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ADP - Q3 2018 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Co. reported 3Q18 revenues of $3.7b and adjusted diluted EPS of $1.52. Expects FY18 consolidated revenues to grow 7-8%.

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PRESENTATION

Operator

Good morning. My name is Ms. Christina. I will be your conference operator. At this time, I will like to welcome everyone to ADP's Third Quarter Fiscal 2018 Earnings Conference Call. I would like to inform you that this conference is being recorded. (Operator Instructions)

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

Christian Greyenbuhl - *Automatic Data Processing, Inc. - VP of IR*

Thank you, Christy, and good morning around. This is Christian Greyenbuhl, ADP's Vice President, Investor Relations. And I am 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 2018 Earnings Call and Webcast. Before I hand the call over to Carlos, I want to give you a brief reminder of our upcoming Investor Day. The event will be held on June 12 in New York City, and we have an exciting agenda planned that will showcase our new products and include an update on our business and transformation initiatives. We look forward to seeing you there.

Moving on to the quarter. I'd like to remind you that during our call today, we will reference non-GAAP financial measures, which we believe to be useful to investors and that include the impact of certain items in the third quarter of fiscal 2018 as well as the third quarter of fiscal 2017. A description of these items and a reconciliation of these non-GAAP measures can be found in this morning's press release and in the supplemental slides on our Investor Relations website.

Today's call will also contain forward-looking statements that refer to future events and as such involves some risk. 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 expectation.

Now let me turn the call over to Carlos.

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

Thank you, Christian, and good morning, everyone. This morning, we reported our third quarter fiscal 2018 results, with reported revenue up 8% to $3.7 billion, 6% on an organic constant-currency basis.

We are pleased with the strong revenue growth for the quarter, and we are especially pleased with our quarterly Employer Services revenue retention, which increased 170 basis points.

In our PEO segment, average worksite employee growth was 9% for the quarter, slightly below our expectations, though we continue to see strong demand, particularly in the downmarket. Our solid 9% new business bookings growth this quarter was in line with expectations, as we continue to see improving demand for our HCM solutions.

Our downmarket and international businesses continue to perform well, and we were also encouraged by the performance of our upmarket offerings compared to a difficult third quarter in fiscal 2017.

As you can see from our reported results, we continue to see broad-based progress from investments we made in our sales force and are therefore, increasing our fiscal 2018 new business bookings guidance growth to 6% to 7% from 5% to 7%.

Our adjusted diluted earnings per share grew 16% to $1.52 per share, as we delivered improving adjusted EBIT performance and benefited from a lower effective tax rate and fewer shares outstanding.

Overall, our earnings growth in the quarter exceeded our expectations, and we are happy with our strong performance, which Jan will walk you through in more detail shortly.

Now I'd like to discuss our innovation efforts and how they remain at the core of our strategy. We're continuing to invest in a new breed of HCM solutions that we anticipate will address the evolving needs of millions of workers everyday, and we're proud to be recognized for it.

Most recently, Constellation Research recognized our suite of HCM solutions as a leader in helping enterprises navigate the barriers in doing business in today's global economy. They further noted that we have turned the innovation corner and described ADP as an innovative, next-gen HCM vendor and a leader in big data, machine learning and user experience.

Additionally, earlier this week, at Facebook's F8 Conference, we launched an integration with Facebook's enterprise solution, Workplace. Now clients using ADP for HR and payroll solutions and Workplace by Facebook for employee collaboration can offer teams access to pay and time-off information within Facebook's enterprise environment through an ADP virtual assistant that utilizes chat. This application is available now in our ADP Marketplace. As we continue to invest around our core strengths, we also remain strategic in the acquisitions we make.

Last quarter, we discussed Global Cash Card, an acquisition of that enables us to broaden engagement with our clients' workforce with compelling, flexible payments. And WorkMarket, which established ADP as the first HCM provider with freelance worker management and payment functionality. These acquisitions will enable us to drive higher market share across the entire labor pool, while we help our clients keep pace with change and manage the increasing demand for flexibility.

We remain committed to supporting these investments in innovation with our business transformation efforts and with our mid-market migrations now behind us, we continue to make good progress on transforming our organization with a client service experience top of mind.

This quarter, we launched a voluntary early retirement program, we believe, will help us streamline our operations and help us drive incremental margin expansion in fiscal 2019 and beyond. In addition, we have accelerated the execution of some incremental strategic initiatives this quarter, which we believe will continue to help us enhance our productivity and efficiency. Jan will take you through some of the details of these initiatives shortly.

We believe that our focused initiatives will help us continue to deliver long-term value for ADP, our associates and our investors. As we have mentioned before, it takes time and attention to detail to drive successful change and avoid major disruptions. Since embarking on our Service Alignment Initiative almost 2 years ago, our associates have worked tirelessly to meet and exceed our targets while simultaneously increasing client satisfaction.

I'm proud of our progress, and I'm happy to tell you that as of this month, we exceeded our fiscal 2018 exit target and have now closed approximately 90% of our 68 targeted subscale service locations. We have done all this and more while undergoing a large multiyear client migration in the mid-market, which I'm proud to announce we have now completed.

