does -- from what Jan and I were looking at just over the last couple of days, the retention rates on our current version Workforce Now strategic platform are extremely high. And we're very happy with them, and we have a lot of volume on it already. So that feels like it worked out the way we had hoped, and we had anticipated. And with now, the downmarket on our new strategic platform with retention rates that frankly have improved dramatically over the last couple of years. And with our Workforce Now migrations being completed by the end of this calendar year, and with 20% of our base remaining in the upmarket, we're feeling good about where we are. But the answer to your question is, yes, we have a protracted migration effort in the upmarket. It's the right thing to do. We're going to do it, and we're going to do it as well as we can and as quickly as we can without causing damage and disruption to our clients. But we're in a very different position from where we were 4 or 5 years ago when we had 10% of our clients on our strategic platforms that are versionless and cloud where there is no further migration and there is no further disruption. So it's a very, very different place. It hasn't felt good getting here. But it feels pretty good now.

Lisa Dejong Ellis - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Okay. And maybe on -- quickly, just on a more positive note. I know you've had the reporting and benchmarking modules out in the market now, at least for a few months. How are they doing? How is the uptake?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

It's going well. We -- again, that's another one back to the discussion about what's happening with the labor markets and the economy in general. Those are products that are useful no matter what. But in the kind of environment that we're entering into like helping people, make sure that they're paying people the right amounts, that they know where their turnover is in comparison to benchmarks. That type of information is very, very useful to an HR leader or to a CEO in making good people decisions on a go-forward basis. So that's another example of something that the conversations for the last 2 or 3 years were about ACA. I think the conversations for the next 2 or 3 years is going to be about what's happening with your workforce, what's the turnover rate, how are you paying people. And I think these benchmark and analytics tools are going to facilitate those discussions, and hopefully, those sales because those are conversations openers or starters in order to convince clients to come to our product suite, which is I think unique in the sense that it has these data and analytics benchmarks.

Operator

(Operator Instructions) And our next question will come from Jeff Silber from BMO Capital Markets.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD and Senior Equity Analyst*

A few times you mentioned the uncertainty and you thought it might have dissipated a few weeks ago, we had a little bit more clarity on ACA. Is the client uncertainty and the elongated decision-making, you think it's solely related to ACA issues? Are there just other things going on in the current environment that clients are worried about?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Again, I'll just say one more time, it's impossible for us. We don't really have like a chart that kind of follows that. So this is really more on intuition, and I'll let Jan comment as well. But there is -- it's not just ACA that's creating uncertainty. There is -- I think the administration has put -- has asked the Labor Department to review the overtime rules, for example, that were about to be issued. I think they were pay equity rules that were coming out around EEOC reporting that are now under review as well. The fiduciary rule, which was intended to go through the -- and which would have affected our retirement services business has also been put under review. And so I think there are pockets of uncertainty in addition to ACA. And some of them happen to be related to our core business, which is HCM. And so if you're selling, for example, an ERP suite, some of that uncertainty may not really affect that decision-making. But if we were involved in a sales process where you had a large hourly workforce and many of them -- sorry, a large salaried workforce because of the new rules will now be hourly and those hours needed to be tracked and you need to be in compliance with the FLSA. That sales cycle is probably been elongated as a client stops and goes back to focusing on whatever they were focusing on before that trigger event. So I think there are a few other things that are probably not helpful. But again, it's hard for us to put a specific measure on each one of them.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD and Senior Equity Analyst*

Okay. I understand. And then just one, I guess, numbers or model-related question. When do we anniversary the bump in bookings from all the ACA-driven business?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Well, next fiscal year, we are clearly half -- still a little bit of grow-over but not that material. So next year should be a clean year relative to the ACA-related grow-over. Just a further clarification. The -- we have tried to illustrate this a few times. With the ACA core module that we have sold came off an incremental fuller bundled sales, particularly included benefit administration modules. So the impact of the Affordable Care Act had been broader than the direct impact of the ACA-related sales, which makes it a little bit harder to predict. And as a consequence, our client may switch typically provides ADP-wide about 50% of our incremental new business bookings come from selling more to existing clients. And that dynamic has now changed because we have fuller bundles now in particular in the midmarket. And so we started to transition to drive new logo growth in the midmarket and those channels have to readjust a little bit. And as a consequence of the ACA surge that has driven more complete bundle in particular in the midmarket. So that transition is still present obviously next year. But we feel that we have great strategies in place to replace basically that upsell strategy with a more aggressive new logo sales. And as we have clarified, it is a disappointing quarter but despite our down guidance for new business bookings, it would still be our second highest sales year ever for ADP. So keep that in mind.

