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ADP - Automatic Data Processing at NASDAQ OMX Investor Program

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## CORPORATE PARTICIPANTS

**Jan Siegmund** *Automatic Data Processing - Corporate VP, CFO*

## PRESENTATION

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### Unidentified Participant

Good morning, everyone. Automatic Data Processing serves approximately 600,000 clients in more than 125 countries. As one of the world's largest providers of business outsourcing in human capital management solutions, ADP offers a wide range of human resource, payroll, talent management, tax and benefits administration solutions from a single source, and helps clients comply with regulatory and legislative changes such as the Affordable Care Act.

I'd now like to welcome Jan Siegmund who was appointed Corporate Vice President and Chief Financial Officer in November of 2012. Mr. Siegmund has been with ADP since June 1999, most recently as ADP's Chief Strategy Officer and President of the Added Value Services Division. Please welcome Jan Siegmund. Thank you.

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**Jan Siegmund** - *Automatic Data Processing - Corporate VP, CFO*

Thank you so much for the kind introduction. Good morning everybody. Delighted to be here and talk about ADP, the global leader in human capital management solutions. And as I dive into the presentation, I wouldn't be a CFO if I wouldn't remind you that we make forward-looking statements that contain certain risks that you should contemplate by reading our occasional SEC filings.

Today I will talk to you about 3 pieces. Allow me to introduce ADP to you in a more business overview-like style but then dive right into how we perceive our today's market opportunities for both our market segments, our employer services business, as well as our dealer services business, and conclude my presentation with a few words on our results and our stand of what we're aiming to deliver to you as our shareholders. If I do on time, and I will aim for it, we will have room for questions, which I would welcome very much.

So if you let me dive in, you heard already a little bit about us in the introduction. We primarily consist of 2 business units, but our core business unit is clearly our employer services business. The traditionalists among you think of us more of a large payroll outsourcer. That may be the headline you have in your mind, but over the last 10 years really ADP has transformed itself, leveraging our strength and our core payroll business into an integrated and global human capital management provider, and I will talk in a minute about that, but we list here a few of those services that are inclusive. And for many of these services we gain market leadership over the past few years as well.

Our vehicle dealer business is our dealer services business which services globally car dealerships and their car manufacturers in a very interesting value proposition to all market participants in that space. With \$1.8 billion it's the smaller sister of us. I won't spend quite as much time about, but we'll make a few remarks about dealer services at the conclusion of the business overview.

So ADP's strength is number one, our size and scale that we can deliver. Over the years we have built a very strong client base of 620,000 clients, and we have strength in servicing not only the largest of the companies as you can see here with client relationships really that range very deep for very large multinational companies, but we also are very strong in servicing the entire market segment. We have more than 420,000 clients in our small business segment, which consists of clients up to 50 employees and have really good market penetration, particularly in the US across all market segments for employer services.

Similar strength in our car dealership business and dealer services. We have a high market share in the US. Approximately 45% or so of car dealers really work with ADP. And our reach is global. When we talk about 40 countries, that means countries in which we have a physical presence and where we offer our services, our own services. Through partnership we have expanded that reach, and you can now process your HR solutions in approximately 100 countries across the globe really, and you will see some information about that.

So the core and heart of our services relates really to our payroll services. We pay 1 in 6 employees, and in that process touch a lot of money, the \$1.4 trillion of money movement operation yields from collecting and distributing funds to employees of course, but also to the US Tax Authority. It's quite complex in the US to facilitate tax



filings for payroll, and we are the clear market leader in it. We actually do file payroll taxes for 1 in 4 in the US. And you'll see a couple of our statistics here relating to our payroll business.

But we also have built in the suite of HR services market leadership across a number of segments, which some of them are listed here. For example we have by number of plants that we administer and clients that we facilitate benefit services achieved a number 1 position in the US for that. I mention it here because you will hear me talk later about the Affordable Care Act and the impact it might have on our business as one of the strategic impetus that we're today facing, and this market position will come in handy for that.

We have built our business through acquisitions as well as through our investment into our own engineered solutions, R&D investments, and have built a very strong product and service portfolio over the last years. We have seen early results of that. If you have thought about ADP more of strength in service and compliance, our strong distribution capabilities, we're hard at work to add technology and innovation as one of our differentiators into our business model, and you will see some of that.

We're about 60,000 people and have a real, real strength in compliance. We are of course the number one taxpayer to the IRS, a deep partnership with our US government authorities, but those relationships extend across the globe with similar positions in many European countries for example.

We are 1 of 4 triple-rated companies in the US by S&P and Moody's. Now you will ask yourself why would an equity investor care? And my answer would be we are proud of our triple-A rating because it reflects in particular the robustness of our business model. Robustness relative to lack of client concentration and diversity of revenue sources, stability, and cash flow ability, ability to generate cash flows through our client relationships and the big moat as we would describe around our business model. It's a very stable, very robust, and those are I think strategic characteristics that also equity investors care very much about, so it helps us also to be selling our payroll solutions because financial stability for somebody who touches the most important expense of any company is certainly a good thing.