We continue to extend our efforts to simplify our organization and service tools and are pleased with the progress we are making, and in particular, with the 170 basis point increase in retention this quarter, which was slightly ahead of our expectations.

We look forward to discussing our strategy and the strength of our business at our upcoming Investor Day in June. We continue to believe that our unique ability to meet the needs of our clients today while anticipating their needs tomorrow will drive our sustained growth.

Before I turn the call over to Jan, I want to take a moment to acknowledge how proud I am of our talented and dedicated associates. I would also like to recognize the contributions and accomplishments of our associates who have decided to participate in our voluntary early retirement program. These tenured associates have helped shape ADP into who we are today, and we look forward to working with them through the upcoming transition period. The transition will be thoughtfully managed and reflective of our deep appreciation of their service to ADP.

We also continue to focus our efforts on attracting, training and retaining top talent. In fact, this quarter, we were honored to be included among LinkedIn's 2018 Top Companies. This award highlighted the top 50 companies that were most in demand by job seekers. This recognition, along with our other achievements, affirms our strategy, enhances our value proposition and lays the groundwork for a long-term growth. I continue to be impressed and proud of the unwavering commitment of our associates. Our stakeholders place the utmost confidence in us because of the tireless efforts of our associates in providing our clients the best solutions for today and tomorrow.

And with that, I'll turn the call over to Jan for further review of our third quarter results.

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

Thank you, Carlos, and hello, everyone. Before I proceed with a deeper dive on our financial results, I would like to talk a little bit about our transformation initiatives.

As Carlos highlighted, we continued to execute on our transformation initiatives. In this quarter, we recognized approximately $40 million of charges, which I excluded from our non-GAAP results. Some of the anticipated benefits from these investments were already contemplated in our September 2017 investor presentation while other incremental investments made this quarter are focused on expanding our productivity improvement initiatives to further drive our transformation efforts.

We believe the benefits from these investments will continue to help us deliver against our long-term financial objectives. I also want to be clear that the $40 million of charges are not related to our previously announced voluntary early retirement program. We expect the benefit of this program to begin help reduce our pre-tax operating expenses starting early fiscal year 2019.

With that said, let us now dive into the financial update. As Carlos mentioned, ADP reported revenues grew 8% in the quarter to $3.7 billion, and we now fully lapped the pressure from the fiscal year 2017 sale of our CHSA and COBRA businesses. We are happy with this revenue growth and with the performance of our recent strategic acquisitions, as we continue to work towards fully integrating them into our suite of offerings.

On a reported basis, earnings before income taxes increased 3%. Our adjusted earnings before interest and taxes or adjusted EBIT, increased 8% and included approximately 1 combined point of lift from FX and the impact from our fiscal year 2018 acquisitions.

Adjusted EBIT margin decreased about 20 basis points compared to 24.6% in last year's third quarter and was better than our expectations. We were pleased with our margin performance, as we continued to overcome pressure from acquisitions and growth in our PEO pass-through revenues and benefited from operating efficiencies, largely driven by improvements in our infrastructure spend as well as incremental sales efficiencies.

Adjusted diluted earnings per share grew 16% to $1.52 and benefited from a lower effective tax rate and fewer shares outstanding compared with a year ago. Our adjusted effective tax rate in the quarter of 24.3% was aided by the release of reserves related to certain -- to uncertain tax positions and the benefit of a tax accounting change which resulted in certain assets of investments being eligible for accelerated expensing. We continued to expect an effective tax rate excluding any possible onetime items of 25% to 26% beyond fiscal year 2018.

Additionally, in April, our Board of Directors approved a 10% increase to our quarterly dividend to $0.69 per share. This increase will be funded by a portion of the benefits we received from the Tax Cuts and Job Act in the U.S. Our board expects to consider another dividend increase in November 2018, consistent with ADP's 43-year track record of annual dividend increases and our commitment to returning cash to shareholders.

As a reminder, ADP has historically targeted a 55% to 60% dividend payout ratio. Overall, we have continued to make good progress this quarter. Let me now take you through our segment results before moving onto our fiscal year 2018 outlook.

In our Employer Services segment, revenues grew 7% in the quarter, 4% organic constant currency. Our same-store pays per control metric in the U.S. grew 2.9% in the third quarter. Average client fund balances grew 6%, or 5% on a constant dollar compared with a year ago. This growth was driven by a combination of wage inflation and growth in our pays per control, offset by about 3% of combined pressure from lower state unemployment insurance collections as well as corporate tax reform.

Outside the U.S., we continued to see solid performance from our multinational businesses with double-digit revenue growth. Employer Services margin decreased about 20 basis points in the quarter and continued to include approximately 70 basis points of combined impact from acquisitions and FX. PEO revenues grew 10% in the quarter, with average worksite employees growing 9% to 512,000. This worksite employee growth was slightly below our expectations due to in part a softer growth in the 50-employee-and-above market. The PEO segment's margins this quarter increased 40 basis points, which was largely a function of lower selling expenses.

I will now take a moment to walk through our revised outlook with you. First, as Carlos mentioned earlier, we are raising our full year new business bookings guidance to 6% to 7% growth from our previous guidance of 5% to 7%. And we are reaffirming our consolidated revenue growth forecast of 7% to 8%.