Operator

Our next question comes from Gary Bisbee from RBC Capital.

Jay Hanna - *RBC Capital Markets, LLC, Research Division - Associate*

This is actually Jay Hanna on for Gary, today. Kind of going off that last comment. Going forward, should -- given the struggles with client retention this quarter and now expected decline in bookings. Should we expect an even greater spend on sales force additions going forward?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Well, it's funny that you should mention that. Because I think Jan did address it. And I'll let him if he wants to give more detail, which we probably don't because we're not giving FY '18 guidance yet. But we're definitely not taking our foot off of the accelerator. So this is a -- we obviously could change our minds a quarter or two from now. But our position right now is, I think, we mentioned it and Jan comes from maintaining our investments in service, implementation, et cetera. And in some cases, we've actually accelerated or increased some of our investments and I think in the sales or innovation is a place where I would say we've added expense. And the irony is that the underlying sales expense gets helped by weaker sales because our commissions are lower and so forth but there's a lot of things that go into that sales expense bucket, including headcount costs and commissions. And so it's safe to say that our commission expense and our variable expense is helping us from a cost standpoint. But we -- instead of taking that all to the bottom line, we have chosen to invest because, again, we believe our story, which is that, nothing fundamentally has changed in the economy, which is typically what really affects ADP, which by the way, affects us less than most because of the nature of our business model. But if we saw a recession coming or a slowdown coming, we would have to start thinking hard about our expense levels. And that's not what we are right now.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Just a quick reminder, as one of the advantages of ADP is that we serve such a broad range of segments and markets in the U.S. and globally in multinational, and so as we had our challenges in the mid and upmarket, we continue to perform tremendously in the downmarket, in the PEO, multinational. So there's a broad range of products that are gaining share and really driving success. So obviously, in that balance, our investments into sales signal our confidence for ultimate success in distribution.

Operator

Our next question comes from Mark Marcon from RW Baird.

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

A couple of product-related questions. With regards to the higher ratings in terms of the G2 for Workforce Now. At what point do you start pivoting from migration of existing clients to proactively selling Workforce Now to clients that aren't currently utilizing ADP at all in the midmarket? That's the first question. And then secondly, can you tell us where we are with regards to Vantage in terms of the optimization of that solution? And when you would feel really good about pushing that?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

So I think the answer on the Workforce Now question is, about 3 or 4 months ago. Because we've -- I think Jan just alluded to that, that we've kind of tilted our focus now more towards new logo growth and new share from kind of the traditional approach of -- doesn't mean we won't take additional modules and incremental business. But this is a fairly significant change from a sales force mentality standpoint where we were for several years, focused on upgrades and on incremental sales of other modules to the existing client base as we upgraded them, combined with selling something called ACA, which to some extent, was a significant tailwind. So we're moving into a different environment. Luckily, we have other tailwinds like great products like you just mentioned with Workforce Now. And we can see, for example, our client satisfaction scores improving. We can see our client retentions scores on our strategic platform being very, very high. Higher than we've had overall for the midmarket for in the -- historically. So there's a lot of positive signs that we want to step on the accelerator and proactively sell our solution just as you mentioned. And I think we kind of got that religion, if you will, I don't know 4 to 6 months ago. And we've been retooling in terms of, I think Jan alluded to channels. I think if you're going to go after incremental new logos. Not just add-on business that requires channel partnerships. And I think there's a lot of efforts underway to build the same kind of success we have in our downmarket now with our midmarket channel partners. And so the answer is we're on that and we believe that, that will get traction over time. On a question about Vantage. Vantage continues to do quite well. And there, again, our satisfaction scores, for implementation have improved dramatically over the last several quarters as we invested in that process of the implementation process. We've gone, I think, we have like almost 350 live clients versus I think, we were at 220 at the beginning of the fiscal year. We have I think 500 sold, so we have a decent pipeline that needs to be implemented. And I don't mean pipeline, those are actually signed contracts, 500 signed contracts. And so we feel pretty good about our Vantage platform. I think it compares really well and competes very well with our upmarket competitors. But it's -- you all see the same thing we see. It's a very competitive environment in the upmarket. And there are a lot of solutions. But we like what we have. And I think we're competing very effectively.

