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ADP Reports Third Quarter Fiscal 2017 Results

- Revenues increased 5% to \$3.4 billion for the quarter, 6% organic
- Diluted earnings per share from continuing operations increased 12% to \$1.31
- ADP acquired 1.9 million shares of its stock for treasury at a cost of \$191 million in the quarter

ROSELAND, N.J. – May 3, 2017 – ADP® (Nasdaq: ADP), a leading global provider of Human Capital Management (HCM) solutions, today announced its third quarter fiscal 2017 financial results, and provided an update to its fiscal 2017 outlook.

Third Quarter Fiscal 2017 Consolidated Results

Compared to last year's third quarter, revenues grew 5% to \$3.4 billion, 6% organic. Net earnings from continuing operations grew 10% to \$588 million. Earnings from continuing operations before income tax increased to \$828 million, or 4% despite two percentage points of combined pressure from the disposition of the CHSA and COBRA businesses and acquisitions completed during the fiscal year. Adjusted EBIT margin declined about 20 basis points in the quarter to 24.6% driven by slower revenue growth as we maintain our investments in product, sales, and service including dual operation costs related to our Service Alignment Initiative. Diluted earnings per share from continuing operations increased 12% to \$1.31, and included incremental tax benefits related to prior period software development efforts and a \$0.02 per share tax benefit related to the adoption of new stock-based compensation accounting guidance.

"Overall, our results this quarter reflect our continued investments in our product, service, and sales organizations as we worked to overcome our strong fiscal 2016 new business bookings performance driven by robust demand for our Affordable Care Act solutions," said Carlos Rodriguez, president and chief executive officer, ADP. "We are pleased with the progress we are making on our strategic initiatives and we remain committed to simplifying our organization and continuously improving the client experience with an enhanced service model and innovative solutions."

"We were disappointed with this quarter's 7% decline in new business bookings but we remain otherwise pleased with the underlying performance and continued resilience of our overall business and accordingly are reaffirming our full year revenue and margin guidance," said Jan Siegmund, chief financial officer, ADP.

Third Quarter Fiscal 2017 Segment Results

Employer Services – Employer Services offers a comprehensive range of HCM and human resources outsourcing solutions.

- Employer Services revenues increased 2% on a reported basis, 3% organic compared to last year's third quarter.
- The number of employees on ADP clients' payrolls in the United States increased 2.5% for the third quarter when measured on a same-store-sales basis for a subset of clients ranging from small to large businesses.
- Employer Services client revenue retention declined 170 basis points compared to last year's third quarter.
- Employer Services segment margin decreased approximately 40 basis points compared to last year's third quarter. This decrease was primarily driven by slower revenue growth as we maintain our investments in product, sales, and service including dual operation expenses related to our Service Alignment Initiative.

PEO Services – PEO Services provides comprehensive employment administration outsourcing solutions through a co-employment relationship.

- PEO Services revenues increased 12% compared to last year's third quarter.

- PEO Services segment margin increased approximately 100 basis points compared to last year's third quarter, primarily driven by operational efficiencies.
- Average worksite employees paid by PEO Services increased 12% for the quarter to approximately 471,000.

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.

- For the third quarter, interest on funds held for clients increased 9% to \$112 million from \$103 million a year ago.
- Average client funds balances increased 2% in the third quarter to \$27.3 billion compared to \$26.7 billion a year ago, 3% on a constant dollar basis.
- The average interest yield on client funds was 1.6% which was up 10 basis points compared to a year ago.

Fiscal 2017 Outlook

Certain components of ADP's fiscal 2017 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 2016 first quarter pre-tax gain on sale of the AdvancedMD business of \$29 million
- Fiscal 2016 second quarter pre-tax gain on sale of a building of \$14 million
- Fiscal 2016 fourth quarter pre-tax workforce optimization charge of \$48 million
- Fiscal 2017 pre-tax restructuring charges of approximately \$90 million, \$41 million of which occurred in the first three quarters of the fiscal year, with the remaining \$49 million expected to occur in the fourth quarter of the fiscal year
- Fiscal 2017 second quarter pre-tax gain on sale of the CHSA and COBRA businesses of \$205 million

ADP now assumes worldwide new business bookings will decrease 5% to 7% when compared to the \$1.75 billion sold in fiscal 2016, compared to the prior forecast of about flat. ADP continues to expect full year revenue growth of about 6% which includes about one percentage point of pressure from the disposition of our CHSA and COBRA businesses, and the impacts from foreign currency.