For the Employer Services segment, we now anticipate revenue growth of about 5% as compared to our previous guidance of 4% to 5%. While for the PEO, we are revising our revenue guidance to growth of about 12% as compared to our previous guidance of 12% to 13%.

We are also now expecting growth in client fund interest revenue to increase approximately $65 million compared with our prior forecasted increase to $55 million to $65 million. The total impact from client funds extended investment strategy is now expected to be up about $50 million compared to the prior forecasted increase of [$45 million] (corrected by company after the call) to $55 million. The details of this forecast can be found on Slide 8 in our investor presentation, which is available in our Investor Relations website.

As we continue to see some of the benefits from the acceleration of our transformation initiatives, we now anticipate our consolidated adjusted EBIT margin to be about flat compared to our previously forecasted contraction of 50 basis points from 19.8% in fiscal year 2017.

Overall, as you can tell from our guidance adjustment, our accelerated investments begin to make an impact. As we have easier compares in the fourth quarter, we continue to anticipate a strong finish for the year.

At a segment level, most of this incremental margin performance is coming from Employer Services segment where we now expect margins to be about flat compared to our previously forecasted contraction of 50 to 75 basis points. This revised year's guidance continues to anticipate approximately 60 basis points of pressure from acquisitions cost and FX.

For the PEO, we now anticipate margins to be about flat compared to our previously forecasted flat to down 25 basis points. As a result of the incremental benefits to our third quarter adjusted effective tax rate, we now anticipate an adjusted effective tax rate for fiscal year 2018 of 26.2% compared to our previously forecasted 26.9%.

We were pleased with our performance this quarter and with the momentum of our transformation initiatives. Accordingly, we now expect growth in adjusted diluted earnings per share of 16% to 17% compared to our prior forecast of 12% to 13%. This forecast does not contemplate any further share buybacks beyond anticipated dilution related to equity compensation plans. However, it remains our intent to continue to return excess cash to shareholders subject to market conditions.

So with that, I will turn it over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from the line of Jason Kupferberg of Bank of America Merrill Lynch.

Jason Alan Kupferberg - *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

Nice set of results. I just wanted to start on margins. Obviously, good to see the guidance increase there. So you're now looking at flat year-over-year, which I think implies that your June quarter will be up almost 300 basis points. I know that benefits from an easy comp. But nonetheless, much better than previously envisioned. So given that the benefits of the early retirement program won't even start taking in until next fiscal year, how should we start thinking about the potential margin expansion trajectory for fiscal '19 relative to the multiyear outlook you'd given last September?

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

Jason, the -- as you know, we will giver guidance later in the year for '19. But in addition to having completed our migrations, making progress in our Service Alignment Initiatives and an easier compare relative to investments that we made last fourth quarter, in particular, into our sales force, we have a number of sources that will drive the margin expansion in the fourth quarter that we anticipate. The early retirement initiative, it's really going to be kicking in, in 2019, as we then work on the transition of those workers who have chosen -- employees that have chosen the early retirement in '19. I hope that's helpful.

Jason Alan Kupferberg - *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

Yes, yes. I'm sure we'll get more color at the Analyst Day. Just for my follow-up, any callouts on the strong retention result as well as the strong bookings growth? I mean I know the bookings forecast change isn't big but nonetheless, you are nudging it up. So I was just curious if there was any parts of the end market there that have improved more notably than others and then along the same line as it relates to retention to the team, like these underlying trends, is sustainable now that the mid-market migrations are complete?

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

So I think on the sales -- on the new business bookings growth, given the absolute size of our new business bookings and change in guidance for us, you're right, it's relatively modest in percentage terms, but I think the sales force would say that's pretty meaningful, because it's a lot of additional dollars in new business bookings. On the retention side, we did have an easier compare versus last year. If you remember, we -- I think every call I think, I just cautioned everyone that the -- because of the way we calculate revenue retention on a quarterly basis, if you have 1 or 2 large losses, it can really impact the numbers, even given ADP's size, it can have an impact on the retention. And I think last year in the third quarter, it was one of those quarters. And then, again, here now, I have to say the opposite, which is when you have a great quarter, and you don't have a lot of large losses, which we didn't have this quarter, it helps. And so I think that was part of it. But I would say that the improvement was broad-based, so you can obviously, by my comments, see that a lot of that improvement was in the upmarket and some of that is an easier compare, but we also have had really good results in our mid-market, which as you know, it's been a multiyear effort to kind of climb back in terms of the retention pressure that we felt a few years back as a result of ACA activity and also as a result of the migrations that we've undergone there, so very proud of the mid-market retention results as well, but I think other places also -- so I guess as usual, at ADP it's -- since we are so diversified in terms of segment and geography, for us to have a large improvement in retention of that magnitude, it has to be somewhat broad-based, and I think it was.

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

The -- maybe I'll add 2 components to your answer, Carlos. Number one, the positive trend in retention is supported by continued improvement of our client satisfaction scores, also broad-based improvement. Which means our investments that we undertook last year into our service components are really taking root, and as a consequence, our service operations are also very good at this point in time. So I think those investments have translated then broad-based into and supported some of the retention improvement that we saw in the quarter.

