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ADP Reports Second Quarter Fiscal 2019 Results

- Revenues increased 8% to \$3.5 billion in the second quarter, 8% organic constant currency
- Net earnings decreased 17% to \$558 million; adjusted net earnings increased 29% to \$587 million
- Adjusted EBIT increased 26% to \$787 million, and adjusted EBIT margin expanded 320 basis points
- PEO average Worksite Employees grew 9% in the quarter
- Diluted earnings per share ("EPS") decreased 16% to \$1.27 for the quarter; adjusted diluted EPS increased 30% to \$1.34
- Raising fiscal 2019 diluted EPS growth outlook to 20% to 22%, compared to prior outlook of 18% to 20%; raising adjusted diluted EPS growth outlook to 17% to 19%, compared to prior outlook of 15% to 17%

ROSELAND, N.J. – January 30, 2019 – ADP® (Nasdaq: ADP), a leading global provider of Human Capital Management (HCM) solutions, today announced its second quarter fiscal 2019 financial results and updated its fiscal 2019 outlook.

Second Quarter Fiscal 2019 Consolidated Results

Compared to last year's second quarter, revenues increased 8% to \$3.5 billion, 8% organic constant currency. Earnings before income taxes increased 26% to \$741 million. Net earnings decreased 17% to \$558 million, and adjusted net earnings increased 29% to \$587 million. Adjusted EBIT increased 26% to \$787 million, representing adjusted EBIT margin expansion of 320 basis points in the quarter to 22.4%, including approximately 30 basis points of pressure from acquisitions. Adjusted EBIT margin expansion was driven by continued execution of transformation initiatives and by operating efficiencies. ADP's effective tax rate for the quarter was 24.7%, and 24.6% on an adjusted basis. Diluted EPS decreased 16% to \$1.27 due to a higher effective tax rate compared to the prior year, which included a one-time net tax benefit related to the Tax Cuts and Jobs Act. Adjusted diluted EPS increased 30% to \$1.34 due to the factors discussed above as well as a net share count reduction.

"Technology and service are the core components to our success, and our focused investments in our strategic platforms are having the desired effect," said Carlos Rodriguez, President and Chief Executive Officer, ADP. "We are especially pleased with the progress of our transformation initiatives, which are supporting our commitment to stay at the forefront of the HCM industry and maximize value for all of our stakeholders."

"The continued strong execution of our strategy had a positive effect on our margins this quarter," said Jan Siegmund, Chief Financial Officer, ADP. "Through our ongoing transformation initiatives we have been able to better allocate resources where we see the greatest opportunity, while also realizing net efficiencies in our overall cost base."

Adjusted EBIT, adjusted EBIT margin, adjusted net earnings, adjusted diluted earnings per share, adjusted effective tax rate, constant currency, and organic constant currency are all non-GAAP financial measures. Please refer to the accompanying financial tables at the end of this release for a discussion of why ADP believes these measures are important and for a reconciliation of non-GAAP financial measures to their comparable GAAP financial measures.

Comparisons to fiscal 2018 in ADP's results and outlook reflect the adoption of ASC 606 and previously disclosed segment reporting changes. Please see our 1Q 2019 earnings release for a bridge of as-reported fiscal 2018 results to restated fiscal 2018 results.

Second Quarter Fiscal 2019 Segment Results

Employer Services – Employer Services offers a comprehensive range of HCM and human resources outsourcing solutions. Compared to last year's second quarter:

- Employer Services New Business Bookings increased 1%.
- Employer Services revenues increased 7% on a reported and organic constant currency basis.
- Pays per control increased 2.3%.
- Employer Services segment margin increased 460 basis points, including approximately 50 basis points of pressure from acquisitions.

PEO Services – PEO Services provides comprehensive employment administration outsourcing solutions. Compared to last year's second quarter:

- PEO Services revenues increased 12%.
- PEO Services revenues excluding zero-margin benefits pass-throughs increased 15%.
- Average Worksite Employees paid by PEO Services increased 9% to about 545,000.
- PEO Services segment margin increased approximately 70 basis points.

Included within the results of our segments above:

Interest on Funds Held for Clients – The safety, liquidity and diversification of ADP clients' funds are the foremost objectives of the Company's investment strategy. Client funds are invested in accordance with ADP's prudent and conservative investment guidelines and the credit quality of the investment portfolio is predominantly AAA/AA. Compared to last year's second quarter:

- Interest on funds held for clients increased 21% to \$129 million.
- Average client funds balances increased 5% to \$23.6 billion.
- The average interest yield on client funds increased 30 basis points to 2.2%.

