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ADP - Q4 2018 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Co. reported 2018 revenue of $13.3b and adjusted diluted EPS of $4.35. Expects FY19 total revenue growth to be 5-7%.

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

David Mark Togut *Evercore ISI Institutional Equities, Research Division - Senior MD*

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

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

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

James Robert Berkley *Wolfe Research, LLC - Research Analyst*

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

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

Sou Chien *BMO Capital Markets Equity Research - Analyst*

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

PRESENTATION

Operator

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

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

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

Thank you, Christie, and good morning, everyone. This is Christian Greyenbuhl, ADP's Vice President, Investor Relations, and 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 fourth quarter fiscal 2018 earnings call and webcast.

During our call today, we will reference non-GAAP financial measures, which, we believe, to be useful to investors and that exclude the impact of certain items in the fourth quarter and full year fiscal 2018 as well as the fourth quarter and full year 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, involve some risk. We encourage you to review our filings with the SEC for additional information on factors that could cause actual results to differ materially from our current expectations.

I would also like to note that as we outlined during our recent investor day, beginning with the first quarter of fiscal 2019, we'll be making some changes to our disclosures and reporting. You will find an explanation of the changes in the Financial Outlook and Additional Material sections of our investor day presentation. Accordingly, our fiscal 2019 outlook reflects these changes and, to ensure comparability, includes all the necessary adjustments to fiscal 2018 results.

For the fourth quarter and full year fiscal 2018, our results and related discussion do not reflect these changes and are, therefore, on the same basis of presentation as our previous quarters. We recognize the complexity of this transition. And therefore, to bridge the 2, we have included select fiscal 2018 pro forma financials and metrics in the appendix to our earnings presentation found on our Investor Relations website. As always, please do not hesitate to reach out should you have any questions regarding these new metrics and disclosures.

Now let me turn the call over to Carlos.

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

Thank you, Christian. good morning, everyone. This morning, we reported our fourth quarter fiscal 2018 results with revenue of $3.3 billion, up 8% reported and 6% organic constant currency. We ended the year with total revenue of $13.3 billion, up 8% reported and 6% organic constant currency.

We're very happy to report our new business bookings grew 18% in the fourth quarter and 8% for the year, both ahead of our expectations.

We saw strong performance across all of our businesses this quarter, which, we believe, serves as further validation of the renewed momentum within our sales force following fiscal 2017. We were also pleased to see our new logo strategy continue to show results with double-digit new client growth this quarter and nearly double-digit growth for the full year.

Now let me spend a few moments on the recent performance of our PEO. Revenues for the year grew 12%, in line with our expectations, while average worksite employees grew 9% to 504,000. After a softer third quarter bookings and retention performance, we took certain actions to address our internal lead flows that, we believe, will help drive a reacceleration next year, and we are pleased to see positive signs of this working this quarter with double-digit bookings growth and solid double-digit new logo growth. Similar to last quarter, our PEO bookings and retention were strong in the downmarket, while we have continued to see some pressure from larger client losses in the mid-market. However, our competitive position remained strong, and the volatility in our mid-market retention is not new and follows a record-high retention in fiscal 2017. We have previously outlined the volatility of retention within the PEO and, particularly, the impact of the timing of larger client losses. As we work to overcome some of these challenges from the second half of fiscal 2018, we continue to believe that the PEO represents a significant opportunity for us. With nearly $1 billion of revenues, excluding pass-throughs and very healthy margins, we remain excited about the future of the PEO.

Now I'd like to focus on the strong progress of our investments to improve the client experience. With our mid-market migrations behind us and our Service Alignment Initiative nearing completion, we are happy to see a continued overall improvement in our client satisfaction scores this quarter. In particular, we were very happy to see our mid-market scores return back to levels last seen in early fiscal 2015, and we are confident our recent service initiatives will help drive continued improvements across our entire portfolio.

Our Employer Services revenue retention for the quarter and for the full year were both in line with expectations. As you know, on a quarterly basis, this metric can be volatile. And this quarter, we saw a decline of 120 basis points. However, more importantly, for the full year, we were pleased to see continued positive year-over-year momentum as our overall annual retention increased by 50 basis points to 90.4% and continues to benefit from the improvements in client satisfaction that I just outlined.

Going forward, we will be guiding to annual retention, and Jan will take you through some of these changes later.

In early June, we hosted an investor day where we discussed in detail our strategic vision, transformation initiatives and financial outlook for the next 3 years. We received a lot of positive feedback. And for those of you who may have missed it, or would like to revisit it, the materials and the video replay have been posted to our Investor Relations website. Our goal for the event was to outline our plans for driving sustainable long-term profitable growth and provide a deep dive into our product strategy and the actions we have been taking to accelerate our transformation initiatives.

Through our investments in product, service and distribution, we continue to build our momentum. We are shaping the HCM industry through organic innovations, such as our next-gen platforms as well as our strategic acquisitions, such as Global Cash Card and WorkMarket.

Our leading position in the global HCM market continues to represent a significant opportunity for us. And earlier today, we were proud to announce the acquisition of Celergo, a respected provider of international payroll management services. Celergo complements and augments our current multinational offerings through the combination of a proprietary, cloud-based platform and a broad local partner network across 150 countries, and we couldn't be more excited. With these investments, we are expanding on our position as the only global HCM provider that can help businesses address their full hire to retire needs across their entire workforce, be that traditional or freelance.

We also continue to engage with a number of key partners, including our recent partnership with Microsoft to bring together Workforce Now and Microsoft Dynamics 365 Business Central and innovators like Slack and ZipRecruiter. As the world of work continues to evolve rapidly, we continue to focus on staying ahead of the curve.

Last quarter, with the assistance of the transformation office, we finalized plans for a voluntary early retirement program. We were pleased to start fiscal 2019 through a successfully managed first wave of transitions, and we remain focused on executing this initiative in an orderly and timely manner. As a result, we recognized a non-GAAP charge of $337 million in the fourth quarter and anticipate annualized pretax savings of approximately $150 million with about 2/3 of the anticipated benefit expected in fiscal 2019.

All these goals and success would not be possible without the hard work and dedication of our associates who continue to be an integral part of our efforts to drive change and ensure our successful transformation.

And with that, I'll turn over the call to Jan for his commentary on the fourth quarter results and fiscal 2019 outlook.