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

Yes. Actually we received a note last night from one of our business unit leaders with an update on our client satisfaction scores. We measure NPS, and the trend there is incredibly positive. They even used the term service renaissance, because we did have some struggles and some stumbles a couple of years ago. And I think our client satisfaction scores now have been on a multiquarter kind of upward trajectory, admittedly, from some difficult compares. But doing really quite well. And sorry, last comment on that, on -- the other on the client satisfaction side is that one of the things that we were careful about in terms of our strategic alignment initiative is making sure that it didn't disrupt our -- we had a -- I think our #1 objective was to improve client satisfaction and NPS scores and things like strategic alignment initiative and early retirement have the potential to disrupt that. But the good news is obviously, early retirement, we still have to execute on but the strategic alignment initiative, I'm happy to report, our leaders have executed flawlessly there and actually have gotten great client satisfaction in those new strategic locations, which is not easy to do, because we have a lot of new associates in those locations.

Operator

Our next question is from Ashwin Shirvaikar of Citi.

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

So I wanted to go back to the topic of retention. Obviously, it's a volatile metric as you mentioned, but assuming that the high attrition is also linked with the new service delivery, I guess the question is, do you have to maintain the level of spend on service delivery? Or is there more of a -- or was that more of a technology spend that you can now scale up on, if that makes sense?

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

Well, could be -- I mean, Jan could probably add a couple of comments, but to be clear like we, in some of our businesses where we've had large increases in client satisfaction and large increases in NPS and large increases in retention, our service spend has actually declined. So we're obviously -- part of our business transformation efforts are to get better. at, as you know one of our key objectives in our initiatives is to reduce the number of, what we call nonvalue-added contacts, which drive cost but don't drive value for our clients, so there are places where we've invested more in service, and as you can see, we've also invested in sales, but there are places where we have done both, improved productivity, improved efficiency and actually better results from a retention and a client satisfaction standpoint. And that's obviously our hope for the next x number of years for us to be able to drive operating leverage and improve margin. That's kind of an important thing for us to be able to accomplish.

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

Yes. I have only 2 additional details to add. The investments that we made into service augmented in -- particularly in the mid- and upmarket, our capabilities to service our larger clients better, in particular, with dedicated service reps. But then we have a whole slew of productivity initiatives that Carlos mentioned that will drive efficiency and effectiveness of our service cost. And the most obvious one is obviously our new strategic service locations, our labor cost advantaged, and we have now simpler operating environment, single platform. We've finished our migrations in the mid-market that will allow to implement faster productivity improvements and optimization of our -- of operations, so we have that combination, higher service levels and through strategic changes in our service model paired with efficiency and effectiveness initiatives, and so I think we will be able to achieve both.

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

And as much as it might not be directly related to our new business bookings growth, I would say that I think this -- these effort around simplification, improved client satisfaction and some of the other things that Jan mentioned, I think really should help our sales force as well. I mean when we went through some challenges a couple of years ago, there was just a lot of distraction, not to mention a very difficult grow-over. Obviously the #1 issue was just the grow-over around ACA but some of the service challenges we had were also a distraction to our sales force. So I think getting that behind us, I think, should help as well. And despite the fact that there was a modest improvement in new business bookings growth guidance is there was an increase, and this quarter, we're pretty proud of 9% bookings growth after really suffering for several quarters here with very, very difficult grow-overs and compares.

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

I mean that was a good point. So -- but I guess the follow-up question becomes, sounds from your comment, there is a margin benefit coming from the combination of retention and maybe the spend on service delivery going down over time as you scale that margin benefit from voluntary termination. So would you -- is your preference to reinvest those savings into what degree? And how much might flow to the bottom line becomes the obvious question. And then the other part of it is, in general, are there other explicit things other than the voluntary termination program that you're planning. If you could talk about that?

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

You came to the right place for the answer to that question. Jan wants it all to flow to the bottom line, and I want to reinvest some of it. So the truth will be somewhere in between, and you'll know more when we give our guidance for '19, and also when we in Investor Day, give you kind of a longer-term, I guess, objective view of what we think margins will do over the ensuing couple of years. I think, unfortunately, we're just a little premature in being able to get out in front of talking about, kind of, multiyear margin improvement, but I just want to add that foundationally, all the things you said are dead on. in terms of -- there is the possibility and the capability for us to drive improved margin. This is what we've been trying to talk about for the last 2 or 3 years. We've been laying the groundwork with all of these initiatives, strategic alignment initiative, completing the migrations, voluntary early retirement, these are all intended to help us be a stronger, more profitable company, but stronger is the first word, and that means that sometimes you have to invest some. I will add that there is -- there is no question that the underlying margin trend is positive for us, so we feel very good about that, but again, I think it's just a little premature to get too far out in front of ourselves here in terms of what exactly the numbers are going to be.

Operator

Our next question is from David Togut of Evercore ISI.

David Mark Togut - *Evercore ISI, Research Division - Senior MD, Head of Payments, Processors & IT Services Research and Fundamental Research Analyst*

Could you comment on pricing, net of discounting. We're picking up some modest improvement in price increases of about 1.5% in our payroll manager surveys, at least from your clients, and I'm curious whether you're seeing that from your broader base of clients as well?

