



# 3Q Fiscal 2018 ADP Earnings Call & Webcast

May 2, 2018



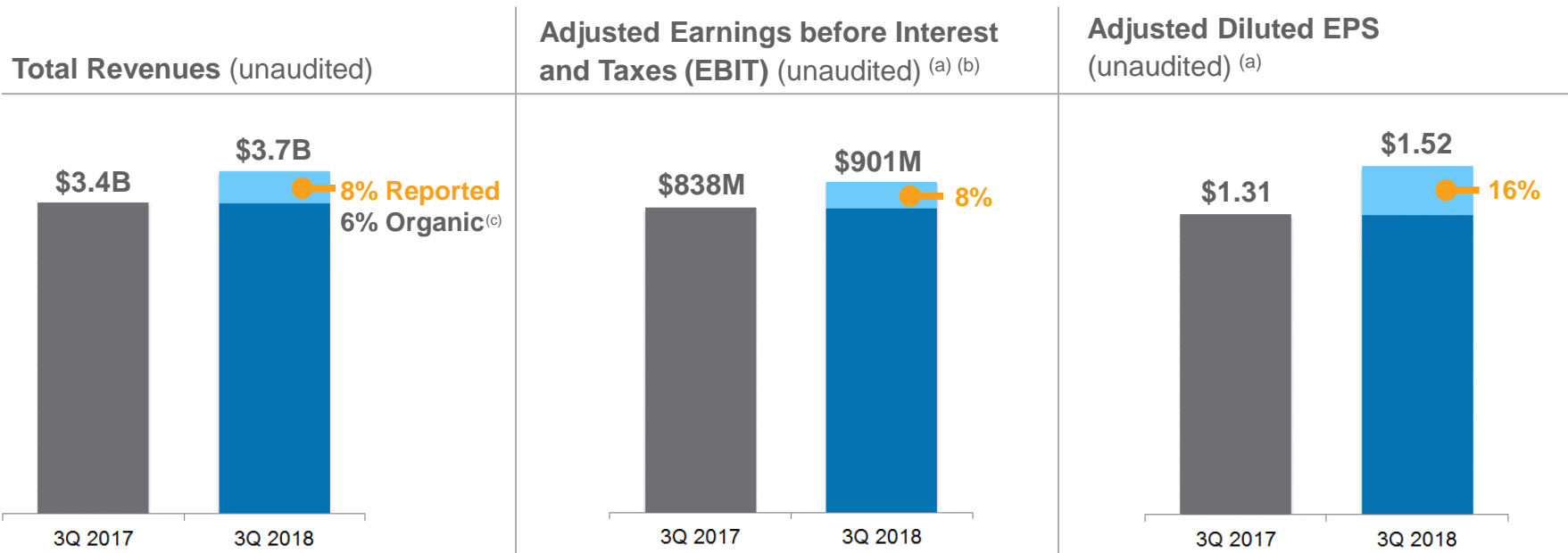
# Forward Looking Statements

This presentation and other written or oral statements made from time to time by ADP may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature and which may be identified by the use of words like “expects,” “assumes,” “projects,” “anticipates,” “estimates,” “we believe,” “could” “is designed to” and other words of similar meaning, are forward-looking statements. These statements are based on management’s expectations and assumptions and depend upon or refer to future events or conditions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements or that could contribute to such difference include: ADP’s success in obtaining and retaining clients, and selling additional services to clients; the pricing of products and services; compliance with existing or new legislation or regulations; changes in, or interpretations of, existing legislation or regulations; overall market, political and economic conditions, including interest rate and foreign currency trends; competitive conditions; our ability to maintain our current credit ratings and the impact on our funding costs and profitability; security or privacy breaches, fraudulent acts, and system interruptions and failures; employment and wage levels; changes in technology; availability of skilled technical associates; and the impact of new acquisitions and divestitures. 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” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 should be considered in evaluating any forward-looking statements contained herein.