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

Thank you, Carlos, and good morning, everyone. As Carlos mentioned, we finished the year with solid momentum, driven by better-than-expected consolidated new business bookings growth of 8% to $1.8 billion for fiscal year 2018. ADP's reported revenues also continued to show improvements relative to our expectations and grew 8% in fiscal year 2018 or 6% organic constant currency supported by our continued improvement in our Employer Services retention.

On a reported basis, earnings before income taxes decreased 14%, while our adjusted earnings before interest and taxes, or adjusted EBIT, increased 8%, including approximately 1 point lift from FX and 1 point of pressure from the impact of our fiscal year 2018 acquisitions.

Adjusted EBIT margin was up about 10 basis points compared to fiscal year 2017 and was slightly above expectations covered at our investor day, despite higher selling expenses due to the strong bookings performance. While we're also being well ahead of our original expectations set at the beginning of the year, our performance benefited from continued improvements in our infrastructure and sales spend and from the successful execution of certain transformation initiatives that we outlined during our investor day. We achieved all of this while also overcoming about 30 basis points of pressure from our fiscal year 2018 acquisitions.

Adjusted diluted earnings per share grew 18% to $4.35 and, in addition to our revenue and margin performance, was aided by a lower effective tax rate and fewer shares outstanding compared with a year ago. Our adjusted effective tax rate for the year was 26.1% and benefited from corporate tax reform.

In addition to delivering this solid operating performance, we have paid about $1.1 billion in dividends and returned about $1 billion through share repurchases for fiscal year 2018.

Let me now take you through our segment results. In our Employer Services segment, revenues grew 5% for the year, 4% organic constant currency, in line with expectations. Our same-store pays per control metric in the U.S. grew 2.7% for the fiscal year. Average client fund balances grew 6%

compared to a year ago. This growth was driven by a combination of wage inflation and growth on our pays per control, offset by pressure from lower state unemployment, insurance collections and corporate tax reform.

Outside the North America, our solutions have continued to perform well, largely helped by the continued strong performance of our multinational solutions, which serve businesses of all sizes.

Employer Services margin increased about 10 points for the fiscal year and included approximately 40 basis points of pressure from the impact of acquisitions.

PEO revenues grew 12% for the year with average worksite employees growing 9% to 504,000 employees. Following the slowdown last quarter in the 50-employee and above market, we were pleased to see some recovery in our PEO new business bookings, as we started to take certain actions during the fourth quarter. The PEO segment margins increased 10 basis points for the year.

Overall, we generated significant momentum over the course of the year. The actions that we are taking have helped us to expand our margins, leading to better-than-expected performance in fiscal year 2018, despite some incremental pressure from our recent acquisitions. And more importantly, we continue to make important investments into our business to set us up for the future.

Let us now move to our fiscal year 2019 outlook. As a reminder, my discussions of our results for fiscal year 2018 was on the same basis of accounting as our previous quarters. In contrast, our fiscal year 2019 outlook included -- includes the expected impacts of ASC 606 for both fiscal years 2019 and 2018 as well as the expected impact from certain other adjustments we outlined for you earlier. As you look to adjust your models, you should find all the necessary details in the appendix of our quarterly presentation and in our earnings release, which both are available on our Investor Relations website.

With that said, I'll first provide our consolidated fiscal year 2019 outlook and then focus on the segments with some added color on the -- some of more new-onset changes.

We anticipate total revenue growth of 5% to 7% for fiscal year 2019. We expect adjusted EBIT margin expansion of 100 to 120 basis points, including approximately 20 basis points of pressure from acquisitions. And as you can see from this morning's press release and the appendix of our investor presentation, this margin expansion would have been about 30 basis points higher on an ASC 505 -- 605 basis. We expect an effective tax rate and adjusted effective tax rate of 25.1% in fiscal year 2019, as compared to our prior estimated adjusted effective tax rate of 25% to 26%. All of these drives anticipated growth of adjusted diluted earnings per share of 13% to 15% compared with the $4.53 in fiscal year 2018. Similar to our margin expansion, this growth would have been higher on ASC 50 -- 605 basis for about 2%.

Regarding shareholders distribution, as usual, it remains our intent to continue our return of excess cash to shareholders subject to market conditions.

Now for some more detail on the segments. We expect 4% to 6% revenue growth on our Employer Services segment, which includes anticipated pays per control growth of about 2.5% and now benefits from growth in interest income at actual rates, reflecting one of the changes we made to our segment reporting. We expect Employer Services new business bookings growth of 6% to 8%, as we continue to build positive momentum from our investments and headcount, while driving improvements and productivity from our product and channel strategies. This new metric is specific to the Employer Services segment, and we hope that as you also use and -- the materials from our investor day that will help you with your models. You will recall that this is a shift from our prior worldwide new business bookings guidance, which included sales for the PEO segment. To further help you with your model, we have given you some historical quarterly growth comparison with -- in this morning's earnings schedules.

Let's now move to the Employer Services revenue retention. As Carlos mentioned, our Employer Services revenue retention for fiscal year 2018 was 90.4%. For fiscal year 2019, we are expecting our revenue retention to increase about 25 to 50 basis points compared to the 90.4%, driven, in part, by expected improvement in our mid and upmarket, supported by the completion of our mid-market migrations a few months ago.

Since this is the first time we are guiding to retention, I'll provide a little extra color. We generally have several months of visibilities for clients leaving in the mid and upmarket and less direct visibility in the downmarket, as clients do not provide such much notice. In addition to this direct visibility, we look at trends in our NPS scores as a leading indicator and that helps us directionally anticipate where retention is heading. Also because our service teams work closely with our clients, we monitor various other metrics and operating statistics that we try to leverage when forecasting our anticipated losses.

Lastly, there is some mixed impact to retention, over time, as our different products can have very different retention rates because of the market segment characteristics. And so we've taken to account our anticipated revenue growth in these various offerings. All this is to say that we have generally some visibility on where retention will end up for the year, but given the breadth of markets and clients that we serve, certain factors can ultimately move the needle, particularly the timing of larger losses.

We expect margin in our ES segment to expand by 150 to 175 basis points, inclusive of 30 basis points of acquisition drag. And by the way, of comparison, the impact of adopting ASC 606 to our ES margin expansion exceeds the 30 basis points impact on the ADP's consolidated margin expansion. Our margin continues to benefit from a combination of operating leverage as well as some of the discrete initiatives that we spoke about at our investor day. For example, our voluntary early retirement program will be a key contributor this year and as we expect minimal dual-operation expenses related to our Service Alignment Initiatives in fiscal year 2019.