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

So the targeted impact of price increases net of any immediate concessions or discounts that we would receive is about 0.5% of our revenue growth, and we have that stable for a number of quarters now.

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

Yes. I think our -- obviously, we have much broader data set than, I think, maybe the sampling that some folks might do out in the -- in a marketplace. But the fact of the matter I think, we have seen really no change in the kind of the environment from a pricing standpoint. I think our intent is to remain consistent, which is to remain competitive. As you can see, the underlying inflationary trends with labor cost accelerating a little bit are on upward trajectory, but these things, they play themselves out over multiple quarters and multiple years. It's not like overnight, all of a sudden, the pricing environment changes, but I would say that there's probably the future appears to have more pricing power than the past in terms of the last decade. But right now, I think no news to report and we would obviously give you, kind of, a sense if that is -- if that's beginning to change.

David Mark Togut - *Evercore ISI, Research Division - Senior MD, Head of Payments, Processors & IT Services Research and Fundamental Research Analyst*

Understood. And then as a follow-up. Also in our surveys, we asked your clients about any time line they've heard of where you replacing your back-end payroll processing and tax filing engine, something you talked about last fall. Only 5% were aware of it. I'm curious if you have a time line to introduce the new back-end payroll and tax filing engines? And if so, what is that?

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

So the good news is, both of those are actually in production and have pilot clients on them. As we've said, I think, on a number of occasions, these are back-office systems that're relatively transparent to our clients. In fact, today, our clients don't really have direct contact with our gross-to-net calculation engine. And we don't expect them to have that in the future. Now there will be -- the reason we're doing it is, besides the obvious reasons of modern technology being easier to develop on, faster to develop and cheaper to maintain, there will be some enhancements from a client-facing perspective and from an associate service client perspective. But largely, you should think of these as back-office infrastructure that is really not -- when someone trying to hire someone or manage the human capital of their company, typically, this is not something that they would be exposed to or that would be transparent to them. Certainly, the employees of our clients won't see a lot of -- any change at all. Our Mobile Solutions are front-end solutions that will be connected back to our new gross-to-net engines. So I would say, it's mostly positive, and we don't expect -- I guess the, key is that there is really no, I guess, migration, if you will. We're not going to be sitting here talking about -- there will be efforts and cost around the connections to our front-end HCM systems. But there really is no client migration that you should be anticipating. I think I would also add that despite what you might hear from competitors, almost everyone operates with a gross-to-net calc engine that is even if it's in a single stack technology, it is almost always separate from the front-end HCM platforms as well. So it's really not -- what we're doing is no different than what anybody else would have out there. It's just more on modern stack technology. I think I don't know if you mentioned Lifion, but our kind of local platform that we're developing that we've talked about now publicly, now that is not a back-office system. That is definitely a front-office-facing system, and we do have a number of pilot clients on that as well, and we'll talk more about all of these platforms in the future and their impact on the organization in a positive way at our Investor Day in June.

Operator

Our next question is from Tien-tsin Huang of JP Morgan.

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

I wanted to ask on the mid-market conversion being done. Is it reasonable to expect an improvement in retention from here in your mid-market segment? And I'm curious, if completing the migration also trigger a measurable cost savings from retiring the old platforms?

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

The -- I -- we are hoping for a continued improvement of retention as there has been clearly impact for clients that had to be migrated and made choices -- decisions to either follow us on that path or not, and so there should be continued improvement. I don't know if the trend will change in a huge way, because we had now, I would say, probably 6 or 7 quarters of improving retention in the mid-market. And so it should be in the long-term a continued improvement, because the newer strategic platforms had higher retention rates, and so our plans call for it but migration-related impact for -- now behind us. Long-term, yes. In the short-term, there is no immediate major cost savings. We're shutting down here and there a system, but everything is, kind of, more smooth path of continued progress.

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

Yes. I think the cost, and as we said this before, when we shut down our downmarket platform, this was several years ago. We migrated all of our clients on to RUN. The cost savings from a technical standpoint were in the, call it, sub-$10 million range of just of the -- from a pure platform support standpoint, et cetera, but as you can see from the performance of that business, I -- we haven't talked about the downmarket yet, but downmarket just continues to be incredibly successful and a great story for us, and the reality is that the direct cost focus is really not where the money is. The money is in improved client satisfaction, improved retention, accelerate new business bookings and then just frictional cost in the organization around implementation and service. And so we -- having said all of that, we expect a similar story in the mid-market, but we're -- obviously, we just finished like the last client, I think, last week, and so we -- probably take in the downmarket as an example. We kind of laid the foundation like we've just laid in the mid-market. And it took several quarters, if not a year or 2 before we got real traction, and it was a real great story. And we really hope that we had a repeat of that story, but as Jan said, we have to be cautious, because we have to go execute, but this quarter, like all other -- like the last several quarters, the retention of our strategic platforms in mid-market was higher than the legacy platform that was being retired, but I think what Jan was alluding to is you had 2 competing forces. One is we had fewer and fewer migrations, which was helping the retention rate, but they just also were executing better. They've had many, many quarters in the last, I think, it's 6 or 7 quarters where retention was moving in the right direction, despite 6 quarters ago or 5 quarters ago, still very, very heavy migrations in the mid-market, so hard to tell here exactly what's going to happen, but we're very optimistic.