Fiscal 2019 Outlook

Certain components of ADP's fiscal 2019 outlook and related growth comparisons exclude the impact of the following items and are discussed on an adjusted basis where applicable. Please refer to the accompanying financial tables for a reconciliation of these adjusted amounts to their closest comparable GAAP measure.

- Fiscal 2018 pre-tax proxy contest charges of about \$33 million.
- Fiscal 2018 one-time net tax benefit of about \$184 million from the Tax Cuts and Jobs Act.
- Fiscal 2018 pre-tax charges of about \$405 million related to the Voluntary Early Retirement Program, the Service Alignment Initiative, and other transformation initiatives.
- Fiscal 2019 pre-tax charges of about \$112 million related to the Voluntary Early Retirement Program, the Service Alignment Initiative and other transformation initiatives.
- Fiscal 2019 one-time transition benefit of about \$1 million from the Tax Cuts and Jobs Act.

Comparisons to prior outlook are provided in the table below.

Consolidated Fiscal 2019 Outlook

- Revenue growth of 6% to 7%.
- Adjusted EBIT margin up 125 to 150 basis points from 20.7% in fiscal 2018.
- Diluted EPS growth of 20% to 22% from \$4.25 in fiscal 2018.
- Adjusted diluted EPS growth of 17% to 19% from \$4.53 in fiscal 2018.
- Adjusted effective tax rate of 24.4%.

Reportable Segments Fiscal 2019 Outlook

- Employer Services revenue growth of 5% to 6%.
- Employer Services margins up 175 to 200 basis points.
- Employer Services New Business Bookings growth of 6% to 8%.
- Employer Services client revenue retention up 25 to 50 basis points.
- Increase in pays per control of 2.5%.
- PEO average Worksite Employee growth of 8% to 9%.
- PEO revenue growth of 9% to 10%.
- PEO revenue growth excluding zero-margin benefits pass-throughs of 8% to 9%.
- PEO margins at least flat. This outlook continues to reflect approximately 50 basis points of anticipated grow-over pressure related to workers' compensation reserve reductions at ADP Indemnity.

Client Funds Extended Investment Strategy Fiscal 2019 Outlook

The interest assumptions in our outlook are based on Fed Funds futures contracts and forward yield curves as of January 29, 2019. The Fed Funds futures contracts used in the client short and corporate cash interest income outlook assume no further increases during the fiscal year. The three-and-a-half and five-year U.S. government agency rates based on the forward yield curves as of January 29, 2019 were used to forecast new purchase rates for the client and corporate extended, and client long portfolios, respectively.

- Interest on funds held for clients up \$90 to \$100 million. This is based on anticipated growth in average client funds balances of about 4% from \$24.3 billion in fiscal 2018, and an average yield which is anticipated to increase about 30 basis points to 2.2% compared to the fiscal 2018 average yield of 1.9%.
- Total contribution from the client funds extended investment strategy up \$70 to \$80 million.

Fiscal 2019 Outlook History

	Aug 1, 2018 Outlook (a)	Oct 31, 2018 Outlook (a)	Jan 30, 2019 Outlook (a)
Total ADP			
Revenues	↑ 5% - 7%	↑ 6% - 7%	↑ 6% - 7%
Adj. EBIT Margin	↑ 100 - 125 bps	↑ 100 - 125 bps	↑ 125 - 150 bps
Adj. Effective Tax Rate	↓ Decline to 25.1%	↓ Decline to 24.5%	↓ Decline to 24.4%
Adj. Diluted EPS	↑ 13% - 15%	↑ 15% - 17%	↑ 17% - 19%
Employer Services (ES)			
Revenues	↑ 4% - 6%	↑ 4% - 6%	↑ 5% - 6%
Margin	↑ 150 - 175 bps	↑ 150 - 175 bps	↑ 175 - 200 bps
ES New Business Bookings	↑ 6% - 8%	↑ 6% - 8%	↑ 6% - 8%
Client Revenue Retention	↑ 25 - 50 bps	↑ 25 - 50 bps	↑ 25 - 50 bps
Pays Per Control	↑ ~2.5%	↑ ~2.5%	↑ ~2.5%
PEO Services			
Revenues, Reported	↑ 7% - 9%	↑ 8% - 9%	↑ 9% - 10%
Revenues Ex Zero-Margin Pass-throughs	↑ 5% - 7%	↑ 6% - 7%	↑ 8% - 9%
Margin	↓ (75) - (50) bps	↓ (50) - (25) bps	At least flat
Average WSE Growth	↑ 7% - 8%	↑ 8% - 9%	↑ 8% - 9%

a. Outlook contemplates the impact of prior fiscal year acquisitions and anticipated impact of current year acquisition of Celergo and foreign currency in revenue and operating results.