With that said, let's now touch on the PEO, which also includes a number of moving pieces. We expect 7% to 9% PEO revenue growth in fiscal year 2019, driven by 7% to 8% growth in average worksite employees. As Carlos mentioned, we saw progress in our PEO bookings this quarter, and we have continued to make certain additional targeted adjustment to our PEO distribution process. We believe this will help drive a gradual reacceleration and worksite employee growth. We also anticipate 5% to 7% growth in PEO revenues, excluding 0 margin health care benefit pass-throughs. This, too, is a new revenue disclosure that we discussed at our investor day. And I want to remind you that it does include revenues from workers' compensation and state unemployment insurance premiums.

As you might infer from our guidance, we expect some drag next year from lower workers' compensation and SUI rates, which impacts our revenue, but is ultimately a positive development for our clients and for our PEO prospects.

For PEO margin, we expect 75 to 50 basis points of margin decrease. Among the changes we made to our segments is the inclusion of ADP Indemnity into the PEO segment earnings, which, we believe, enhances our disclosures. As a reminder, ADP Indemnity is our captive workers' compensation insurer, and there's also of which used to be accounted for in the other segment. Including Indemnity into the PEO segment adds no revenues, but does impact margins. ADP Indemnity uses a third-party actual rate to assist with the loss reserve estimation process. And changes in the assessment of workers' compensation loss reserves may, at times, introduce a little bit of noise to the PEO margins now that it is included in our segment results.

More specifically, as we regularly adjust our loss reserve estimates, we have realized some P&L benefits over last few years, including fiscal year 2018. However, we typically do not forecast any material change to these reserves going into a fiscal year. And as a result, for fiscal year 2019, these results in more than 75 basis points of anticipated grow overpressure for the PEO segment margins. Excluding this grow overpressure, we would have otherwise expect to -- our margins to be slightly positive.

Moving on to the remainder of our outlook. We expect interest on client funds to increase approximately $80 million to $90 million, driven by higher rates and anticipated client fund balance growth of 3% to 4%. We expect our total impact from the client funds extended investment strategy to be up about $60 million to $70 million. The details of this forecast can be found on the supplemental slides on our Investor Relations website.

Overall, I think you can tell we are happy with our performance and with the momentum that we are building from our investments in the business. At our investor day, we set margin and EPS target ranges throughout fiscal year 2021, and we will continue to execute towards these goals with fiscal year '19 being a step in the right direction.

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 Jim Schneider with Goldman Sachs.

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

I was wondering if you could maybe comment on the retention decline you saw in the quarter. Clearly, as you got to the end of the mid-market transition, we would have expected some impact there. But can you maybe point out other areas of the business that might have seen a little bit of pressure there? Or was it purely in the mid-market ES part?

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

We actually had -- so I think our -- we feel still pretty good about our momentum when you look across the different businesses with retention and you look at our client satisfaction scores. As usual, there was some noise from a couple of large losses, so we did have, in particular, a large loss in our -- what we call our comp solutions business, which really provides standalone services. So there was a company that we're providing standalone services to that was a relatively large revenue loss and that had an impact on the numbers. So I guess, the -- It's the old story that happens every several quarters that we have 1 or 2 large losses that may move the needle, and I think that's what happened this quarter. But we still feel pretty good. In full transparency, our mid-market retention actually was pretty good and it's because we did finish the migration. So even though we had some losses towards the end of the migrations, there were still -- in relation to the size of the business, there were few enough left that even though we lost some at the end, we still now are seeing what we were hoping to see, which is our strategic platform has higher retention rates. And as the amount of business on the old platform goes to 0, you see the math just works in your favor. And so I think we have nothing but positive things to report about our mid-market retention in the fourth quarter.

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

That's helpful color. And then maybe looking forward, in terms of the new business bookings outlook, can you maybe talk about some of the products where you're seeing the most traction? And specifically, as we think about the cadence of bookings to the year, is it fair to say there's a little bit more waiting in the first half of the year versus the second half of the year relative to your outlook? Or any color on that will be helpful.

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

I can take the sales outlook. As we indicated, the momentum that we experienced on new business bookings for the fourth quarter was very broad-based, really, across all market segments and good momentum for a lot of products. So the overall forecast that we have for our Salesforce continues to be that all business units will experience good growth, solid healthy growth, maybe a little bit more strength in the downmarket. But overall, I would say, a very balanced portfolio. And we do have a little bit of selling season, but the quarters are actually fairly balanced. It's like different market segments have different selling seasons. And we experience, at times, at the year-end, a big push towards the end, which has to do with our incentive systems, I believe. But nothing unusual relative to our sales distribution effort. But we're feeling really good. Well staffed. Salesforce was excited about the core products and is excited about the product additions that we have brought through acquisitions to the table. So it's -- we're confident about sales.

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

Yes. Adding just to Jan's comment, the -- I always worry when we have the strong finish, as Jan was alluding to. We typically have incentives to drive very strong performance towards the end. That tends to happen to be magnified when you already are having a very strong year. And I think we had definitely a good year. But as you know, the first half was still a challenge for us. It was really in the third quarter where we really kind of picked up the momentum. And then in the fourth quarter, that momentum accelerated. So we did have a strong finish. I think people were racing towards those accelerators. But again, this is more art and science in terms of trying to get a feel for kind of where we are. But I would echo Jan's comment that we're feeling pretty good, at least, for about to start. The momentum carrying into the first quarter is, I think, good.

Operator

You're next question is from David Togut of Evercore ISI.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Could you talk about some of the initiatives in the PEO business to accelerate lead flow and bookings growth? And then in connection with that, what do you see as the main drivers for the weakness in the first place? Is it more of a competitive issue? Or are all of these within your own control?

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

We looked at the balance of trade numbers to really see if there's any kind of competitive issues and we didn't see anything there throughout the whole year. So we then -- I think it was probably right after the first half started looking back to see if there's something typically when you don't see any issues that are competitive or the economy or otherwise. There's usually, in my experience at ADP and taught to me by my predecessors, is there's usually something around our incentives internally because, as you know, whether it's in the PEO or other parts of our business, our incentives are quite aligned to drive business to our most profitable highest revenue sources, which are the PEO. And we get, I think it's about 50% of our business from internally generated leads. So that system of incentives and lead flow is very, very important. And we did make some changes that, I'm ashamed to say, I wasn't 100% aware of that, I think, would have created a destruction, let's just say, to lead flow, particularly for mid-market clients into the PEO. So we readjusted those incentives, I believe, it was in the third quarter of -- towards the end of the third quarter of this fiscal year, and we already saw, in the fourth quarter, double-digit growth in bookings in the PEO. And we don't want to split it in terms of how much was upmarket and downmarket. But we had -- suffice to say, we had strong double-digit sales growth and bookings growth in the PEO, and the mid-market contributed to that without getting too specific.