# CEO's Perspective

- Solid third quarter: revenue growth of 8% with diluted EPS growth of 11% and adjusted diluted EPS growth of 16%
- Investments in product and service driving retention – quarterly improvement of 170 basis points
- Growing demand for ADP's HCM solutions – quarterly new business bookings growth of 9%
- Completed migrations of mid-market clients to latest version of Workforce Now
- Announced voluntary early retirement program

# 3Q Fiscal 2018 Financial Highlights



(a) "Adjusted Earnings before Interest and Taxes (EBIT)" and "Adjusted Diluted EPS" are non-GAAP metrics; for a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics, see pages 10-12 of this presentation.

(b) Adjusted EBIT performance measures include interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy. We believe these amounts to be fundamental to the underlying operations of our business model. Our calculation of adjusted EBIT may differ from similarly titled measures used by other companies.

(c) "Organic" growth rates exclude foreign currency and the results of our fiscal 2017 and 2018 acquisitions until their one year anniversary. See supplemental schedule to the earnings release for the reconciliation of organic growth rates to reported growth rates.

# 3Q Fiscal 2018 New Business Bookings and Segment Results



## Worldwide New Business Bookings

- ↑ 9% compared with Q3 FY17 representing annualized recurring revenues anticipated from new orders



## Employer Services

- Revenues ↑ 7% Reported  
↑ 4% Organic <sup>(a)</sup>
- Client revenue retention  
↑ 170 basis points
- U.S. pays per control ↑ 2.9%
- Average client funds balances ↑ 6%
- Margin ↓ 20 basis points



## PEO Services

- Revenues ↑ 10%
- Average worksite employees paid  
↑ 9% to 512,000
- Margin ↑ 40 basis points

(a) See supplemental schedule to the earnings release for the reconciliation of organic growth rates to their comparable reported growth rates.



# Fiscal 2018 Outlook

## Revenues

↑ 7% - 8% Reported <sup>(a)</sup>

- ES Revenue ↑ ~5% <sup>(a)</sup>
- PEO Revenue ↑ ~12%

## Margin Expansion

Adjusted EBIT Margin <sup>(b)</sup> ~Flat

- ES Margin ~Flat
- PEO Margin ~Flat

## Adjusted Diluted EPS <sup>(b)</sup>

↑ 16% - 17%

## Worldwide New Business Bookings

↑ 6% - 7% compared to \$1.65 billion sold in fiscal 2017

## U.S. Pays per Control

↑ ~2.5% compared to 2.4% increase in fiscal 2017

## Adjusted Effective Tax Rate <sup>(b)</sup>

↓ 26.2% from 30.9% in fiscal 2017

(a) Revenue growth includes about a two percentage points impact from acquisitions and foreign currency.

(b) "Adjusted EBIT Margin," "Adjusted Diluted EPS," and "Adjusted Effective Tax Rate" are non-GAAP metrics; for a reconciliation of these non-GAAP financial metrics to their closest comparable GAAP metrics, see pages 10-12 of this presentation.

# Appendix



# Client Funds Portfolio Extended Investment Strategy

- Average Client Funds Balances ↑ ~5% from \$23.0 billion in FY17 compared to the prior forecast of ↑ 4% - 5%
- Yield on the Client Funds Portfolio ↑ ~20bps compared to 1.7% in FY17
- Client Funds Interest Revenue ↑ ~\$65 million from \$397 million in FY17 compared to the prior forecast of ↑ \$55 to \$65 million
- Impact from Extended Investment Strategy ↑ ~\$50 million from \$431 million in FY17 compared to the prior forecast of ↑ \$45 to \$55 million

	FY18 Forecast		
	Average Balance (\$)	Average Yield	Client Funds Interest (\$)
Client Short	~4.8B	~1.2%	~55M
Client Extended	~10.4B	~1.9%	~195M
Client Long	~9.1B	~2.4%	~215M
<b>Total Client Funds</b>	<b>~24.3B</b>	<b>~1.9%</b>	<b>~465M</b>
Corporate Extended Interest Income	~3.2B	~1.8%	~60M
Borrowing Days Interest Expense	~3.2B	~1.4%	~(45)M
<b>FY18 Net Impact From Client Funds Extended Investment Strategy</b>			<b>~480M</b>

(a)

(b)

Interest on the Extended Portfolio flows into two separate sections of the Statements of Consolidated Earnings.