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

Okay. I will consider all of that. And then just my quick follow-up on the PEO side with the unit growth to breaking below double-digit. Is this a sales issue or a secular issue in the 50-and-up market for PEO?

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

I think in the short-term, it's fair to say that it's probably a sales issue, a new business bookings issue. So I don't think there's really any kind of secular trend. As I think Jan mentioned, we had very, very strong growth and demand still in the downmarket under 50. And then this quarter, we struggled a little bit in terms of particularly new business bookings in the mid-market of PEO, if you will, and we're kind of watching that closely. We're, kind of, looking back at our incentives, because as you know a lot of the business that we have in our PEO is driven from referrals of our other business units, and so we have ways of tweaking and adjusting incentives and so forth. But we're frankly pretty -- we're never thrilled with the deceleration. We will always prefer acceleration, but our PEO is very large, it's the second employer in the United States now, and I think this growth, I think, is still -- in terms of absolute worksite employee growth in dollars, still more than any of our competitors. And so we feel pretty proud of that. I think the percentage is obviously just one way to look at it, but when you look at the absolute size in dollars, we feel like we have a really have a good strong business here, and it's performing very well.

Operator

Our next question is from David Grossman of Stifel.

David Michael Grossman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So Carlos, I think even with the very strong 3Q bookings result, you still need an uptick in 4Q to hit the target for the year. And I think you mentioned the investment in sales headcount in the fourth quarter last year and another favorable comp, but is there any way to parse out those factors that you can share? Any other metrics that can help us understand the underlying momentum in the core business? I'm just trying to, kind of, parse out the impact of sales execution versus product and service.

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

As you -- I think as you're alluding to, I think they all have an impact. So it's hard, scientifically, to kind of point to any 1 single item. But for sure, the investments in sales that we made, call it, last year, as time goes on, it going to become more and more productive. Every quarter, our sales forces, when we add new people in a step-change fashion, become more and more productive, so I think that's helpful. I think our products are stronger, and I think that is helping as well. The comparisons always help, because we're very large, and we have a very large new bookings number. And so I think the compares have an impact as well, so I don't know if Jan has any other color, but I think it's probably a number of things. But we're very happy that our productivity, as we expected from some of the sales force investments, is driving frankly a good portion of our new business bookings growth, which is very nice to see.

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

I can add maybe a number two, David, that might help you a little bit. Last year, we grew our headcount in our sales force, 9%. And we are currently at 3%. So a large chunk of the growth that Carlos refers to is driven by productivity or new product, productivity being the largest one. We had talked in our last year's investor presentations about our sales channel, sales strategies that we're expanding with a strong focus on expanding our channel strategy. And so we continued to see, for example, great success with our accounting channel strategy in the mid-market. We are building out and see continued success in our inside sales strategy that sells supplemental products to our clients. And that's where we have very predictable and very pleasing results relative to productivity improvement. Those were new associates that came on last year, and now they're gaining productivity, and that's a lot of large numbers that really executed well. In addition, a component that we haven't talked on a regular basis is, but in -- during our investor presentations is our target to drive accelerated new logo growth versus AB. So historically, we have kind of a balanced mix between 50-50 relative to new business bookings comprised of being new business bookings driven by new clients, about half of them and 50% by selling additional product to existing clients. And we have seen now, in addition to this growth that we experienced also a shift to more new logo sales, and that's now more than 60% of our new business bookings have come from new logos, which is really a great compliment to the sales force, because we believe being competitive and winning new clients for ADP is a great testament to the competitive product set and the capability of the sales force.

David Michael Grossman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Great, very helpful. And just one quick follow-up. Just on the question about the new products that are being developed, the low code platform and the next

gen processing engine. I know you said, you're going to give more at the Investor Day. However, can you give us a quick update. on what are the key problems that the new platforms solve? And that whether it's more cost to maintain internally? Or are there competitive kind of holes that are tills, just trying to get a sense on how to frame kind of the new product introductions and the impact on the business.

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

Again, so we could obviously talk for a long time about that, but I'll just give you 2 broad themes. One is, I think you ended your question on, is it partly competitive, and then the beginning of your question was really around does it address kind of cost development and maintenance and so forth. I think those are the 2 broad categories in each of these cases with the exception of, maybe, the tax -- the back-end tax engine, but certainly, our new gross-to-net processing engine and our low code platform are all intended to leapfrog the competition in terms of capabilities and flexibility for clients in terms of how people get managed and how people get paid. And then besides that obviously, our business case had very strong expectations around efficiency, I think productivity and just removing fictional cost that exist as a result of some legacy technology. And obviously, I think you said it all, so the speed of development, speed of deployment and ability to implement changes in a version-less environment is also incredibly quite powerful.

Operator

Our next question is from James Faucette of Morgan Stanley.