Reflecting the tax benefits received in the third quarter, ADP now anticipates an adjusted effective tax rate of 31.4% compared to the prior forecast of 32.4%. ADP now expects full year diluted earnings per share from continuing operations to grow 17% to 18%, and adjusted diluted earnings per share growth of 13% to 14%. This earnings growth forecast still assumes an adjusted EBIT margin expansion of about 50 basis points. Subject to market conditions, the forecast still assumes fiscal 2017 share repurchases of \$1.2 to \$1.4 billion funded by existing balance sheet cash.

Reportable Segments Fiscal 2017 Forecast

- For the Employer Services segment, ADP still anticipates revenue growth of approximately 3% to 4% and margin expansion of 25 to 50 basis points for the year.
- ADP continues to expect pays per control to increase 2.5% for the year.
- For the PEO Services segment, ADP continues to anticipate approximately 13% revenue growth and margin expansion of at least 100 basis points.

Client Funds Extended Investment Strategy Fiscal 2017 Forecast

The interest assumptions in our forecasts are based on Fed Funds futures contracts and forward yield curves as of May 1, 2017. The Fed Funds futures contracts used in the client short and corporate cash interest income forecasts assume an increase in the Fed Funds rate in June 2017. The three-and-a-half and five-year U.S. government agency rates based on the forward yield curves as of May 1, 2017 were used to forecast new purchase rates for the client and corporate extended, and client long portfolios, respectively.

- Interest on funds held for clients is expected to increase \$20 million, or about 6%, compared to the prior forecast of \$15 million, or about 4%. This is based on anticipated growth in average client funds balances of approximately 3% from \$22.4 billion in fiscal 2016 and an average yield which is anticipated to be about flat at 1.7% compared to the fiscal 2016 average yield.

- The total contribution from the client funds extended investment strategy is now expected to be up \$15 million compared to our prior forecast of up \$10 million compared with a year ago.

Investor Webcast Today

ADP will host a conference call for financial analysts today, Wednesday, May 3, 2017 at 8:30 a.m. EDT. 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 will be available shortly before the webcast.

Supplemental financial information including schedules of quarterly and full year reportable segment revenues and earnings for fiscal years 2015 and 2016 and the first three quarters of fiscal 2017, as well as details of the first, second and third quarter fiscal 2017 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.

Non-GAAP Financial Information

Organic growth, constant dollar, adjusted EBIT margin, adjusted diluted earnings per share, and adjusted effective tax rate are non-GAAP financial measures. Organic growth is calculated by excluding the impacts of acquisitions and dispositions from current and comparable prior period results. Constant dollar growth is calculated by restating current period reported or organic results into U.S. dollars using the comparable prior period's foreign currency exchange rates. Adjusted EBIT performance measures include interest income earned on investments associated with our client funds extended investment strategy and interest expense on borrowings related to our client funds extended investment strategy; ADP believes these amounts to be fundamental to the underlying operations of our business model. ADP's calculation of adjusted EBIT may differ from similarly titled measures used by other companies.

Please refer to the accompanying financial tables for a reconciliation of non-GAAP financial measures to their comparable GAAP measures.