Investor Webcast Today

As previously announced, ADP will host a conference call for financial analysts today, Wednesday, January 30, 2019 at 8:30 a.m. ET. The conference call will be webcast live on ADP's website at investors.adp.com and will be available for replay following the call. A slide presentation accompanying the webcast is also available at investors.adp.com/events-and-presentations.

Supplemental financial information including schedules of quarterly and full year reportable segment revenues and earnings for fiscal years 2017 and 2018, as well as quarterly details of the fiscal 2019 results from the client funds extended investment strategy, are posted to ADP's website at investors.adp.com. ADP news releases, current financial information, SEC filings and Investor Relations presentations are accessible at the same website.

About ADP (Nasdaq: ADP)

Powerful technology plus a human touch. Companies of all types and sizes around the world rely on ADP's cloud software and expert insights to help unlock the potential of their people. HR. Talent. Benefits. Payroll. Compliance. Working together to build a better workforce. For more information, visit ADP.com.

Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Earnings
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Revenues:				
Revenues, other than interest on funds held for clients and PEO revenues	\$ 2,319.8	\$ 2,190.3	\$ 4,537.8	\$ 4,269.2
Interest on funds held for clients	129.1	106.7	247.6	206.1
PEO revenues (A) (B) (C)	1,057.0	941.3	2,043.7	1,840.2
Total revenues	3,505.9	3,238.3	6,829.1	6,315.5
Expenses:				
Costs of revenues:				
Operating expenses (B) (C)	1,785.9	1,709.2	3,495.9	3,339.9
Systems development and programming costs	156.1	159.4	314.1	317.6
Depreciation and amortization	71.7	69.3	144.3	131.9
Total costs of revenues	2,013.7	1,937.9	3,954.3	3,789.4
Selling, general, and administrative expenses	745.2	723.6	1,459.0	1,399.0
Interest expense	38.6	27.5	74.5	55.5
Total expenses	2,797.5	2,689.0	5,487.8	5,243.9
Other income, net	(32.6)	(38.2)	(46.5)	(80.8)
Earnings before income taxes	741.0	587.5	1,387.8	1,152.4
Provision / (benefit) for income taxes	182.8	(82.9)	324.2	69.4
Net earnings	\$ 558.2	\$ 670.4	\$ 1,063.6	\$ 1,083.0
Basic earnings per share	\$ 1.28	\$ 1.52	\$ 2.44	\$ 2.45
Diluted earnings per share	\$ 1.27	\$ 1.51	\$ 2.42	\$ 2.44
Components of Other income, net:				
Interest income on corporate funds	\$ (28.1)	\$ (22.7)	\$ (56.6)	\$ (48.5)
Realized gains on available-for-sale securities	(0.3)	(0.2)	(0.6)	(0.5)
Realized losses on available-for-sale securities	0.8	1.2	2.0	1.6
Impairment of intangible assets	—	—	12.1	—
Gain on sale of assets	(4.1)	—	(4.1)	(0.4)
Non-service components of pension expense, net (D)	(0.9)	(16.5)	0.7	(33.0)
Other income, net	\$ (32.6)	\$ (38.2)	\$ (46.5)	\$ (80.8)

(A) Professional Employer Organization ("PEO") revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes of \$11,751.1 million and \$10,632.3 million for the three months ended December 31, 2018 and 2017, respectively, and \$21,380.5 million and \$19,370.8 million for the six months ended December 31, 2018 and 2017, respectively.

(B) PEO revenues and operating expenses include benefits pass-through costs of \$673.2 million and \$607.1 million, and \$1,326.6 million and \$1,202.3 million for the three and six months ended December 31, 2018 and 2017, respectively.

(C) PEO revenues and operating expenses include costs related to workers' compensation coverage and state unemployment taxes for worksite employees of \$114.9 million and \$98.1 million, and \$204.4 million and \$189.4 million for the three and six months ended December 31, 2018 and 2017, respectively.

(D) The charges within non-service components of pension expense, net includes \$12.8 million and \$28.1 million of non-cash settlement charges and of special termination benefits related to the Voluntary Early Retirement Program ("VERP"), for the three and six months ended December 31, 2018, respectively, partially offset by \$13.7 million and \$27.4 million related to other components of net periodic pension cost for the three and six months ended December 31, 2018, respectively.