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

Maybe David, one other point there is that the unit growth of new business bookings into the PEO, actually, accelerated meaningfully. And it was in the high double digits, in the high teens and -- which means we had really an overall acceleration of -- which bodes well for competitiveness. It just happened to be that we had to fix this mid-market situation. So that bodes, I think, overall well.

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

I think Jan's comment about double-digit unit growth is for the full year. It's an addition to my comment about the fourth quarter. I think it's another triangulation to get to the conclusion right now. Our conclusion is that there is no competitive issue.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Understood. And just a quick follow-up. What is your expectation for FY '19 in the PEO for workers' compensation reserve treatment? I mean, would you expect reserves to go up, to go down? And what impact on earnings will that have versus what you saw in FY '18?

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

So a couple of -- just points in terms of -- from a historical perspective. We started using reinsurance. As you know, we disclosed all this in our 10-K. So the amount of reserves we have is related to years back between, I believe, it's 2004 and 2012, if I'm not mistaken, or '13. From that point forward, we have less volatility even then -- even though there is a -- some risk sharing color, if you will, but it's very relatively limited. So this issue about reserves is historical. But we have seen, fortunately, overall, positive development in the last several years. And so this is not the first year in '18 where we've had a benefit from, what we would call, release of reserves, if you will. Now some of that is related to possibly the economy. It could be related to health care. There's a lot of things that go in workers' compensation as a long-tail insurance. And so there is quite a bit of volatility in those numbers themselves. But we've consistently, over the last 4 years, had benefits, if you will. In '18, it was a particularly large benefit, which is why Jan was, in his comments, explaining that we have a grow-over issue. We don't -- as you can imagine, we can't plan for the release of workers' compensation reserves because that have -- has to do with actuarial work that gets done -- it's actually gets done on a quarterly basis, and we adjust those reserves on a quarterly basis. But if we continue to have favorable loss development, which it will cause us the release of these reserves, we should have some benefit in '19. We just don't believe that it could be as large as it was in '19 and don't, at least, have that planned currently.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Just a quick final one. What was the EPS benefit in 2018 from the reserve release?

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

It's really not that -- it's not significant enough to -- we have lots of other things that of similar size, like, for example, we -- that go in the other direction. So we had acquisition drag. We had -- our migrations expense went up by almost $20 million for the year. So the issue is that since we have segment reporting, we're giving you margins at the segment level, and we're increasing our disclosure. We're just giving you a lot of extra color, but we weren't trying to imply that we made our numbers or that our EPS was driven by the reserves. It just happens to be that because of the size of the PEO, when you exclude pass-throughs in the PEO and you look at that margin, it's a large business, but the release of those reserves, I think, can impact those margins from quarter to quarter and from a -- and from year to year. But you shouldn't read -- don't read anything more into it other than at the segment level, which is where we're trying to give you color on.

Operator

Our next question is from Jason Kupferberg of Bank of America.

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

I just wanted to come back on PEO because it seems like for fiscal '19, that's where there is some delta between what the Street was looking for and what you're guiding to. So there's some deceleration baked in here, obviously, relative to fiscal '18 growth levels. Can you just walk us through the pieces there because your qualitative commentary actually sounds more upbeat in terms of some of the new found bookings momentum in PEO, but obviously, the revenue guide, the 7% to 9%? So just explain to us the pieces of deceleration that seemed to be embedded in the guide there.

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

Well, I think there are a couple of different pieces. One is the momentum in terms of worksite -- underlying worksite employee growth, which, I think, we've been talking about it for the last -- we talked about it the last quarter. I think it was also a focus item. You guys had questions about it then. And again, no different than the rest of our recurring revenue businesses. If we believe that -- and we do believe that we're optimistic about next year around new business bookings and retention. It's not something that turns around in July or in August. It's a gradual back -- lift back up over the course of the year. So I think some of it is just the core slowdown in worksite employee growth, which has gone from somewhere in the low teens to 9%, I think, is what we just said we ended the year. So that's one factor. And then the other factor, which is actually more significant if you're focused on top line growth, which I would be careful about doing in the PEO, is what happens with pass-throughs. And so as Jan was alluding to, we have an issue with workers' compensation and SUI rates coming down, which is, frankly, a huge positive for us. From a selling standpoint, it's a positive for our clients. it's a positive for retention, but that puts pressure on revenues. And then the biggest factor, really, is benefits. When you look at top line overall revenue in the PEO, we've had years, particularly as ACA was starting to kick in, in the early years of the Affordable Care Act, we had higher participation rates and benefits. So you had not only inflation of benefit rates, but you had higher participation of benefits. And by participation, we mean the number of worksite employees, the percentage of worksite employees taking benefits. So that was adding and actually putting downward pressure on margins because it was putting upward pressure on revenue growth. We now have the opposite effect, which is lower participation on benefits plans. It's been a trend that's been in place for -- it feels like 6 to -- 6 or so quarters and watching it quarterly. We think that it probably has something to do with ACA because you had people kind of first gearing up for ACA and then you had implementation of ACA and although, technically, many of the rules haven't changed around ACA, it has been -- some of it has been defanged, and you're getting, I think, the outcome that you would expect if you are taking away laws and rules that encourage or force people to have benefits coverage. And so we are seeing -- again, this is not a dramatic drop in benefits participation, but it's enough to pressure the revenue component of overall PEO revenues, which is the largest component of total revenue.

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

Okay. So that's helpful. Just to switch gears to the EPS growth outlook for fiscal '19. So we're talking about 13% to 15%. It sounds like ASC 606 cost you 2 points. So we're really looking at 15% to 17% if we were in an ASC 605 world. And so I'm just looking at that 15% to 17% relative to the 16% to 19% CAGR from the analyst day. Do we need to kind of recast that 16% to 19% in an ASC 606 context because I think a lot of people are just trying to think about this apples-to-apples versus we were living in the 605 world at the time of analyst day, but now you're obviously living in the 606 world?