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		Nine Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Revenues:				
Revenues, other than interest on funds held for clients and PEO revenues	\$ 2,329.8	\$ 2,283.8	\$ 6,444.4	\$ 6,196.6
Interest on funds held for clients	111.6	102.8	292.6	280.0
PEO revenues (A) (B)	969.4	862.0	2,577.9	2,292.9
Total revenues	3,410.8	3,248.6	9,314.9	8,769.5
Expenses:				
Costs of revenues:				
Operating expenses (B)	1,701.5	1,611.6	4,793.4	4,530.9
Systems development & programming costs	153.3	147.3	460.6	453.0
Depreciation & amortization	56.2	53.8	168.4	157.8
Total costs of revenues	1,911.0	1,812.7	5,422.4	5,141.7
Selling, general & administrative expenses	665.0	634.4	1,953.6	1,866.7
Interest expense	16.8	16.3	57.2	38.1
Total expenses	2,592.8	2,463.4	7,433.2	7,046.5
Other income, net	(9.9)	(9.6)	(261.0)	(84.7)
Earnings from continuing operations before income taxes	827.9	794.8	2,142.7	1,807.7
Provision for income taxes	240.0	262.3	675.1	596.3
Net earnings from continuing operations	\$ 587.9	\$ 532.5	\$ 1,467.6	\$ 1,211.4
Loss from discontinued operations before income taxes	—	—	—	(1.4)
Benefit for income taxes	—	—	—	(0.5)
Net loss from discontinued operations	\$ —	\$ —	\$ —	\$ (0.9)
Net earnings	\$ 587.9	\$ 532.5	\$ 1,467.6	\$ 1,210.5
Basic earnings per share from continuing operations	\$ 1.32	\$ 1.17	\$ 3.27	\$ 2.64
Basic loss per share from discontinued operations	—	—	—	—
Basic earnings per share	\$ 1.32	\$ 1.17	\$ 3.27	\$ 2.64

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Diluted earnings per share from continuing operations	\$ 1.31	\$ 1.17	\$ 3.25	\$ 2.63
Diluted loss per share from discontinued operations	—	—	—	—
Diluted earnings per share	<u>\$ 1.31</u>	<u>\$ 1.17</u>	<u>\$ 3.25</u>	<u>\$ 2.63</u>
Dividends declared per common share	<u>\$ 0.570</u>	<u>\$ 0.530</u>	<u>\$ 1.670</u>	<u>\$ 1.550</u>

Components of Other income, net:

Interest income on corporate funds	\$ (10.1)	\$ (9.7)	\$ (54.5)	\$ (45.6)
Realized gains on available-for-sale securities	(0.6)	(2.0)	(3.1)	(3.5)
Realized losses on available-for-sale securities	0.8	2.1	2.0	7.4
Gain on sale of business	—	—	(205.4)	(29.1)
Gain on sale of building	—	—	—	(13.9)
Total other income, net	<u>\$ (9.9)</u>	<u>\$ (9.6)</u>	<u>\$ (261.0)</u>	<u>\$ (84.7)</u>

(A) Professional Employer Organization (“PEO”) revenues are net of direct pass-through costs, primarily consisting of payroll wages and payroll taxes of \$9,207.2 million and \$8,374.8 million for the three months ended March 31, 2017 and 2016, respectively, and \$26,040.3 million and \$23,613.0 million for the nine months ended March 31, 2017 and 2016, respectively.

(B) PEO revenues and operating expenses include pass-through costs associated with benefits coverage, workers' compensation coverage, and state unemployment taxes for worksite employees of \$746.7 million and \$671.8 million for the three months ended March 31, 2017 and 2016, respectively, and \$1,954.5 million and \$1,759.9 million for the nine months ended March 31, 2017 and 2016, respectively.

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

	March 31, 2017	June 30, 2016
<u>Assets</u>		
Cash and cash equivalents	\$ 2,995.5	\$ 3,191.1
Other current assets	2,631.8	2,468.1
Total current assets before funds held for clients	5,627.3	5,659.2
Funds held for clients	33,887.1	33,841.2
Total current assets	39,514.4	39,500.4
Property, plant and equipment, net	750.6	685.0
Other non-current assets	3,590.9	3,484.6
Total assets	<u>\$ 43,855.9</u>	<u>\$ 43,670.0</u>
<u>Liabilities and Stockholders' Equity</u>		
Other current liabilities	\$ 2,601.8	\$ 2,515.6
Client funds obligations	33,816.7	33,331.8
Total current liabilities	36,418.5	35,847.4
Long-term debt	2,002.5	2,007.7
Other non-current liabilities	1,331.8	1,333.3
Total liabilities	39,752.8	39,188.4
Total stockholders' equity	4,103.1	4,481.6
Total liabilities and stockholders' equity	<u>\$ 43,855.9</u>	<u>\$ 43,670.0</u>