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Balance Sheets
(In millions)
(Unaudited)

	December 31, 2018	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents (A)	\$ 2,785.6	\$ 2,170.0
Accounts receivable, net of allowance for doubtful accounts of \$51.2 and \$51.3, respectively	2,638.1	1,984.2
Other current assets	653.0	531.3
Total current assets before funds held for clients	<u>6,076.7</u>	<u>4,685.5</u>
Funds held for clients	25,605.9	27,137.8
Total current assets	<u>31,682.6</u>	<u>31,823.3</u>
Long-term receivables, net of allowance for doubtful accounts of \$0.5 and \$0.5, respectively	25.2	25.5
Property, plant and equipment, net	772.7	793.7
Deferred contract costs	2,338.0	2,377.4
Other assets	739.7	699.3
Goodwill	2,321.4	2,243.5
Intangible assets, net	926.7	886.4
Total assets	<u>\$ 38,806.3</u>	<u>\$ 38,849.1</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 151.3	\$ 135.4
Accrued expenses and other current liabilities	2,057.8	1,547.6
Accrued payroll and payroll-related expenses	445.1	667.7
Dividends payable	341.0	298.9
Short-term deferred revenues	224.0	225.7
Obligation under commercial paper borrowing (A)	1,206.0	—
Income taxes payable	29.4	43.9
Total current liabilities before client funds obligations	<u>4,454.6</u>	<u>2,919.2</u>
Client funds obligations	25,842.3	27,493.5
Total current liabilities	<u>30,296.9</u>	<u>30,412.7</u>
Long-term debt	2,002.3	2,002.4
Other liabilities	752.5	728.0
Deferred income taxes	580.5	522.0
Long-term deferred revenues	410.2	448.1
Total liabilities	<u>34,042.4</u>	<u>34,113.2</u>
Stockholders' equity:		
Preferred stock, \$1.00 par value: authorized, 0.3 shares; issued, none	—	—
Common stock, \$0.10 par value: authorized, 1,000.0 shares; issued, 638.7 shares at December 31, 2018 and June 30, 2018; outstanding, 436.2 and 438.8 shares at December 31, 2018 and June 30, 2018, respectively	63.9	63.9
Capital in excess of par value	1,076.1	1,014.8
Retained earnings	16,959.1	16,546.6
Treasury stock - at cost: 202.5 and 199.9 shares at December 31, 2018 and June 30, 2018, respectively	(12,720.2)	(12,209.6)
Accumulated other comprehensive loss	(615.0)	(679.8)
Total stockholders' equity	<u>4,763.9</u>	<u>4,735.9</u>
Total liabilities and stockholders' equity	<u>\$ 38,806.3</u>	<u>\$ 38,849.1</u>

(A) As of December 31, 2018, \$1,206.0 million of cash and cash equivalents are related to the Company's outstanding commercial paper borrowings.

Automatic Data Processing, Inc. and Subsidiaries
Statements of Consolidated Cash Flows
(In millions)
(Unaudited)

	Six Months Ended	
	December 31,	
	2018	2017
Cash Flows from Operating Activities:		
Net earnings	\$ 1,063.6	\$ 1,083.0
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Depreciation and amortization	196.5	182.0
Amortization of deferred contract costs	434.6	412.3
Deferred income taxes	33.0	(162.8)
Stock-based compensation expense	77.0	77.7
Net pension expense	31.5	5.5
Net amortization of premiums and accretion of discounts on available-for-sale securities	27.4	37.9
Impairment of intangible assets	12.1	—
Other	14.0	14.8
Changes in operating assets and liabilities, net of effects from acquisitions:		
Increase in accounts receivable	(670.0)	(337.1)
Increase in other assets	(594.4)	(667.6)
Increase / (decrease) in accounts payable	19.0	(2.7)
Increase in accrued expenses and other liabilities	287.2	32.1
Net cash flows provided by operating activities	<u>931.5</u>	<u>675.1</u>
Cash Flows from Investing Activities:		
Purchases of corporate and client funds marketable securities	(1,300.8)	(2,454.2)
Proceeds from the sales and maturities of corporate and client funds marketable securities	1,163.4	1,866.0
Capital expenditures	(80.0)	(118.3)
Additions to intangibles	(139.3)	(132.4)
Acquisitions of businesses, net of cash acquired	(120.4)	(487.4)
Proceeds from the sale of property, plant, and equipment	7.9	—
Net cash flows used in investing activities	<u>(469.2)</u>	<u>(1,326.3)</u>
Cash Flows from Financing Activities:		
Net (decrease) / increase in client funds obligations	(1,567.1)	7,207.1
Payments of debt	(1.1)	(6.3)
Repurchases of common stock	(526.6)	(408.3)
Net proceeds from stock purchase plan and stock-based compensation plans	5.5	(5.5)
Dividends paid	(605.0)	(506.7)
Net proceeds from commercial paper borrowings	1,206.0	—
Net cash flows (used in) / provided by financing activities	<u>(1,488.3)</u>	<u>6,280.3</u>
Effect of exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	(32.1)	49.1
Net change in cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>(1,058.1)</u>	<u>5,678.2</u>
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	6,542.1	8,181.6
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	<u>\$ 5,484.0</u>	<u>\$ 13,859.8</u>
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	2,785.6	1,773.4
Restricted cash and restricted cash equivalents included in funds held for clients	2,698.4	12,086.4
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>\$ 5,484.0</u>	<u>\$ 13,859.8</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 73.3	\$ 54.3
Cash paid for income taxes, net of income tax refunds	\$ 280.3	\$ 389.2