(a) Reported as Interest on Funds Held for Clients in the revenue section of the Statements of Consolidated Earnings.

(b) A component of Interest Income on Corporate Funds, reported within Other Income, net, on the Statements of Consolidated Earnings.



# GAAP Reconciliations

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

Adjusted Financial Measure	U.S. GAAP Measures	Adjustments/Explanation (as applicable in the period)
Adjusted EBIT	Net earnings	<ul style="list-style-type: none"> <li>- Provision for income taxes</li> <li>- All other interest expense and income</li> <li>- Transformation initiatives</li> <li>- Gains/losses on sales of businesses and assets</li> <li>- Non-operational costs related to proxy contest matters</li> </ul>
Adjusted diluted earnings per share	Diluted earnings per share	EPS impacts of: <ul style="list-style-type: none"> <li>- Transformation initiatives</li> <li>- Gains/losses on sales of businesses and assets</li> <li>- Non-operational costs related to proxy contest matters</li> <li>- Tax Cuts and Jobs Act</li> </ul>
Adjusted effective tax rate	Effective tax rate	Tax impacts of: <ul style="list-style-type: none"> <li>- Gains/losses on sales of businesses and assets</li> <li>- Transformation initiatives</li> <li>- Non-operational costs related to proxy contest matters</li> <li>- Tax Cuts and Jobs Act</li> </ul>
Constant currency basis	U.S. GAAP P&L line items	Determined by calculating the current year result using foreign exchange rates consistent with the prior year
Organic revenue growth, constant currency	Revenues	<ul style="list-style-type: none"> <li>-Impact of acquisitions</li> <li>-Impact of dispositions</li> <li>-Impact of foreign currency</li> </ul>
Corporate extended interest income	Interest income	-All other interest income
Corporate interest expense-short-term financing	Interest expense	-All other interest expense

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

# GAAP Reconciliations

(Continuing Operations, \$ in millions, except per share data)

	3Q FY18	3Q FY17	% Change	
			As Reported	Constant Currency
Net earnings	\$643.1	\$587.9	9%	8%
Provision for income taxes	209.5	240.0		
All other interest expense <sup>(a)</sup>	14.8	14.6		
All other interest income <sup>(a)</sup>	(6.1)	(5.2)		
Gain on sale of business	-	-		
Transformation initiatives <sup>(b)</sup>	39.7	0.6		
Proxy contest matters <sup>(c)</sup>	-	-		
<b>Adjusted EBIT</b>	<b>\$901.0</b>	<b>\$837.9</b>	<b>8%</b>	<b>6%</b>
<b>Adjusted EBIT Margin</b>	<b>24.4%</b>	<b>24.6%</b>		
Diluted EPS	\$1.45	\$1.31	11%	9%
Gain on sale of businesses	-	-		
Transformation initiatives <sup>(b)</sup>	0.07	-		
Proxy contest matters <sup>(c)</sup>	-	-		
Tax Cuts and Jobs Act <sup>(d)</sup>	0.01	-		
<b>Adjusted diluted EPS</b>	<b>\$1.52</b>	<b>\$1.31</b>	<b>16%</b>	<b>15%</b>