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

	Nine Months Ended	
	March 31,	
	2017	2016
Cash Flows from Operating Activities:		
Net earnings	\$ 1,467.6	\$ 1,210.5
Adjustments to reconcile net earnings to cash flows provided by operating activities	344.6	410.9
Changes in operating assets and liabilities, net of effects from acquisitions and divestitures of businesses	(143.5)	(387.0)
Net cash flows provided by operating activities	<u>1,668.7</u>	<u>1,234.4</u>
Cash Flows from Investing Activities:		
Purchases and proceeds from corporate and client funds marketable securities	(765.4)	(179.7)
Net decrease / (increase) in restricted cash and cash equivalents held to satisfy client funds obligations	87.7	(15,969.9)
Capital expenditures	(174.5)	(127.6)
Additions to intangibles	(162.1)	(160.1)
Other investing activities	147.3	177.9
Net cash flows used in investing activities	<u>(867.0)</u>	<u>(16,259.4)</u>
Cash Flows from Financing Activities:		
Net increase in client funds obligations	636.7	16,098.1
Net proceeds from debt issuance	—	1,998.3
Repurchases of common stock	(956.8)	(1,091.0)
Dividends paid	(739.4)	(701.2)
Other financing activities	73.0	28.4
Net cash flows (used in) / provided by financing activities	<u>(986.5)</u>	<u>16,332.6</u>
Effect of exchange rate changes on cash and cash equivalents	(10.8)	(5.5)
Net change in cash and cash equivalents	<u>(195.6)</u>	<u>1,302.1</u>
Cash and cash equivalents, beginning of period	3,191.1	1,639.3
Cash and cash equivalents, end of period	<u>\$ 2,995.5</u>	<u>\$ 2,941.4</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 69.8	\$ 34.0
Cash paid for income taxes, net of income tax refunds	\$ 569.2	\$ 420.3

Automatic Data Processing, Inc. and Subsidiaries
Other Selected Financial Data
(Dollars in millions, except per share amounts)
(Unaudited)

	Three Months Ended		% Change		Nine Months Ended		% Change	
	March 31,		As	Constant	March 31,		As	Constant
	2017	2016	Reported	Dollar Basis	2017	2016	Reported	Dollar Basis
Revenues from continuing operations								
Employer Services	\$ 2,627.2	\$ 2,576.7	2 %	2 %	\$ 7,197.8	\$ 6,920.1	4 %	4 %
PEO Services	974.4	866.3	12 %	12 %	2,592.0	2,305.2	12 %	12 %
Other	(190.8)	(194.4)	n/m	n/m	(474.9)	(455.8)	n/m	n/m
Total revenues from continuing operations	\$ 3,410.8	\$ 3,248.6	5 %	5 %	\$ 9,314.9	\$ 8,769.5	6 %	6 %

Segment earnings from continuing operations								
Employer Services	\$ 963.7	\$ 956.2	1 %	1 %	\$ 2,302.1	\$ 2,146.2	7 %	7 %
PEO Services	120.0	97.9	23 %	23 %	341.5	279.9	22 %	22 %
Other	(255.8)	(259.3)	n/m	n/m	(500.9)	(618.4)	n/m	n/m
Total pretax earnings from continuing operations	\$ 827.9	\$ 794.8	4 %	4 %	\$ 2,142.7	\$ 1,807.7	19 %	18 %

	Three Months Ended		Change	Nine Months Ended		Change
	March 31,			March 31,		
	2017	2016		2017	2016	
Segment margin						
Employer Services	36.7 %	37.1 %	(0.4)%	32.0 %	31.0 %	1.0 %
PEO Services	12.3 %	11.3 %	1.0 %	13.2 %	12.1 %	1.0 %
Other	n/m	n/m	n/m	n/m	n/m	n/m
Total pretax margin	24.3 %	24.5 %	(0.2)%	23.0 %	20.6 %	2.4 %