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

Yes. Let me -- I'll have Jan touch on that in a second. But I should have finished my PEO thought because you're -- I don't think I completed the answer to your question. I think that the reason we remain bullish after everything I just said about benefits, I'm trying to give you a color and explain kind of what's happening in the revenue growth numbers and in the noise. But in the PEO, the most important thing for us in the PEO is profit per employee, and that is something that we continue to see reasonable growth in. And so the noise around margins and around pass-through revenue growth is just not really the right way to look at value creation because as we now answer your question about EPS, the most important thing for us is contribution to EPS. So the only place we were unhappy about the PEO is that we had a slight deceleration in worksite employee growth, which, obviously, leaves a slight decrease in overall growth in profit, assuming all other things being equal. So that -- that's a fair issue that's related really to our net new business, that's the bookings and retention, which we feel better about now going into the new year. But all the other stuff is just noise. And I think the real important thing is to remember that every time we move the client to the PEO or a worksite employee onto the PEO from a pay, it adds profit to the company. And so we have an incentive -- we're having incentive to do that as much as possible.

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

So relative to the impact of 605 and 606 to our medium-term expectations regarding EPS, so as you can deduct from our disclosures, the impact of 606 in fiscal year '18 was a little bit higher than we had initially anticipated and is a little bit higher also, I think, in '19 actually. But we have no outlook relative to its impact that changed compared to our investor day schedule that we provided for the outer years. So what that means is we finished '18 a little bit ahead of our own expectation, so we have really terrific momentum going on. And we feel '19 is exactly in -- is in line and contributing to our overall goals. So we're not really changing our expectations for the medium run.

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

Yes. I would say, if anything, we feel, like, the finish we had for '18 gives us a lot of confidence about the momentum we have to be able to deliver on the commitments that we outlined at investor day. So I think the answer would be absolutely not that I think we feel actually better. And I realize that the guidance and the discussions we had were about '19 through '21. But when you finish '18 ahead of where you thought you were going to finish, we would like to get a little bit of credit for that because what we're trying to get to is higher overall margins, higher overall profit, higher overall EPS. And I think whether it happens in '18 or '19 or in '20 or '21, those are all good things for us.

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

Yes, I agree. Clearly, absolute levels of EPS are being guided above The Street, so kudos to you guys on that.

Operator

Our next question is from Bryan Keane with Deutsche Bank.

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

Just wanted to ask a little bit about the top line guidance. Employee Services at 4% to 6%. I know it's been running about -- Employer Services has been running about 4% organic. What's the path there to push it up towards the higher end? I think acquisitions and FX probably cancel each other out. So just thinking about what would cause the push towards 6%.

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

So one of the things that is helping, which is, obviously, the positive is we clearly see what appears to be -- because of the recurring revenue nature of our business, when you have the challenges like we had with retention and new business bookings, it causes a lot of pressure on the core growth of -- on an organic basis, whether it's Employer Services or the PEO. We now -- I would say that the middle of fiscal year '18, it appears to be the trough. Certainly, as of today, it's the trough. You just -- you don't know a year from now, when you look back, if that will be accurate. But today, it looks like the trough. And so we see clear acceleration of our -- the net of our new business -- what we call a net new business, which is the difference between our starts that result from sales and our losses. And so part of the acceleration in Employer Services is about -- around 0.5 point, if you will, of acceleration, which is in our world is good. I mean, when you -- when I look back to '12, '13, '14, '15, kind of shortly after I became CEO, we had really great momentum around bookings like we have now. We had good retention, which we have now. And we added between 0.5 point to 1 point of core growth, if you will, to the business. So that's my hope now for the next 2 or 3 years. And I think '19 is the first year where we have that baked into the plan because we have the good bookings and we have, I think, a small improvement in retention also planned as well. I think Jan actually, when he talked about retention, he'd mentioned something about 2018 and '19. So 2018 retention was 90.4%. And we're expecting a 20 to 25 basis point improvement over that in '19. So I'm sorry. That was -- that's one of the factors. We also did include -- we are including our interest income, our client fund interest income now as part of the Employer Services segment. And as you know, that's improving and growing. And so that's helping probably 0.5 point as well -- 0.5 to 0.75 points, so and I think that's how you get to the numbers you're asking about.

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

Okay. Great. And then on the PEO side, I know in the analyst day, we talked about 11% to 14% kind of longer-term growth. Is there a path to get back to that as well? Or are some of these changes that we've talked about today for the lower growth more permanent in nature?

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

So it's a good question. We looked at that yesterday and it's a hard path for sure. But the question is, do we really -- is that really -- even though we prided the guidance and we don't like backing off of the guidance, as I just talked about previously that top line revenue growth from the PEO is not really the most important number to look at from a value creation standpoint, which is why we're providing other disclosures around the PEO now to help with that. But clearly, it could happen because as we now were surprised by the deceleration in benefits revenue and the deceleration in workers' comp and SUI, you could have, in '20 or '21, health care inflation, which is not out of the realm of possibility that then gets us to that guidance. But frankly, if we got back into that range, it probably wouldn't change the EPS. The -- it would change the margins, but it wouldn't change EPS and it wouldn't change dollars of profit for the company because what that's driven by is the growth of worksite employees and by retention and new business bookings.

Operator

Our next question is from Tien-tsin Huang of JPMorgan.

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

Just wanted to test your confidence in replenishing the back -- or the pipeline given the strong bookings in the fourth quarter. Any change in Salesforce growth or productivity function? How's the pricing situation looking? And maybe if you can comment on what segments might lead or present a challenge for you in fiscal '19 bookings (inaudible).

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

We have strong confidence. I would say that our confidence is strong in continuing the momentum into the first quarter. I think it's probably -- given the way new business bookings work, I think for us to sit here and say -- we're obviously providing what we think are very confident numbers about the full year. But trying to look forward to the fourth quarter, hopefully, you're not asking about that. So you're just asking coming off of the first quarter -- off of the fourth quarter, how do you feel going into the new year? I would reiterate strong. We feel very strong confidence in our momentum right now. In terms of -- I think Jan said in his comments, I think the strength we see is really across the board. So we -- I think all of the business units, frankly, are performing well from a new business bookings standpoint. It took some time. Our Salesforce, it's -- it -- I know it seems like a long time ago, but 3 or 4 years ago, everyone was talking about compliance for ACA and increased government regulation and new laws around overtime and so forth. And so there was a fairly large shift in climate that required a retooling of the Salesforce that had been focused more on selling additional business and selling additional modules to one that was focused on selling logos. And to the credit of the Salesforce, which is really the greatest Salesforce in the world, it made a massive turnaround. And now we have -- I think it's close to 60% of our new business bookings coming from new business and new logos versus probably 40% at the low point when we had the Affordable Care Act giving us that tailwind. So it was a pretty massive retooling, and it took some time. We had to change incentives. We had to change focus. And as usual, they came through, and you can see the results now.