Automatic Data Processing, Inc. and Subsidiaries

Other Selected Financial Data

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended			Six Months Ended		
	December 31,		% Change	December 31,		% Change
	2018	2017		2018	2017	
<u>Revenues</u>						
Employer Services	\$ 2,450.4	\$ 2,297.8	7 %	\$ 4,788.6	\$ 4,477.2	7 %
PEO Services	1,058.2	942.4	12 %	2,046.0	1,842.2	11 %
Other	(2.7)	(1.9)	n/m	(5.5)	(3.9)	n/m
Total revenues	\$ 3,505.9	\$ 3,238.3	8 %	\$ 6,829.1	\$ 6,315.5	8 %

Segment earnings

Employer Services	\$ 733.3	\$ 581.1	26 %	\$ 1,371.0	\$ 1,118.3	23 %
PEO Services	157.0	133.2	18 %	303.0	256.5	18 %
Other	(149.3)	(126.8)	n/m	(286.2)	(222.4)	n/m
Total pretax earnings	\$ 741.0	\$ 587.5	26 %	\$ 1,387.8	\$ 1,152.4	20 %

	Three Months Ended			Six Months Ended		
	December 31,		% Change	December 31,		% Change
	2018	2017		2018	2017	
<u>Segment margin</u>						
Employer Services	29.9 %	25.3 %	4.6 %	28.6 %	25.0 %	3.7 %
PEO Services	14.8 %	14.1 %	0.7 %	14.8 %	13.9 %	0.9 %
Other	n/m	n/m	n/m	n/m	n/m	n/m
Total pretax margin	21.1 %	18.1 %	3.0 %	20.3 %	18.2 %	2.1 %

	Three Months Ended			Six Months Ended		
	December 31,		% Change	December 31,		% Change
	2018	2017		2018	2017	
<u>Earnings per share information:</u>						
Net earnings	\$ 558.2	\$ 670.4	(17)%	\$ 1,063.6	\$ 1,083.0	(2)%
Basic weighted average shares outstanding	435.7	441.3	(1)%	436.2	441.8	(1)%
Basic earnings per share	\$ 1.28	\$ 1.52	(16)%	\$ 2.44	\$ 2.45	(1)%
Diluted weighted average shares outstanding	438.0	443.7	(1)%	438.9	444.4	(1)%
Diluted earnings per share	\$ 1.27	\$ 1.51	(16)%	\$ 2.42	\$ 2.44	(1)%

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017

Key Statistics:

Employer Services:

Change in pays per control - U.S. (A)	2.3 %	2.6 %	2.3 %	2.5 %
Employer Services New Business Bookings growth	1 %	5 %	4 %	1 %

PEO Services:

Paid PEO worksite employees at end of period	549,000	504,000	549,000	504,000
Average paid PEO worksite employees during the period	545,000	498,000	536,000	491,000
Significant PEO expenses included within Operating expenses				
Benefits pass-through costs	\$ 673.2	\$ 607.1	\$ 1,326.6	\$ 1,202.3
Workers' compensation and state unemployment taxes	\$ 114.9	\$ 98.1	\$ 204.4	\$ 189.4

(A) Pays per control represents the number of employees on ADP clients' payrolls in the United States when measured on a same-store-sales basis for a subset of clients ranging from small to large businesses.