	Three Months Ended		% Change		Nine Months Ended		% Change	
	March 31,		As	Constant	March 31,		As	Constant
	2017	2016	Reported	Dollar Basis	2017	2016	Reported	Dollar Basis
Earnings per share information:								
Net earnings from continuing operations	\$ 587.9	\$ 532.5	10 %	10 %	\$ 1,467.6	\$ 1,211.4	21 %	21 %
Net earnings	\$ 587.9	\$ 532.5	10 %	10 %	\$ 1,467.6	\$ 1,210.5	21 %	21 %
Basic weighted average shares outstanding								
Basic earnings per share from continuing operations	\$ 1.32	\$ 1.17	13 %	13 %	\$ 3.27	\$ 2.64	24 %	24 %
Basic earnings per share	\$ 1.32	\$ 1.17	13 %	13 %	\$ 3.27	\$ 2.64	24 %	24 %
Diluted weighted average shares outstanding								
Diluted earnings per share from continuing operations	\$ 1.31	\$ 1.17	12 %	12 %	\$ 3.25	\$ 2.63	24 %	24 %
Diluted earnings per share	\$ 1.31	\$ 1.17	12 %	12 %	\$ 3.25	\$ 2.63	24 %	24 %

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Key Statistics:				
Organic revenue growth (C):				
Employer Services	3 %	5 %	4 %	4 %
PEO Services	12 %	16 %	12 %	17 %
Total organic revenue growth	6 %	8 %	7 %	7 %
Organic revenue growth - Constant Dollar Basis (C) (D):				
Employer Services	3 %	7 %	5 %	7 %
PEO Services	12 %	16 %	12 %	17 %
Total organic revenue growth - Constant Dollar Basis	6 %	9 %	7 %	9 %
Employer Services:				
Change in pays per control - U.S.	2.5 %	2.5 %	2.5 %	2.4 %
Change in client revenue retention percentage - worldwide	(1.7) pts	(0.3) pts	(0.8) pts	(1.0) pts
Employer Services/PEO new business bookings growth - worldwide	(7)%	13 %	(5)%	14 %

PEO Services:				
Paid PEO worksite employees at end of period	469,000	420,000	469,000	420,000
Average paid PEO worksite employees during the period	471,000	422,000	454,000	405,000

(C) The presentation of organic revenue growth represents a non-GAAP measure and 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. Management believes this information is beneficial as it allows the reader to review growth rates adjusted for the impacts of acquisitions and divestitures.

(D) The presentation of growth rates on a constant dollar basis represent a non-GAAP measure and are calculated by restating current period reported or organic results into U.S. dollars using the comparable prior period's foreign currency exchange rates. Management believes this information is beneficial as it allows the reader to review growth rates adjusted for the impact of foreign currency.

The following tables reconcile our reported growth rates to the non-GAAP measures of organic and constant dollar growth rates which exclude one or more of the following: the impact of acquisitions, the impact of dispositions, and the impact of foreign currency translation. The PEO segment is not impacted by foreign currency translation or acquisitions and dispositions. Management believes this information is beneficial as it allows the reader to review growth rates adjusted for the impact of acquisitions, divestitures, and foreign currency.

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
Reconciliation of revenue growth to organic revenue growth at constant dollar:	2017	2016	2017	2016
Consolidated revenue growth as reported	5 %	7 %	6 %	6 %
Impact of acquisitions	—%	—%	—%	—%
Impact of dispositions	1 %	1 %	1 %	1 %
Consolidated revenue growth - organic	<u>6 %</u>	<u>8 %</u>	<u>7 %</u>	<u>7 %</u>
Impact of foreign currency translation	—%	1 %	—%	2 %
Consolidated constant dollar revenue growth - organic	<u><u>6 %</u></u>	<u><u>9 %</u></u>	<u><u>7 %</u></u>	<u><u>9 %</u></u>
Employer Services revenue growth as reported	2 %	5 %	4 %	4 %
Impact of acquisitions	—%	—%	—%	—%
Impact of dispositions	1 %	—%	—%	—%
Employer Services revenue growth - organic	<u>3 %</u>	<u>5 %</u>	<u>4 %</u>	<u>4 %</u>
Impact of foreign currency translation	—%	1 %	—%	3 %
Employer Services constant dollar revenue growth - organic	<u><u>3 %</u></u>	<u><u>7 %</u></u>	<u><u>5 %</u></u>	<u><u>7 %</u></u>