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

The good part of the new logo growth acceleration, which, I think, is a good measure of the competitiveness in the new market is that it was strong really across our segments. So we saw new logo growth, really, as we sold to new clients in all segments, which was a particular focus, as we talked about that in investor day. And those proved playing off and that should give us a good run rate going forward.

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

Just my quick follow-up just on Global Cash Card and the Wisely app. Is the rollout there still on track? Can we still expect to see something in market by year-end? I asked because it seems like there's a lot of activity in that end market. Just wanting an update there.

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

Not to steal the thunder of the product teams, but Global Cash Card is -- has a lot of momentum and is -- we're selling already the Global Cash Card product, but also the new products are coming out and everything. Both acquisitions are meeting their milestones, so we continue to be very excited about them.

Operator

Our next question is from James Berkley with Wolfe Research.

James Robert Berkley - *Wolfe Research, LLC - Research Analyst*

Just to start. Just wondering what were some of those incentive changes that hurt PEO growth that you referred to in your earlier remarks, Carlos. And if the rebound you saw in fiscal fourth quarter holds, would that not imply that your guidance for '19 on the PEO side could be conservative?

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

Well, I mean, that -- I don't think that's fair. I think we would have taken that into account. I mean, it's -- it would be nice to think that we had -- we really try to be pretty transparent in terms of providing guidance. And we take all factors into consideration, including momentum, including recent results. So that -- there's some fairness to that in the sense that the PEO plan was built really during the fourth quarter, while we were experiencing some of this improvement. On the other hand, if you look at the trajectory, which is now different, the trajectory was down if you look at the second and third quarter, like, we were not -- we would have had a hard time building a great plan. So I think the good results in the fourth quarter just were added confidence, if you will, to a turnaround that we were planning for any way and that we were trying to position ourselves for. So I think, all things being equal, I think it's -- as with all of our other guidance, I think it's -- I think we're giving you what we really believe is achievable, including in the PEO. And I'm sorry, the first part of your question was...

James Robert Berkley - *Wolfe Research, LLC - Research Analyst*

Just some of the inside changes that hurt PEO growth that you guys are now perversing.

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

Yes. I don't want to be mysterious or complicated. So we have other -- our sales forces have incentives that we can vary at times. Like for example, our mid-market Salesforce has an incentive to provide leads to the PEO and they get a certain percentage, sales credit, which then drives commissions. And by the way, the sales credit is probably more important, in some cases, than the commission but -- just because of the culture of our Salesforce. But either way, we have these incentives in place. And if there are other products that someone is -- we're trying to sell and we provide -- we may not necessarily change the incentive to the PEO to drive leads to the PEO, but if we change an incentive to provide lead somewhere else, it may lead the Salesforce somewhere else, which is what happened. And I don't want to get into too many specifics, but we have other, for example, BPO solutions that are also mid-market-oriented, which is also -- have also grown in a very -- at a very healthy rates. And I think we saw kind of a temporary shift, if you will. And we have a much higher value. Both businesses are great businesses. Both are growing very rapidly. Both have good profitability. But the PEO has a higher dollar profit per worksite employee. And so we went back and readjusted that incentive. So it wasn't -- it's not anything complicated or mysterious. It's just that the leads were going -- started going to a different place than where they maybe had the highest value to ADP.

James Robert Berkley - *Wolfe Research, LLC - Research Analyst*

Understood. And then just real quick just some more of a higher-level macro type question, but I figured it's kind of worth asking given the environment. Just given both the labor participation rate and unemployment levels are at historical lows now and we're also thinking about demographic trends and the impact that rates, such as retiring baby boomers have on the business and those unemployment labor participation trend, how do you view the health of the U.S. employment market and sustainability of payroll growth overall going forward, like the next 1, 2, 3 years here?

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

Listen, it's a great question for the obvious reasons in terms of where the numbers are. But I think, today, we reported, I think, 200,000 -- what was the number? [219,000] (corrected by company after the call) additional added to the payroll. So honestly, I think Jan and I have been cautioning and telling ourselves that as unemployment goes down and the market labors -- and labor market tightens that we should see some kind of a slowdown there. But we haven't seen it. And it could be as a result of -- if you look at labor force participation, and yes, that's -- it's driven somewhat by demographics and -- but there are still -- there are some arguments to be made that there could be 3 million to 3.5 million people that are still on the sidelines, right? If you think you could get back to labor participation rates around, I think, 65%, I think we're at 64% going back to 65%. So again, I'm not the macroeconomist. And we kind of try to plan based on the environment we have, the interest rates we have. And we try to be cautious about momentum. But right now, frankly, the momentum is really good, so it wouldn't have been prudent for us for '19 to plan some large drop in employment or some -- because it just doesn't feel like that's in the cards because despite the tightness of the -- apparent tightness of the labor market, you also have an economy that is incredibly strong and has picked up momentum from a GDP standpoint, that's generally creates demand for labor that will also create demand for improvements in productivity, which will help the economy. And so it feels to me like a pretty good environment right now, but something that we should definitely watch out for. So you're not -- not trying to dismiss your point, but not much I can do about it now because it's just too much good news.

James Robert Berkley - *Wolfe Research, LLC - Research Analyst*

No, that makes sense. That's all what I was trying to get out of it. It seems like the labor participation rate being so low that there could be some slack, despite unemployment being low as well. So appreciate the commentary.

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

Yes. And by the way, we're just getting now back to -- I think it was in the Journal today. They talked -- we've been seeing the same thing with wage inflation starting to pick up. But it's just now getting back to where it was on average over, call it -- I think it was 2001 to 2007 is what the Journal said, and I think it's 2.7%, 2.8%. We show the same kind of trends in our wage inflation. So even though you're seeing wage inflation, that's a response to, for sure, tightness in the labor markets. It doesn't change the fact that it's still not running at 4%. So it's not -- so there's something happening -- there must be slack in the labor market. There has to be something there.

Operator

Our next question is from David Grossman of Stifel Financial.

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

So you laid out 3 broad drivers of growth at the investor day. I think it was sales headcount, sales productivity and new products. Could you help us understand your expectation of relative contribution from these initiatives in fiscal '19 and how that may evolve once we get that past next year given the timing of these -- the broader new product rollout?