- (a) We continue to include the interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy as we believe these amounts to be fundamental to the underlying operations of our business model. These adjustments in the table above represent the interest income and interest expense that is not related to our client funds extended investment strategy and are labeled as "All other interest expense" and "All other interest income". No material impact is expected from change in all other interest expense or income in fiscal 2018.
- (b) The charges within transformation initiatives represent severance charges related to our Service Alignment Initiative of \$13.1 million and other transformation initiatives of \$26.6 million which primarily consist of severance charges totaling \$22.6 million for the three months ended March 31, 2018. Charges for transformation initiatives in other periods presented primarily represent severance charges related to our Service Alignment Initiative. Severance charges have been taken in the past and not included as an adjustment to get to adjusted results. Unlike severance charges in prior periods, these specific charges relate to actions that are part of our broad-based, company-wide transformation initiative.
- (c) Represents non-operational costs related to proxy contest matters.
- (d) The one-time net benefit from the enactment of the Act is comprised of the application of the newly enacted U.S. corporate tax rates to our U.S. deferred tax balances partially offset by the one-time transition tax on the earnings and profits of our foreign subsidiaries and the recording of a valuation allowance against our foreign tax credits which may not be realized. We are still analyzing certain aspects of the Act and refining calculations, which could potentially result in the re-measurement of these balances or potentially give rise to future adjustments.

# Fiscal 2018 Outlook - GAAP Reconciliations

(Continuing Operations, \$ in millions)

	Twelve Months Ended June 30, 2017		Fiscal 2018 Forecast
Earnings before income taxes / margin (GAAP)	\$2,531.1	20.4%	~(160)bps
All other interest expense <sup>(a)</sup>	59.3	+50bps	-
All other interest income <sup>(a)</sup>	(22.4)	(20)bps	-
Gain on sale of businesses – 2Q F17 <sup>(b)</sup>	(205.4)	(170)bps	+170bps
Workforce Optimization Effort – 4Q F17 <sup>(c)</sup>	(5.0)	(5)bps	+5bps
Transformation initiatives – F17 <sup>(d)</sup>	90.0	75bps	(75)bps
Transformation initiatives – F18 <sup>(e)</sup>	-	-	+35bps
Proxy contest matters – F18 <sup>(f)</sup>	-	-	+25bps
<b>Adjusted EBIT margin (Non-GAAP)</b>	<b>\$2,447.6</b>	<b>19.8%</b>	<b>~Flat</b>
Effective tax rate (GAAP)		31.5%	24.5%
Gain on sale of businesses – 2Q F17 <sup>(b)</sup>		(0.9%)	-
Workforce Optimization Effort – 4Q F17 <sup>(c)</sup>		(0.0%)	-
Transformation initiatives – F17 <sup>(d)</sup>		+0.4%	-
Transformation initiatives – F18 <sup>(e)</sup>		-	(0.0)%
Proxy contest matters – F18 <sup>(f)</sup>		-	+0.1%
Tax Cuts and Jobs Act – F18 <sup>(g)</sup>		-	+1.7%
<b>Adjusted effective tax rate (Non-GAAP)</b>		<b>30.9%</b>	<b>26.2%</b>

(a) No material impact is expected from change in all other interest expense or income in fiscal 2018.

(b) Second quarter fiscal 2017 impact from gain on the sale of CHSA and COBRA businesses.

(c) Fourth quarter fiscal 2017 impact of the Workforce Optimization Effort adjustment is a reversal of the fiscal 2016 estimate and is not expected to recur in fiscal 2018. The majority of charges related to our Workforce Optimization Effort represent severance charges. Severance charges have been taken in the past and not included as an adjustment to get to adjusted results. Unlike severance charges in prior periods, these specific charges related to our broad-based, company-wide Workforce Optimization Effort.

(d) Impact of fiscal 2017 charges in connection with the Service Alignment Initiative.

(e) Expected impact of fiscal 2018 charges in connection with Service Alignment Initiative and other transformation initiatives. This estimate does not reflect expected fourth quarter charges related to the Company's announced voluntary early retirement program.

(f) Expected impact of fiscal 2018 charges in connection with proxy contest matters.

(g) Expected impact of fiscal 2018 one-time benefit from the enactment of the Tax Cuts and Jobs Act.