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				Nine Months Ended			
	March 31,				March 31,			
	2017	2016	Change	% Change	2017	2016	Change	% Change
Average investment balances at cost (in billions):								
Corporate, other than corporate extended	\$ 2.7	\$ 2.8	\$ —	(1)%	\$ 2.7	\$ 2.4	\$ 0.3	12 %
Corporate extended	1.2	1.4	(0.2)	(12)%	3.4	3.0	0.4	13 %
Total corporate	4.0	4.2	(0.2)	(5)%	6.1	5.4	0.7	13 %
Funds held for clients	27.3	26.7	0.6	2 %	22.7	22.2	0.5	2 %
Total	<u>\$ 31.3</u>	<u>\$ 30.8</u>	<u>\$ 0.4</u>	<u>1 %</u>	<u>\$ 28.8</u>	<u>\$ 27.6</u>	<u>\$ 1.2</u>	<u>4 %</u>
Average interest rates earned exclusive of realized losses (gains) on:								
Corporate, other than corporate extended	0.8 %	0.6 %			0.7 %	0.5 %		
Corporate extended	1.6 %	1.6 %			1.6 %	1.6 %		
Total corporate	1.0 %	0.9 %			1.2 %	1.1 %		
Funds held for clients	1.6 %	1.5 %			1.7 %	1.7 %		
Total	<u>1.6 %</u>	<u>1.5 %</u>			<u>1.6 %</u>	<u>1.6 %</u>		
Net unrealized gain position at end of period	\$ 70.7	\$ 371.1			\$ 70.7	\$ 371.1		
Average short-term financing (in billions):								
U.S. commercial paper borrowings	\$ 1.1	\$ 1.3			\$ 3.2	\$ 2.7		
U.S. & Canadian reverse repurchase agreement borrowings	0.1	0.1			0.3	0.3		
Total	<u>\$ 1.2</u>	<u>\$ 1.4</u>			<u>\$ 3.4</u>	<u>\$ 3.0</u>		
Average interest rates paid on:								
U.S. commercial paper borrowings	0.7 %	0.4 %			0.5 %	0.2 %		
U.S. & Canadian reverse repurchase agreement borrowings	0.5 %	0.5 %			0.5 %	0.4 %		
Interest on funds held for clients	\$ 111.6	\$ 102.8	\$ 8.8	9 %	\$ 292.6	\$ 280.0	\$ 12.7	5 %
Corporate extended interest income (E)	5.0	5.6	(0.6)	(10)%	40.1	36.4	3.7	10 %
Corporate interest expense-short-term financing (E)	(2.2)	(1.4)	(0.8)	(55)%	(12.6)	(5.0)	(7.6)	(151)%
Total	<u>\$ 114.4</u>	<u>\$ 107.0</u>	<u>\$ 7.4</u>	<u>7 %</u>	<u>\$ 320.1</u>	<u>\$ 311.3</u>	<u>\$ 8.8</u>	<u>3 %</u>

(E) 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		Nine Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Corporate extended interest income	\$ 5.0	\$ 5.6	\$ 40.1	\$ 36.4
All other interest income	5.2	4.1	14.3	9.1
Total interest income on corporate funds	<u>\$ 10.1</u>	<u>\$ 9.7</u>	<u>\$ 54.5</u>	<u>\$ 45.6</u>
Corporate interest expense-short-term financing	\$ 2.2	\$ 1.4	\$ 12.6	\$ 5.0
All other interest expense	14.6	14.9	44.6	33.1
Total interest expense	<u>\$ 16.8</u>	<u>\$ 16.3</u>	<u>\$ 57.2</u>	<u>\$ 38.1</u>

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

Within the tables below, we use the term "constant dollar basis" so that certain financial measures can be viewed without the impact of foreign currency fluctuations to facilitate period-to-period comparisons of business performance. The financial results on a "constant dollar basis" are determined by calculating the current year result using foreign exchange rates consistent with the prior year. We believe "constant dollar basis" provides information that isolates the actual growth of our operations. Our constant dollar results are not measures of performance calculated in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and should not be considered in isolation from, as a substitute for, or superior to the U.S. GAAP measures presented.