Automatic Data Processing, Inc. and Subsidiaries

Other Selected Financial Data, Continued

(Dollars in millions, except per share amounts or where otherwise stated)

(Unaudited)

	Three Months Ended			Six Months Ended		
	December 31,			December 31,		
	2018	2017	% Change	2018	2017	% Change
Average investment balances at cost (in billions):						
Corporate, other than corporate extended	\$ 1.5	\$ 1.6	(7)%	\$ 1.6	\$ 1.9	(18)%
Corporate extended	4.1	4.0	3 %	4.2	4.2	0 %
Total corporate	5.6	5.6	0 %	5.8	6.1	(6)%
Funds held for clients	23.6	22.5	5 %	22.9	21.8	5 %
Total	\$ 29.2	\$ 28.1	4 %	\$ 28.6	\$ 27.9	2 %
Average interest rates earned exclusive of realized losses (gains) on:						
Corporate, other than corporate extended	1.8 %	1.1 %		1.8 %	1.1 %	
Corporate extended	2.1 %	1.8 %		2.0 %	1.8 %	
Total corporate	2.0 %	1.6 %		2.0 %	1.6 %	
Funds held for clients	2.2 %	1.9 %		2.2 %	1.9 %	
Total	2.2 %	1.8 %		2.1 %	1.8 %	
Net unrealized (loss)/gain position at end of period	\$ (236.3)	\$ (56.7)		\$ (236.3)	\$ (56.7)	
Average short-term financing (in billions):						
Commercial paper borrowings	\$ 3.8	\$ 3.5		\$ 3.8	\$ 3.7	
Reverse repurchase agreement borrowings	0.3	0.5		0.4	0.5	
Total	\$ 4.1	\$ 4.0		\$ 4.2	\$ 4.2	
Average interest rates paid on:						
Commercial paper borrowings	2.3 %	1.2 %		2.1 %	1.2 %	
Reverse repurchase agreement borrowings	1.9 %	1.2 %		1.8 %	1.1 %	
Interest on funds held for clients	\$ 129.1	\$ 106.7	21 %	\$ 247.6	\$ 206.1	20 %
Corporate extended interest income (A)	21.5	18.3	18 %	42.4	37.8	12 %
Corporate interest expense-short-term financing (A)	(23.6)	(12.5)	(89)%	(44.5)	(25.5)	(74)%
Net Impact from Client Fund Strategy	\$ 127.0	\$ 112.5	13 %	\$ 245.6	\$ 218.4	12 %

(A) While "Corporate extended interest income" and "Corporate interest expense-short-term financing," related to our client funds investment strategy, are non-GAAP measures, management believes this information is beneficial to reviewing the financial statements of ADP. Management believes this information is beneficial as it allows the reader to understand the extended investment strategy for ADP's client funds assets, corporate investments, and short-term borrowings. A reconciliation of the non-GAAP measures to GAAP measures is as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Corporate extended interest income	\$ 21.5	\$ 18.3	\$ 42.4	\$ 37.8
All other interest income	6.6	4.4	14.2	10.7
Total interest income on corporate funds	\$ 28.1	\$ 22.7	\$ 56.6	\$ 48.5
Corporate interest expense-short-term financing	\$ 23.6	\$ 12.5	\$ 44.5	\$ 25.5
All other interest expense	14.9	15.0	30.0	30.0
Total interest expense	\$ 38.6	\$ 27.5	\$ 74.5	\$ 55.5

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Statement of Adjusted / Non-GAAP Financial Information
(in millions, except per share amounts)
(Unaudited)

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

Adjusted Financial Measure	U.S. GAAP Measures
Adjusted EBIT	Net earnings
Adjusted provision for income taxes	Provision for income taxes
Adjusted net earnings	Net earnings
Adjusted diluted earnings per share	Diluted earnings per share
Adjusted effective tax rate	Effective tax rate
Constant Currency Basis	U.S. GAAP P&L line items
Organic constant currency (see footnote "h")	Revenues
Corporate extended interest income (see prior page)	Interest income
Corporate interest expense-short-term financing (see prior page)	Interest expense