James Eugene Faucette - *Morgan Stanley, Research Division - Executive Director*

I wanted to go back on kind of the bookings, and you've highlighted different drivers, including sales force and that kind of thing. I'm wondering if you can rank order, kind of, what you think are the contributors from directly where ADP has control on things like sales force versus what's happening perhaps in the economy or in the market as a whole? And it seems like you've talked about retention as being separate factors, but are there any common threads maybe that we can draw between the strong bookings and better retention?

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

I think that you're onto something that most of us and most people were not onto, which is -- there's a belief among some of us would've been around for a while that they are very, very closely linked. The momentum -- when you have strong momentum in the business, improving satisfaction, improving NPS, improving retention, it has to -- the things we just don't have any empirical way of drawing the connection but experience and intuition, I think, would tell you that there is no question, because we've seen it go the other way as well. So I think that the company is just experiencing strong momentum on a number of fronts around execution, client service, client satisfaction, et cetera. And that's probably creating a little bit of a halo effect. But from a practical standpoint, if you rank order, the sales execution issues, I think the item that Jan brought up is probably the most important one. We talked about, I'd say, probably 6 quarters ago or 4 quarters ago, when we ran into the very difficult compares of ACA and a new administration that was at least less openly focused on regulation, we talked about having to really refocus our sales force on new logos and on really selling what is now obviously an incredible opportunity to help people manage a very difficult labor environment with tightening labor markets. You saw our National Employment Report today, and it's obviously consistent with the government reports that it's just getting hard so definitely a work of talent on again. So we were optimistic and hopeful that there was really good opportunity that -- for our sales force to retool and drive new business bookings in a different way, and that's exactly what they've done. Some of it has been through training, some of it has been through product and some of it has been through incentives.

James Eugene Faucette - *Morgan Stanley, Research Division - Executive Director*

Great. And then just a quick question is as you've had the chance to digest the change in tax law, et cetera, should we expect there -- what should we expect opportunities for further improvement in tax rate, et cetera, going forward?

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

The outlook that I gave of 26% to -- what did I say, 25% to 26% beyond '18, that excludes the onetime items that we typically hunt in our tax effort -- tax reduction efforts, and those opportunities have gotten a little bit fewer as the overall rates have come down, and we have less differential between international and the U.S, so I think the 25% to 26% is a good number. We'll fully work to be as good as we can, but it is really an honest forecast of what we're anticipating --

Operator

Our next question is from Jeff Silber of BMO.

Sou Chien - *BMO Capital Markets Equity Research - Associate*

It's Henry Chien calling for Jeff. Just wanted to follow-up on the bookings question and the -- sort of the improvement that you're seeing in sales and bookings. Can you comment a little bit on how much of that, you could say, is related to competition versus some of the cloud software providers and is -- if -- are those kind of players still having an impact?

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

Well, we have a lot of competitors in every segment. When we look at the kind of net win/loss ratios, if you will, how many clients we take away from competitors versus how many they take from us, we've seen some improvement in some areas. And then there's a couple that are still difficult. I think that's -- those are figures that also they are somewhat not volatile quarter-to-quarter, but it changes depending on how strong we are in a particular segment versus one of our competitors. But I'd say we're overall pretty happy about our competitive position, and it seems obvious that it feels like it's improving. But I think that's about as much color as I can give or should give without crossing the line, because we try to be diplomatic about our comments around our competitors.

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

Yes, maybe it's fair to say that the competitive environment in this quarter has not meaningfully changed to other quarters. It remains highly competitive.

Sou Chien - *BMO Capital Markets Equity Research - Associate*

Yes, got it. Okay. Fair enough. And on the downmarket and some of the improvement that you're seeing there, is that mostly from a product standpoint or some of the sales efforts that you mentioned with new logos, or -- just trying to think of how to -- how should we think about that?

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

The performance in our downmarket is probably the best execution and performance I've seen in my career at ADP. And it's back to an earlier question about connecting it to client retention and other things. There's just so many things that are creating the positive momentum that it's hard to really focus on one -- specific one. So as an example, in the -- we consider our downmarket business to be not just our payroll and HR services for smaller companies, but we also have a Retirement Services business, and we have an insurance services business that are just really across the board, just executing incredibly well, strong double-digit new business bookings growth, strong retention. Our retention in our downmarket, for example, is up several hundred basis points over where it was several years ago on a consistent quarter-to-quarter basis. And of course, that helps with the growth, because you don't have to sell as much in order to drive the top line revenue growth, because you're losing less clients. And so the continuing strength of the new business bookings with the improving fundamentals of that business are just driving really great results, and I think it's just across-the-board, just outstanding execution by all the leaders in those business.

Operator

Our next question is from James Schneider of Goldman Sachs.

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

I was wondering if you could maybe return to the new bookings detail that you provided earlier. I think you called out strength in the downmarket and also some strength in international. Can you maybe talk about was what driving that but also touch on what the -- what you saw in the mid-market bookings and where do you think that after the platform tradition, with that now complete, will that can improve in the coming quarters?