Mark Steven Marcon - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. And just a quick follow-up. With regards to the dual Service platforms. Do you still think that by the end of the calendar '18, you'll have completed that transition to the new Service platforms?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes. You're never complete on operations, Mark. But the majority of our work is actually this fiscal year and next fiscal year. So next fiscal year, I'd still anticipate some dual ops. We haven't determined what that will be specifically. But there's still transitioning happening but the vast majority relative to those 3 new locations and the 2 existing ones should be completed in '18. But our service strategy is, obviously, organic and evolving and we're going to continue to drive improvements but '18 is still a big year still for us.

Operator

Our next question comes from Bryan Keane from Deutsche Bank.

Bryan Connell Keane - *Deutsche Bank AG, Research Division - MD*

Just 2 quick clarifications. Just on the retention. Do we know where these clients are going? Are they bringing it in-house, the service? Just curious.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes. So the sources of our business and the sources of our losses is something that we track. And both have very similar dynamics. It's fragmented and there's no clear trend to it. And so they go to a variety of different targets. Some in the ERP space, some to our traditional competitors, some to other solutions. So it is a wide range. Some is driven by their M&A activity, moving to on. So the last reasons and their targets is varied as -- the sources of our businesses are varied. And as a consequence, we feel the competitive dynamic has not fundamentally changed as we observe it.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

And we did look at that. I happen to look at it last night. I ask for a little more detail in terms of our upmarket losses. And unfortunately, I didn't compare the same, "top losses" to last year's third quarter top losses. But when we looked at this year's third quarter losses, there were a couple that went back in-house that were using our, for example, our COS solution, which is our BPO solution upmarket. And I guess, they decided to go back and rebuild internal capabilities and use their internal technology. But I think Jan described it well, because I mean, we sound elusive when we give you that answer. But it's really all over the board. There was really no, and maybe that's because of our size. Because again, I just to continue to emphasize, some of our competitors would have a different story just because of the differences potentially in terms of size. But in our case, we -- it would almost be easier if we had one specific place or one specific reason. But it's unfortunately it's not that -- neither in the upmarket nor for ADP overall. So there's no discernible pattern across even in the place where we have the concentration of losses in this quarter, we can't see discernable pattern.

Bryan Connell Keane - *Deutsche Bank AG, Research Division - MD*

No. That's helpful. And then the other clarification is just on an environment where you guys are, let's say, seeing slower revenue growth. Can you still get operating leverage and increase operating margins?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Well, yes. And that's fully our intention. So obviously, it's much easier to get operating leverage and margin improvement when you're growing revenues faster. But we are who we are. So we know ourselves very well, and we know that we're a $12-billion-plus company. And so we are happy with 7% to 9% revenue growth. And it's easier to get margin when you're at 9%. Like we were -- when you back out a disposition that we had of that advance in the business, we were almost getting close to 10% revenue growth at one point. Now we're excluding -- again, the dispositions this year, we're probably closer to 7% or so in terms of our revenue growth. And the reality is that it's harder. But we're a very disciplined company. And so for example, you could see our headcount growth for our own internal resources, slowing down slightly despite the fact that we're still investing in our sales organization. Because we have lower volumes. And so we know that, we get that. We've been doing this for 68 years. And so we will adjust appropriately because we still want to deliver great service. Retention is the most important thing for us. And so we don't want to cut too much or we're not cut because is a matter of slowing the growth of expense, not cutting expense. But we are slowing the growth of expense in certain areas as our revenue growth slows in order to be able to continue to drive operating efficiencies because we believe there's still opportunity for that. We have a lot of process-improvement initiatives underway across the company because we believe that the complexity that we have historically had, the number of platforms and all the things we've been telling you about that we're trying to simplify, all those things are margin opportunity for us without affecting our associates and without affecting our clients.