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

I'm going to let Jan maybe go through the specifics. But I think what we intended to talk about -- investor day was a formula going forward not just for '19, but I think is the way we think about the business, which is to have kind of, generally speaking, balanced growth around headcount, productivity of our headcount and sales and then from new products. So if you look at our guidance, I think, generally, a good way to look at it would be 1/3 of that growth coming from headcount, about 1/3 coming from new products and 1/3 of it coming from productivity. And I don't know if Jan, if you want to add...

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

That's what I would have said. And it may be gearing ever so slightly a little bit higher on the headcount side, but -- and the productivity side. But in general, that's the mix. And I think the team is optimistic about '19 to achieve it with some moderate headcount growth and -- for the carrier side and then with a bunch of these new products aided by additional acquisitions that come into the pipeline to drive then the overall productivity in addition to the headcount growth for the overall result, So that's exactly what...

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

Yes. I think to the previous question, Global Cash Card would be in that category.

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

That's, for example. Global Cash Card is a new product that's actually meaningfully adding to our sales growth in '18.

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

Okay. I guess, sort of seeing the new products more like some of the next-generation platforms (inaudible).

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

Yes. So that's (inaudible), David. So next-generation products will be a very small part only of our '19 numbers. When we accelerate it, we disclosed a number of clients on the strategic platforms in order to scale and test. But Lifion, that number is not going to be impacting '19. It will be more meaningful in '20 and '21.

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

Yes, we're very -- as you know, we're very bullish in our next-gen platforms and what they're going to do to the long-term health of the business. But from a technically speaking standpoint, it's just that we're such a big company, I think our bookings for next year, $1.8 billion or somewhere in that neighborhood.

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

Growth on top of $1.8 billion.

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

$1.5 billion is the Employer Services bookings number. And we're guiding...

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

I'm sorry. It was right. The Employer Services bookings number. But then the bottom line, the numbers are big enough now that as we roll out new products, you have to have a lot of them. So our Salesforce, when we talk about -- when we tell them the same thing about next gen should be really helping you -- they focus on this gen, like they want to know what's available to sell now. And so the good news is we have things like our analytics products. We have the acquisitions we just talked about. So we do have a number of things that we've been working on over the prior several years that have now provided ammunition for them to be able to go out and have some portion of that sales guidance come from "new products," notwithstanding the fact that our next-generation platforms are just not quite at the point where they're going to make a meaningful impact on sales in '19.

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

Okay. Got it. And then just 2 quick follow-ups. One is I didn't quite understand the unit growth comment maybe that Jan made about the high teens. Is that client growth versus WSE growth? Maybe I just missed that. If I could clarify that and just...

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

And I would (inaudible) to apologize, David, for that. So just because you're asking, our ADP client growth overall, number of clients that are with ADP, grew by 6%. That's the entire base to the 740,000 clients or so. That's about 6%, which is very healthy growth. It's nice, and we're very proud of that. When I deferred to our high teens in new logo growth, we refer about the number of new clients that we were able to sell to and compare that to the number of new clients that we sold last year. And that's a different number. That's kind of new logo growth number relative to our new business bookings number. And that really accelerated very nicely in the PEO last year, and so -- which means basically, we had a reacceleration of new business bookings in the PEO, but a lot more smaller clients. And the average deal size was a little smaller.

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

Yes. That average deal size had actually grown -- had gone up in the last several years. And I think some of it was, again -- I hate to keep going back. I think we drove some of that through our incentives because I think it's a product that fits both the downmarket and the mid-market very well.

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

Okay. Got it. And just one last quick one. Is the acquisition -- does that contribute to just give us a size that -- for us in terms of revenue and profit contribution in 2019?

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

The acquisition of the -- of Celergo that we announced today is going to be not meaningful to the overall revenue growth.

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

Very meaningful strategically, if I may add because, again, as Jan was alluding to, like, we were in this conundrum always where we talk about our size was $13.3 billion in revenue or whatever the number is for '18 here that we finished. So when we make an acquisition that is meaningful and strategic, and we're very excited about it, unfortunately, financially, it might not be -- have a big impact. But we certainly expect it to have a big impact in our ability to continue selling and be successful in the multinational space, which is a -- again, a mid-teens growing business for us. And this just extends that leadership and, I think, that success that we're having in that space.

Operator

Our next question is from Jeff Silber with BMO.

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

It's Henry Chien calling for Jeff. Just wanted to shift over and ask about the margin outlook and where you're getting -- or I guess, where you're looking to drive margin expansion. Just curious if you could share a little bit more about what areas of the business you think you can get that expansion beyond the early retirement and if any color on how much of that is leveraged versus some of the -- maybe more discreet items that you're doing to improve margins overall.

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

So I think we've been doing a lot of work. I think Jan can probably add a couple of examples. But we've been doing a lot of work over the last year or 2 around, what we call, process improvement in trying to, really, as an example, reduce non-value contact. So we want to make sure that the products themselves are intuitive, easy to use and that we build in solutions, so that people don't have to seek out help. Clearly, we're a solutions provider not just a software provider. So when someone who want help, we're there to help them. We want to be value-added. The non-value added interactions are dissatisfiers for the client and also increase cost for us. And so I think we've made progress in the last couple of years in reducing, what we refer to as, our non-value contacts. So that's a source of margin improvement because it reduces the number of people we need to service x number of clients. And so it's really a productivity enhancement effort. So I'd say, most of the margin improvement that we expect to get -- and I would say that the voluntary retirement is wrapped up into that because it has to be factored into the overall amount of labor you have is to increase productivity, so increase really revenue per associate or per employee, while revenues continue to grow. So as an example, I think, in '18, we finished with our growth in full-time employees being relatively flat, like, with -- compared to what we consider to be pretty good revenue growth. And I think for '19, we would see kind of a similar picture, maybe slight increase. But we've kind of brought down, from the nose of the ship, if you will, in terms of the growth of the number of people we need in order to service x number of clients. So we're trying to grow the business, obviously, faster, but we're trying to grow the expense and the number of people to service those clients at a slower rate than even we were growing before. And I think that's what leads to margin improvement. So that's a simplified way of describing dozens of things that we have underway to make ourselves better and more efficient.