The following table reconciles our reported results to adjusted results which exclude one or more of the following: our provision for income taxes, certain interest amounts, the charges related to our Service Alignment Initiative, the gain on the sale of our CHSA and COBRA businesses in fiscal 2017, and the gain on sale of a building and the gain on the sale of our AdvancedMD ("AMD") business in fiscal 2016. We use certain adjusted results, among other measures, to evaluate our operating performance in the absence of certain items and for planning and forecasting of future periods. We believe that the exclusion of these items helps us reflect the fundamentals of our underlying business model and analyze results against our expectations, against prior periods, and to plan for future periods by focusing on our underlying operations. We believe that these 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. Generally, the nature of these exclusions are for specific items that are not fundamental to our underlying business operations. Specifically, we have excluded the impact of certain interest expense and certain interest income from adjusted earnings from continuing operations before interest and income taxes ("Adjusted EBIT"). 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 amounts included as adjustments in the table below 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." The majority of charges related to our Service Alignment Initiative represent severance charges. Severance charges have been taken in the past and not included as an adjustment to get to adjusted results. Unlike severance charges in prior periods, these specific charges relate to a broad-based, company-wide Service Alignment Initiative. Since Adjusted EBIT, Adjusted provision for income taxes, Adjusted net earnings from continuing operations, Adjusted diluted earnings per share ("Adjusted diluted EPS") from continuing operations, Adjusted EBIT margin and Adjusted effective tax rate 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 earnings from continuing operations before income taxes, provision for income taxes, net earnings from continuing operations and diluted earnings per share ("Diluted EPS") from continuing operations and they may not be comparable to similarly titled measures used by other companies.

	Three Months Ended		% Change		Nine Months Ended		% Change	
	March 31,				March 31,			
	2017	2016	As Reported	Constant Dollar Basis	2017	2016	As Reported	Constant Dollar Basis
Net earnings from continuing operations	\$ 587.9	\$ 532.5	10 %	10 %	\$ 1,467.6	\$ 1,211.4	21 %	21 %
Adjustments:								
Provision for income taxes	240.0	262.3			675.1	596.3		
All other interest expense	14.6	14.9			44.6	33.1		
All other interest income	(5.2)	(4.1)			(14.3)	(9.1)		
Gain on sale of businesses	—	—			(205.4)	(29.1)		
Gain on sale of building	—	—			—	(13.9)		
Service Alignment Initiative	0.6	—			41.6	—		
Adjusted EBIT	\$ 837.9	\$ 805.6	4 %	4 %	\$ 2,009.2	\$ 1,788.7	12 %	12 %
<i>Adjusted EBIT Margin</i>	<i>24.6 %</i>	<i>24.8 %</i>			<i>21.6 %</i>	<i>20.4 %</i>		
Provision for income taxes	\$ 240.0	\$ 262.3	(9)%	(9)%	\$ 675.1	\$ 596.3	13 %	13 %
Adjustments:								
Gain on sale of businesses (a)	—	—			(84.0)	(7.3)		
Gain on sale of building (b)	—	—			—	(5.3)		
Service Alignment Initiative (b)	0.2	—			15.7	—		
Adjusted provision for income taxes	\$ 240.2	\$ 262.3	(8)%	(8)%	\$ 606.8	\$ 583.7	4 %	5 %
<i>Adjusted effective tax rate (c)</i>	<i>29.0 %</i>	<i>33.0 %</i>			<i>30.7 %</i>	<i>33.1 %</i>		

	Three Months Ended		% Change		Nine Months Ended		% Change	
	March 31,		As Reported	Constant Dollar Basis	March 31,		As Reported	Constant Dollar Basis
	2017	2016			2017	2016		
Net earnings from continuing operations	\$ 587.9	\$ 532.5	10 %	10 %	\$ 1,467.6	\$ 1,211.4	21 %	21 %
Adjustments:								
Gain on sale of businesses	—	—			(205.4)	(29.1)		
Gain on sale of building	—	—			—	(13.9)		
Service Alignment Initiative	0.6	—			41.6	—		
Provision for income taxes on gain on sale of business (a)	—	—			84.0	7.3		
Provision for income taxes on gain on sale of building (b)	—	—			—	5.3		
Income tax benefit for Service Alignment Initiative (b)	(0.2)	—			(15.7)	—		
Adjusted net earnings from continuing operations	\$ 588.3	\$ 532.5	10 %	11 %	\$ 1,372.1	\$ 1,181.0	16 %	17 %
Diluted earnings per share from continuing operations	\$ 1.31	\$ 1.17	12 %	12 %	\$ 3.25	\$ 2.63	24 %	24 %
Adjustments:								
Gain on sale of businesses	—	—			(0.27)	(0.05)		
Gain on sale of building	—	—			—	(0.02)		
Service Alignment Initiative	—	—			0.06	—		
Adjusted diluted earnings per share from continuing operations	\$ 1.31	\$ 1.17	12 %	12 %	\$ 3.04	\$ 2.56	19 %	19 %