Operator

And we have time for one final question. And our last question will come from Ashwin Shirvaikar from Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

My question is, I guess the first question is. If bookings growth recovers or as bookings growth recovers either because of easier comps or other factors. What the relationship -- did they impact on the margins I would imagine would be negative. If you can talk about the specific quantification of that relationship, that would be helpful. And the other modeling question I have is with regards to the go-forward tax rate.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

So I wish there was an easy answer to the question about margins and sales because back to, again, we want to be intellectually honest here. We have 2 or 3 years of very robust plus-12% sales growth, new business bookings growth and we drove margin improvement. So we clearly have the capability to drive margin. And some of that depends on the timing of when the investments and the expense go in. So as I think we've mentioned, we've -- I would say invested a little bit ahead of '18 from a sales standpoint. If we had strong new bookings growth next year, there might be some incremental variable cost around commissions and so forth. But I'm not saying it doesn't matter. It clearly matters. The math is very straightforward. But we have a lot of levers in our business and we make choices every day in order to balance our objectives, right? And one of our objectives continues to be margin improvement. But we also have an objective around growth. We have an objective around capital return. And we balance all of those things. And I think try to do the right thing for our shareholders and our stakeholders. So I guess a long answer to -- the short answer is, we have the ability, I think, to drive margin when new bookings recover.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

And on the tax rate, Ashwin, this quarter was onetime unanticipatedly strong outcome relative to our tax strategies of the R&D credits. So this quarter is not regular quarter it was a onetime affect and so we're going to be returning to our well, that it, we're not giving guidance for next year. But it's certainly not going to be at the level that you saw in the third quarter.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Got it. And the broad question I have for you Carlos and Jan, is really, as you reflect back on how this year sort of transpired and you think about the operating plan for next year, which you're in the process of doing. How does that affect how you go about doing the operating plan, the factor that you're considering and so on? If you can kind of walk through the process, what changes, what doesn't change?

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

I think that, frankly, the things that we look at and the things we do, many of them we learn everyday. Jan and I are learning every year and every day in our current jobs, and we've learned from our predecessors for many years and think this company has a lot of deep experience and knowledge about economic cycles and about how we manage our sales force, et cetera. So we frankly, would make changes around the edges. But we're very consistent in terms of the way we approach things. And so one of our objectives for '18 is this is the kind of experience and environment that would lead you to be overly conservative. And we want to be very careful about that. And that's why we haven't "slashed" expenses or sales investment because we just don't see the signs that, that's the appropriate move right now. And so in a strange way, part of our challenge for '18 will be to not allow ourselves to become overly conservative because we want to take advantage of the market opportunity that we have in front of us.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

The tenants translate into what you have heard or believe that our core strategic platforms need to be funded and need to be innovative. So we have a belief in our core capability to develop those products and we continue as we had in a prior question. Our belief that the service environment initiative is fundamentally positive for our business outlook going forward. So we're going to continue to drive the execution of those core strategic initiatives, and we continue to believe that our sales force has opportunity to execute and we will be funding those appropriately. So those may be the core tenants kind of really executing around the strategy that we have laid out for the last few years, also in '18 is a fair assumption to make.

Operator

Thank you. And this concludes our question-and-answer portion for today. I am pleased to hand the program over to Carlos Rodriguez for closing remarks.

Carlos A. Rodriguez - *Automatic Data Processing, Inc. - CEO, President and Director*

Just a couple of quick closing remarks. Obviously, we acknowledge we had a very challenging quarter. But I think you can also tell from our tone that we still have a lot of confidence in our business model and in our continued ability. Not just to grow our business but also to drive operational efficiencies. You probably also could tell that I, in particular, I'm hopeful and optimistic that the continuing labor markets are going to continue to drive value in our HCM solutions for the markets. So I think the economic cycle and the tightened labor markets, I'm hoping will help us as we try to reengage our sales growth and our revenue growth. And I think as Jan just mentioned, we're going to continue to make the investments in our innovation and simplification efforts because we believe they're yielding the right kinds of results. We're going to continue to align or service model so the strategic alignment initiatives, I think, continues to move forward, and I think, is on plan. And as you also heard, we're going to continue to expand or distribution channels because we've shown a historical ability to create opportunities and use our distribution channel to grow the company, which is ultimately, our objective. And so with that, I thank you for joining the call, and I thank you for your interest in ADP.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a wonderful day.