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

The part of the sources of the margin expansion, for your benefit, the most important one, as Carlos just described, and they're driven then underlining with tools like the early retirement, like our Service Alignment Initiative and general business improvement initiatives to reduce the workload, make our workforce more effective. And so that's a very important part of this. But also our IT folks make meaningful progress to support our infrastructures. We do see some benefits of reduced complexity because of our product set is now simpler. And they have really worked hard to drive and control our overall IT infrastructure cost. So we have seen help from that in this fiscal year and I think we're going to anticipate that going forward and not to give -- when we talk about scale, scale doesn't happen on its own. And the most important driver to help with scale is improving retention. And we have emphasized that, I think, from our communications that healthy revenue growth and improving retentions are very important to support and sustain margin growth because if you keep a client, obviously, you don't have to sell it as a new client. And it's a generally high-margin business for those clients retained. So we have other factors that also help in the margin expansion momentum. And I think, in the investor day, I mentioned other initiatives, like focusing on our vendors spend, for example, and a broad range of other things that we are undergoing that will help, but it's not only one thing. It's through a lot of initiatives.

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

But bottom line is, I think, fewer platforms, a simplified environment and then next-generation solutions that are much more efficient to operate, efficient -- more efficient to develop on and more efficient to maintain, I think, is really part of the formula.

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

Got it. Okay. That's very helpful. And just a quick follow-up on the client migrations. What part -- I guess, what areas of the business is still remaining for migrations, if there's any?

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

We're still focusing on our enterprise space where we have a bunch of legacy clients in -- to migrate. And there's also work for us to doing our international business. So we maintain our migration investment year-over-year and focus now a little bit more in the enterprise space.

Operator

Our next question is from Mark Marcon of R.W. Baird.

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

I was just wondering with regards to ES, on the service center side, can you give us an update with regards to just the service centralization across the 5 big project centers and how that -- how that's progressing and what you're seeing in terms of client satisfaction scores? And then the second part of the question is, as you look out towards ES for this -- for 2019, would you expect the strongest growth to be on SBS and majors relative to national? Or would you expect the international to be one of the strongest growth areas? Or how would you characterize the strongest growth?

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

So let me give you a quick update on our Service Alignment Initiative, which is really progressing very nicely. So we're very satisfied with the momentum that we have and the transition that worked out. So we have about -- we hired close to 3,000, 2,700 associates in these new service centers, which were 3 new ones and 2 existing ones, all in about 6,000 associates now. And we have been -- and have exited about 90% of all targeted locations really on schedule or slightly ahead of schedule. So the program has been working. And now we are rooting in. And as we have indicated, as the trend continues, we have a great employment-employee engagement and excellent client satisfaction scores. That's now so meaningful because a large chunk of the business is in these service centers. So that helped to the improvement on our overall satisfaction. So this is going very well for '19. We're at scale, so I don't anticipate any dual-ops pressure. We had a dual ops in '18, so that's coming out. And we have expended a few additional locations based on the success of those centers. So all in good light relative to Service Alignment and our business case. Relative to -- Mark, I apologize, the second question was...

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

It's just basically as we look at ES growth for the coming year, like, where we would expect the strongest growth versus more moderate growth?

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

That question, the strong growth in the ES portfolio is a little bit more centered around the downmarket components and our HR BPO offerings throughout all segments, actually. So we had a good growth in the non-PEO, HR BPO offerings and our multinational offerings. So the strength of the growth drivers that we have historically observed, I think, we expect to continue. And then we see actually an acceleration of the revenue performance in the mid- and the upmarket. So it's accelerating and improving. So all segments are really improving in our '19 plans.

Operator

And we have time for one more question. Our last question is from James Faucette with Morgan Stanley.

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

Most of my questions have been answered, but one question I did want to ask was related to M&A. Should we anticipate that we may be entering into a period of elevated M&A activity? Or do you expect to maintain kind of the same pace you have over time? And can you just give a little bit of color on the conditions in the M&A market in terms of being able to find appropriate targets and valuation, et cetera?

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

So it's a great question. I mean, the -- I'm very pleased with what we've been able to do on the acquisition front over the last 12 to 18 months. And I think we could find -- continue to find things like we have found in the last 18 months. We would do those all day long. The challenge, of course, for us, as you know, is we are in the process of simplifying, reducing platforms, focusing on our next-generation platforms. And so that makes it hard to do, what I would call, traditional -- make traditional acquisitions. So we're not looking, for example, for the next benefits platform. We're not looking for the next payroll platform. We -- we're building our own next-generation payroll platform. We have a great one already that is serving us well and is a very profitable. And so it is challenging because when you look at the HDM space, we are -- we operate in really across almost every segment from hire to retire. And we feel great about the products and the platforms that we have. But as you saw over the last 18 months, there's always some stuff that you can do that's new and can add to the portfolio. So I think as long as it's additive and fits into our strategic roadmap, we are buyers. And we are -- we're on the -- on a lookout for those types of way -- those types of ways to use our capital, right, to add shareholder value. So it's kind of hard to give you a completely bullish answer because we're trying to be very, very disciplined. But we've been very, very fortunate in the last 18 months. And I hope that our luck continues and that we find things that can really be difference makers for our clients and to our growth rates, but that also fit into our strategic roadmap and don't just add additional complexity.

Operator

And this does conclude our question-and-answer portion for today. I am pleased to hand the program over to Carlos Rodriguez for any closing remarks.

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

Thanks. Just quickly. Obviously, this year, we spent a lot of time listening to our shareholders and to all of you as well. And I think our interactions this year, I think, just -- I think reinforced our conviction in the strategy that we're pursuing. We've got very positive feedback from investor day about our plans and our strategy to create sustainable long-term value. So we're going to continue, obviously, on the path that we're on. The results for this year, I think, really set us up well for fiscal '19. We feel like we've seen some acceleration. And as I mentioned, I would call it a trough, if you will, in the middle of this last fiscal year. So I think heading into next year, we have really good momentum. So whether it's the next-generation platforms that we just talked about or the mid-market migrations or the acquisitions that we just talked about or progress on the Service Alignment Initiative or the voluntary early retirement program, it's -- I think it's pretty clear that we are committed to accelerating the pace of change at ADP and that we're actually well underway. I'm particularly pleased, I have to say, this year, with the ability of the organization overall to overcome the pressures that we had from bookings and retention, call it, a couple of years ago that -- right in the middle of the perfect storm of the Affordable Care Act and some other things that distracted us, but we're past that. You can see that we had solid performance in 2018 and I'm really -- that makes me very, very optimistic about the future for ADP. So -- and I think, lastly, I have to -- I always say that when we reflect on all these accomplishments, which are many in 2018, I just want to thank all of our associates for their dedication to providing the best-in-class solutions to our clients because our business is all about our clients and our clients are all about the associates that serve them. So with that, I want to thank you for listening in today, and thank you for your continued interest in ADP.