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

	Three Months Ended				Six Months Ended			
	December 31,		% Change		December 31,		% Change	
	2018	2017	As Reported	Constant Currency Basis (g)	2018	2017	As Reported	Constant Currency Basis (g)
Net earnings	\$ 558.2	\$ 670.4	(17)%	(17)%	\$ 1,063.6	\$ 1,083.0	(2)%	(2)%
Adjustments:								
Provision for income taxes	182.8	(82.9)			324.2	69.4		
All other interest expense (a)	14.9	15.0			30.0	30.0		
All other interest income (a)	(6.6)	(4.4)			(14.2)	(10.7)		
Transformation initiatives (b)	37.2	3.3			69.6	—		
Proxy contest matters (c)	—	22.9			—	33.3		
Adjusted EBIT	\$ 786.5	\$ 624.3	26 %	26 %	\$ 1,473.2	\$ 1,205.0	22 %	22 %
Adjusted EBIT Margin	22.4 %	19.3 %			21.6 %	19.1 %		
Provision for income taxes	\$ 182.8	\$ (82.9)	(321)%	(320)%	\$ 324.2	\$ 69.4	367 %	365 %
Adjustments:								
Income tax benefit for transformation initiatives (d)	9.2	1.3			17.2	—		
Income tax benefit for proxy contest matters (d)	—	6.3			—	10.3		
Tax Cuts and Jobs Act (e)	(0.6)	232.6			0.5	232.6		
Adjusted provision for income taxes	\$ 191.4	\$ 157.3	22 %	21 %	\$ 341.9	\$ 312.3	9 %	9 %
Adjusted effective tax rate (f)	24.6 %	25.6 %			23.4 %	26.4 %		
Net earnings	\$ 558.2	\$ 670.4	(17)%	(17)%	\$ 1,063.6	\$ 1,083.0	(2)%	(2)%
Adjustments:								
Transformation initiatives (b)	37.2	3.3			69.6	—		
Income tax benefit for transformation initiatives (d)	(9.2)	(1.3)			(17.2)	—		
Proxy contest matters (c)	—	22.9			—	33.3		
Income tax benefit for proxy contest matters (d)	—	(6.3)			—	(10.3)		
Tax Cuts and Jobs Act (e)	0.6	(232.6)			(0.5)	(232.6)		
Adjusted net earnings	\$ 586.8	\$ 456.4	29 %	28 %	\$ 1,115.5	\$ 873.4	28 %	27 %
Diluted EPS	\$ 1.27	\$ 1.51	(16)%	(16)%	\$ 2.42	\$ 2.44	(1)%	(1)%
Adjustments:								
Transformation initiatives (b) (d)	0.06	—			0.12	—		
Proxy contest matters (c) (d)	—	0.04			—	0.05		
Tax Cuts and Jobs Act (e)	—	(0.52)			—	(0.52)		
Adjusted diluted EPS	\$ 1.34	\$ 1.03	30 %	30 %	\$ 2.54	\$ 1.97	29 %	29 %

(a) We continue to include the interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy as we believe these amounts to be fundamental to the underlying operations of our business model. The adjustments in the table above represent the interest income and interest expense that is not related to our client funds extended investment strategy and are labeled as "All other interest expense" and "All other interest income."

(b) The charges within transformation initiatives are comprised of charges for our Voluntary Early Retirement Program ("VERP"), Service Alignment Initiative and other transformation initiatives. Charges related to our VERP in the three and six months ended December 31, 2018 include \$12.8 million and \$28.1 million for non-cash pension settlement charge and special termination benefits included in Other Income, net, and \$12.1 million and \$21.4 million of expenses related to the continuing health coverage included within selling, general and administrative expenses, respectively. We also recorded charges within selling, general and administrative expenses of \$18.7 million and \$31.0 million related to our other transformation initiatives during the three and six months ended December 31, 2018. These charges were partially offset by net reversals of charges and gain on sale of assets related to our Service Alignment Initiative of \$6.4 million and \$10.9 million for the three and six months ended December 31, 2018. Unlike other severance charges which are not included as an adjustment to get to adjusted results, these specific charges relate to actions that are part of our broad-based, company-wide transformation initiative.

(c) Represents non-operational costs relating to proxy contest matters.

(d) The tax benefit on the transformation initiatives and non-operational charges related to proxy contest matters was calculated based on the annualized marginal rate in effect during the quarter of the adjustment.

(e) The net (provision)/benefit from the enactment of the Tax Cuts and Jobs Act ("the Act") is comprised of adjustments to the one-time transition tax on the earnings and profits of our foreign subsidiaries, foreign withholding taxes, a valuation allowance against our foreign tax credits which may not be realized and the re-measurement of deferred tax balances for the three and six months ended December 31, 2018. The net benefit for the three and six months ended December 31, 2017 represents the one-time benefit recognized on the re-measurement of deferred tax balances, primarily as a result of ASC 606, using the lower tax rates enacted under the Act.

(f) The Adjusted effective tax rate is calculated as our Adjusted provision for income taxes divided by our Adjusted net earnings plus our Adjusted provision for income taxes.

(g) "Constant currency basis" provides information that isolates the actual growth of our operations. "Constant currency basis" is determined by calculating the current year result using foreign exchange rates consistent with the prior year.