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

I can give Carlos a little break here. Part of the good news about the new business bookings is that we saw really meaningful improvement across all channels across the board. So it was not focused only on the downmarket. The downmarket had a good performance and continued to do it, but it was really mid-market, upmarket, international, they all contributed to growth in the new business bookings quarter if you look by each of the channels basically that we have. So the broad-based and -- in a mid-market, there is really on the sales process, not a change. And the migrations haven't really affected in the sense the product offering in the mid-market. We have been selling Workforce Now current version, our cloud-based leading product and that has been very competitive and continues to do well in the mid-market. So we -- it's hard to point really in the quarter, a particular stand-out, because the performance was really solid across all segments, Jim.

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

I will say that in the mid-market as an example, this happened a little bit in the downmarket also when we were doing the migrations and of our legacy technology. Our sales force does sometimes get distracted when an existing client still has a relationship with a sales rep, and they call the sales rep, because they're being told they have to migrate to a new platform, and there's that distraction now. Sometimes that historically provided opportunities also for our sales force to sell additional products as the client was migrating to the new platform, so there's puts-and-takes, but it's going to be a lot less distraction. That's for sure.

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

And then maybe just as a follow-up, to the point you just made, Carlos, I would've normally expected that there could've been a little bit of a risk to retention metrics in the mid-market as you complete the transition. Obviously that didn't happen. So can you maybe give us a sense about what tactics you may have used to kind of keep those retention numbers up in mid-market? And what you think, those can be kind of more broadly applicable across-the-board? Is it service continuity, realignment or something else?

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

I think the tactic was smart, dedicated people who were very creative, and so as we kind of came out of some of the big challenges we had when we had to accelerate in a very large and meaningful way nour migrations due to ACA, because our ACA products were only available in our new platform. I think what that taught us was when you think about the lifetime value of these clients, using what they called white-glove service approach to the migrations really made the difference in terms of not having the losses be as big as they could've been. We clearly experienced heavier losses in the legacy platform, because I just mentioned that our retention rates are higher in our current-version platform than in our legacy platform, but they could've been a lot worse, and so I think it was just great execution, great commitment and good creativity around, frankly, just swarming those transitioning clients with white-glove service in order to try to minimize the negative impact of the migrations, and it really did work so hats off to the leaders there.

Operator

Our next question is from Mark Marcon of RW. Baird.

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

I was wondering if you could just provide a little bit more color with regards to the source of the new logos, specifically what I'm wondering is are you seeing an expansion of new logos that may be coming not necessarily from traditional competitors but maybe some other players that are out there? How would you characterize some of the new logos? And then I have a follow-up.

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

Again, just because -- I hate to be a broken record, but when we look at both our losses and also our new logos, we are so broad-based, and we have so many competitors that, I think I said this before that there's really a couple of competitors, for example, who in the upmarket come close to maybe 10% of our losses, but nobody's really kind of that meaningful, and I think that's even more true in the mid-market. There isn't 1 specific competitor that accounts for a great deal of our losses, and then it's the same thing with new business bookings, but I think it's safe to say that some of the stuff is related to market share, and so the our biggest competitors, generally speaking, would be ones where we would lose the most clients to, but also we have a lot of success in pulling clients. That obviously varies by segment, but I think directionally, that's true and the difference maker in each case is really the execution of the sales force.

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

Okay. And then with regards to nationals, there's been some discussion about expanding your push with Workforce Now up there. Can you talk a little bit about that, and what you're saying on Workforce Now internationals versus Vantage?

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

Yes. we had the Workforce Now product being offered, I think, for the last 2 years now in the upmarket. And the new logo growth that Workforce Now for clients about 1,000 had is incremental to new logo growth that Vantage continues to achieve. So the combination of both of them has helped us -- our broad-based acceleration of new logo growth.

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

And we definitely, I think, it has been something that we had available and it's helped us compete in the -- kind of the low-end of the upmarket for a few years, but I think it's safe to say in the last years or so, we kind of doubled down a little bit and put more focus and more emphasis. And I think it's having the desired impact, like our -- and we have a few competitors in particular where Workforce Now lines up very, very strongly in the lower end of the upmarket, and I think it's -- that strategy is working.

Operator

Our last question comes from the line of Matt O'Neill of Autonomous Research.

Matthew O'Neill

All my questions have been asked and answered.

Operator

Thank you, and that does conclude our Q&A session for today. I'd like to turn the program over to Mr. Carlos Rodriguez for closing remarks.

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

So just a couple of final comments. In terms of looking at the -- obviously, we've had a lot of achievements this year, and we're pretty happy about the momentum we have, and I think it demonstrates the strong culture that we have at ADP, and it's one that we're not afraid to change, but we want to do so in a thoughtful, orderly and balanced way. The -- with these migrations done in the mid-market and the progress we're making with our Service Alignment Initiative and the early retirement program among some of the other initiatives that you'll hear more about at the June Investor Day, I just want to, again, re-emphasize how proud I am of our associates and all of these efforts of the things they're doing to really protect and enhance the value of ADP.

I also want to make sure I mention that besides the dividend increase which I think is great news for shareholders from a governance standpoint, we did add 2 new board members who bring a lot of experience, both operationally and transformationally to our board. And I look forward, I know the rest of the board looks forward to working with them, as we build a brighter future for ADP.

And with that, I'll thank you for joining us, and we look forward to seeing you at our Investor Day in June.

Operator

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