# Fiscal 2018 Outlook - GAAP Reconciliations

(Continuing Operations)

	Twelve Months Ended June 30, 2017		Fiscal 2018 Forecast
Diluted EPS (GAAP)	\$3.85	18%	11% - 12%
Gain on sale of businesses – 2Q F17 <sup>(a)</sup>	(0.27)	(7%)	~ +7%
Workforce Optimization Effort – 4Q F17 <sup>(b)</sup>	(0.01)	(0%)	~ +0%
Transformation initiatives – F17 <sup>(c)</sup>	0.12	+3%	~ (3%)
Transformation initiatives – F18 <sup>(d)</sup>	-	-	~ +2%
Proxy contest matters – F18 <sup>(e)</sup>	-	-	~ +1%
Tax Cuts and Jobs Act – F18 <sup>(f)</sup>	-	-	~ (3%)
<b>Adjusted diluted EPS (Non-GAAP)</b>	<b>\$3.70</b>	<b>13%</b>	<b>16% - 17%</b>

(a) Second quarter fiscal 2017 impact from gain on the sale of CHSA and COBRA businesses.

(b) Fourth quarter fiscal 2017 impact of the Workforce Optimization Effort adjustment is a reversal of the fiscal 2016 estimate and is not expected to recur in fiscal 2018. The majority of charges related to our Workforce Optimization Effort represent severance charges. Severance charges have been taken in the past and not included as an adjustment to get to adjusted results. Unlike severance charges in prior periods, these specific charges related to our broad-based, company-wide Workforce Optimization Effort.

(c) Impact of fiscal 2017 charges in connection with the Service Alignment Initiative.

(d) Expected impact of fiscal 2018 charges in connection with Service Alignment Initiative and other transformation initiatives. This estimate does not reflect expected fourth quarter charges related to the Company's announced voluntary early retirement program.

(e) Expected impact of fiscal 2018 charges in connection with proxy contest matters.

(f) Expected impact of fiscal 2018 one-time benefit from the enactment of the Tax Cuts and Jobs Act.

# ADP Fiscal 2018 Guidance History

	5/2/18 Forecast <sup>(a)</sup>	1/31/18 Forecast <sup>(a)</sup>	11/2/17 Forecast <sup>(b)</sup>	7/27/17 Forecast <sup>(c)</sup>
<b>Total ADP</b>				
Revenues	↑ 7% - 8% Reported	↑ 7% - 8% Reported	↑ 6% - 8% Reported	↑ 5% - 6% Reported
Adj. EBIT Margin <sup>(d)</sup>	~Flat	↓ ~ 50 bps	↓ 50 - 25 bps	↓ 50 - 25 bps
Adj. Effective Tax Rate <sup>(d)</sup>	↓ Decline to 26.2%	↓ Decline to 26.9%	↑ Increase to 31.7%	↑ Increase to 33.0%
Adj. Diluted EPS <sup>(d)</sup>	↑ 16% - 17%	↑ 12% - 13%	↑ 5% - 7%	↑ 2% - 4%
<b>Employer Services (ES)</b>				
Revenues	↑ ~5%	↑ 4% - 5%	↑ 4% - 5%	↑ 2% - 3%
Margin	~Flat	↓ 75 - 50 bps	↓ 75 - 50 bps	↓ 75 - 50 bps
Pays per Control	↑ ~2.5%	↑ ~2.5%	↑ ~2.5%	↑ ~2.5%
<b>PEO Services</b>				
Revenues	↑ ~12%	↑ 12% - 13%	↑ 11% - 13%	↑ 11% - 13%
Margin	~Flat	Flat - ↓ 25 bps	↑ 25 - 50 bps	↑ 25 - 50 bps
<b>New Business Bookings</b>				
	↑ 6% - 7%	↑ 5% - 7%	↑ 5% - 7%	↑ 5% - 7%

(a) Forecast contemplated the impact of prior fiscal year dispositions and anticipated impacts of current year acquisition of Global Cash Card and WorkMarket and foreign currency in revenue and operating results.

(b) Forecast contemplated the impact of prior fiscal year dispositions and anticipated impacts of current year acquisition of Global Cash Card and foreign currency in revenue and operating results.

(c) Forecast contemplates the impact of prior fiscal year dispositions and anticipated impacts of foreign currency in revenue and operating results.

(d) This is a non-GAAP financial measure. See pages 10-12 for reconciliation of non-GAAP financial measures to their comparable GAAP measures.