(a) - The taxes on the gains on the sale of the businesses were calculated based on the annualized marginal rate in effect during the quarter of the adjustment. The tax amount was adjusted for a book vs. tax basis difference for the period ended March 31, 2017 due to the derecognition of goodwill upon the sale of the business and for the period ended March 31, 2016 due to a previously recorded non tax-deductible goodwill impairment charge.

(b) - The tax benefit/provision on the Service Alignment Initiative and the gain on the sale of the building was calculated based on the annualized marginal rate in effect during the quarter of the adjustment.

(c) - The Adjusted effective tax rate is calculated as our Adjusted provision for income taxes divided by our Adjusted net earnings from continuing operations plus our Adjusted provision for income taxes.

Automatic Data Processing, Inc. and Subsidiaries
Fiscal 2017 GAAP to Non-GAAP Guidance Reconciliation
(Unaudited)

	Twelve Months Ended		Fiscal 2017
	June 30, 2016		Forecast
Earnings from continuing operations before income taxes margin (GAAP)	\$ 2,234.7	19.2%	~+140bps
Adjustments:			
All other interest expense	47.9	+40bps	+5bps a
All other interest income	(13.6)	(10)bps	- b
Gain on sale of AMD - 1Q F16	(29.1)	(25)bps	+25bps c
Gain on sale of building - 2Q F16	(13.9)	(10)bps	+10bps d
Workforce optimization effort - 4Q F16	48.2	+40bps	(40)bps e
Service alignment initiative - F17	-	-	~+70bps f
Gain on sale of CHSA and COBRA businesses - 2Q F17	-	-	(160)bps g
Adjusted EBIT margin (Non-GAAP)	\$ 2,274.2	19.5%	~+50 bps
Effective tax rate (GAAP)		33.2%	31.9%
Adjustments:			
Gain on sale of AMD - 1Q F16		+0.11%	-
Gain on sale of building - 2Q F16		(0.03%)	-
Workforce optimization effort - 4Q F16		+0.02%	-
Service alignment initiative - F17		-	+0.2%
Gain on sale of CHSA and COBRA businesses - 2Q F17		-	(0.7%)
Adjusted effective tax rate (Non-GAAP)		33.3%	31.4%
Diluted earnings per share from continuing operations (GAAP)	\$ 3.25	12%	17% - 18%
Adjustments:			
Gain on sale of AMD - 1Q F16	(0.05)	(1%)	+1% c
Gain on sale of building - 2Q F16	(0.02)	(1%)	+1% d
Workforce optimization effort - 4Q F16	0.07	+2%	(2%) e
Service alignment initiative - F17	-	-	~+4% f
Gain on sale of CHSA and COBRA businesses - 2Q F17	-	-	(8%) g
Adjusted diluted earnings per share from continuing operations (Non-GAAP)	\$ 3.26	13%	13% - 14%

a) Additional interest expense in fiscal 2017 from the \$2 billion debt offering completed in first quarter fiscal 2016

b) No material impact is expected from change in all other interest income in fiscal 2017

c) First quarter fiscal 2016 gain on sale of AdvancedMD business will not recur in fiscal 2017

d) Second quarter fiscal 2016 gain on sale of building is not expected to recur in fiscal 2017

e) Fourth quarter fiscal 2016 impact of workforce optimization effort is not expected to recur in fiscal 2017

f) Impact of Fiscal 2017 charges in connection with the service alignment initiative: ~\$41 million incurred year to date, ~\$49 million expected in the remainder of the year

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

Safe Harbor Statement

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