(h) The following table reconciles our reported growth rates to the non-GAAP measure of organic revenue, which excludes the impact of acquisitions, the impact of dispositions, and the impact of foreign currency. The impact of acquisitions and dispositions is calculated by excluding the current year revenues of acquisitions until the one year anniversary of the transaction and by excluding the prior year revenues of divestitures for the one year period preceding the transaction. The impact of foreign currency is determined by calculating the current year result using foreign exchange rates consistent with the prior year. The PEO segment is not impacted by acquisitions, dispositions or foreign currency.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
<u>Revenue growth consolidated:</u>				
Employer Services	7 %	6 %	7 %	4 %
PEO Services	12 %	15 %	11 %	14 %
Consolidated revenue growth as reported	8 %	8 %	8 %	7 %
Adjustments:				
Impact of acquisitions	— %	(1)%	(1)%	(1)%
Impact of dispositions	— %	1 %	— %	— %
Impact of foreign currency	1 %	(1)%	— %	(1)%
Consolidated revenue growth, organic constant currency	8 %	7 %	8 %	6 %

Segment:

Employer Services revenue growth as reported	7 %	6 %	7 %	4 %
Adjustments:				
Impact of acquisitions	(1)%	(1)%	(1)%	(1)%
Impact of dispositions	— %	1 %	— %	— %
Impact of foreign currency	1 %	(1)%	1 %	(1)%
Employer Services revenue growth, organic constant currency	7 %	4 %	6 %	3 %

Automatic Data Processing, Inc. and Subsidiaries
Fiscal 2018 to Fiscal 2019 Non-GAAP Guidance Reconciliation
(Unaudited)

	Fiscal 2018		Fiscal 2019
			Outlook
Earnings before income taxes / margin (GAAP)	\$ 2,282.6	17.1%	375 - 400 bps
All other interest expense (a)	59.4	45 bps	(5) bps
All other interest income (a)	(25.5)	(20) bps	5 bps
Proxy contest matters - FY18 (b)	33.3	25 bps	(25) bps
Transformation initiatives - FY18 (c)	404.8	305 bps	(305) bps
Transformation initiatives - FY19 (c)	-	-	80 bps
Adjusted EBIT margin (Non-GAAP)	\$ 2,754.6	20.7%	125 - 150 bps
Effective tax rate (GAAP)		17.4%	24.4%
Proxy contest matters - FY18 (b)		0.1%	-
Transformation initiatives - FY18 (c)		1.3%	-
Tax Cuts and Jobs Act - FY18 (d)		7.4%	-
Transformation initiatives - FY19 (c)		-	-
Tax Cuts and Jobs Act - FY19 (d)		-	-
Adjusted effective tax rate (Non-GAAP)		26.2%	24.4%
Diluted earnings per share (GAAP)	\$ 4.25		20 - 22%
Proxy contest matters - FY18 (b)	0.05		~ (1%)
Transformation initiatives - FY18 (c)	0.64		~ (15%)
Tax Cuts and Jobs Act - FY18 (d)	(0.41)		~ 9%
Transformation initiatives - FY19 (c)	-		~ 4%
Tax Cuts and Jobs Act - FY19 (d)	-		-
Adjusted diluted earnings per share (Non-GAAP)	\$ 4.53		17 - 19%

a) We continue to include the interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy as we believe these amounts to be fundamental to the underlying operations of our business model. These adjustments in the table above represent the interest income and interest expense that is not related to our client funds extended investment strategy and are labeled as "All other interest expense" and "All other interest income."

b) Impact of fiscal 2018 charges in connection with proxy contest matters.

c) We recorded a charge of \$404.8 million related to transformation initiatives in fiscal 2018. The charges within transformation initiatives in fiscal 2018 includes \$319.6 million related to the special termination benefit charges and \$17.5 million of other charges related to our Voluntary Early Retirement Program ("VERP"), severance charges related to our Service Alignment Initiative of \$20.5 million, and other transformation initiatives of \$47.2 million which primarily consist of severance charges totaling \$41.9 million for fiscal 2018. Unlike other severance charges which are not included as an adjustment to get to adjusted results, these specific charges relate to actions that are part of our broad-based, company-wide transformation initiative. Expected fiscal 2019 charges within transformation initiatives represent expected severance and other charges related to our previously announced VERP, Service Alignment Initiative, and other transformation initiatives.

d) The one-time net benefit from the enactment of the Tax Cuts and Jobs Act is comprised of application of the newly enacted rates to our U.S. deferred tax balances, partially offset by foreign withholding taxes on future distributions, the one-time transition tax and the recording of a valuation allowance against our foreign tax credits which may not be realized.

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