We have a pristine balance sheet, and I will talk at the end of our presentation a strategy that we believe is very shareholder friendly with a proven ability to return the cash that we earn to our shareholders with now 39 years of consecutive dividend raises annually. We have done I think our shareholders well.

So 2 companies, employer services at the heart of what you should think about ADP as a Company, and dealer service as a very successful adjacent market that both are contributing very well and the recent performance if you study our filings on our performance. I'll dive into employer services first.

The employer services and the human capital management market faces a number of challenges really that we believe we are ideally positioned to serve. You have a younger and more mobile and more virtual workforce that has new demands on how it wants to be supported by HR. You have an ever-increasing burden of compliance.

I mentioned the Affordable Care Act, which is a humongous US undertaking of introducing a more comprehensive healthcare system in the US that affects not only our clients, the companies, but really every individual in the US, and is just a very complex compliance item. The tax filings and ever increasing complexity in doing so correctly are other factors that help really clients, or help us to provide clients additional value above and beyond technology solutions.

As a Company we are attaching ourselves of course to the most important asset that our clients have, their associates, their employees, talent, and helping them to more effectively and strategically manage the development of that cost expense is really what we are all about today.

And in that complex matters, companies looking for more integrated solutions. That is a transition that has happened over the last half-decade or so. It is not sufficient to offer stand-alone great solutions with interfaces. A suite solution, integrated suites of human capital management that have seamless work flows across a number of product components are what you need to have, and ADP has leading solutions for all of those segments today. So we believe the critical trends that businesses are faces positioning ADP well to be successful and support new clients and our existing clients in their challenges.

So we have developed a strategy to capture these opportunities, and we have been implementing this strategy for the last few years now. ADP is a very stable Company. We don't make sudden moves. We gradually evolve our strategic goals and initiatives to adjust to market changes and client demands. And here you see our current version that we really updated about 2 years ago with the arrival with our new CEO, Carlos Rodriguez.

A few words matter in this. You may have seen it, but I want to use my time to illustrate a little bit our thinking around these strategic initiatives to demonstrate to you what is important from our point of view.

Number one, we're committing of course to cloud-based and integrated suite solutions of human capital management, which offers a stronger emphasis on human capital management and technology. And you will hear us talk a lot about the innovation that we have brought to the industry in the last 2, 3, 4 years, and I will talk more about what is to come on the technology side. So we recognize that increasing user demands, usability of the applications, cloud offers great solutions.



ADP was one of the -- we think of us the initial cloud provider of remotely produced solutions that are one to many and offer really the scale benefit of not having to host your own application and you own data center. We do it all for our clients, so the business model is very conducive and today we're I believe the largest B-to-B provider of cloud-based solutions in the world.

The uniqueness about technology and suite solution is augmented by our strength of delivering services. So by no means are we a pure technology vendor. We recognize the importance of technology. We believe we have unique strength in it. But we augment it really with an ability to offer fully outsource solutions.

Our HR BPO solutions are differentiated because they all leverage our own scalable technology. And the segment that is really growing and helping to accelerate our overall growth of the Company is the strength that this offering, our HR BPO solutions, is really working and driving revenue growth and driving market penetration for us.

We do so in a global perspective. I talked about our presence in more than 40 countries, our ability to deliver solutions in close to 100 countries across the globe. Global scope is important. It's not only important for the largest of large companies, but a surprising amount of mid-sized companies, of course that's much more common here in Europe, have multinational needs, and we have perfect solutions for companies who may have only 10, 20, 50 employees in 1 country and they want to get compliance control and at least basic HR solutions in those countries and place through a trusted partner of theirs, and ADP has delivered market leading solutions for leveraging our global and particular multinational strength.

And when we look about our portfolio and how we manage our adjacencies like dealer services as a prime and premier adjacency, we're expecting of course positive contributions to our overall shareholder returns. And we have developed with a couple of them, dealer really the most important one, market-leading solutions with very strong market shares and history of performance in the portfolio. So our last growth initiative demonstrates basically a very rational and thoughtful portfolio view of how we approach our business.

We're in large markets, \$90 billion market. That is a large market that according to external industry analysts is growing more than twice the average GDP, which makes it a very attractive market which lets us focus on HR. We like HR and we're committed to the global human capital management space as a Company.

And we do so across the globe. A little map is always fun to see, and you can see the red countries here is where we have in-country solutions. In many of these countries we are the leading provider for local business solutions, so we combine that with our global view and streamline offerings in blue and green, and you see there's barely a country in the world that our clients want us to offer solutions that we can't reach today.

Because we're in Europe I thought you'd be interested to see that also in Europe historically for a long time we had not only the global presence but really a deep, deep in-country expertise with market leading positions for HR outsource services in many of these countries.

So what does it mean, human capital management? And how do we differentiate ourselves between pure software and technology-oriented vendors and more integrated and comprehensive technology and service solutions approach?

This graph tries to illustrate this not only span the solutions that ADP today offers from the early recruiting -- from the recruiting of prospects and future employees down to retirement solutions at the end of the business cycle so to speak of an employee. And we do so with a combination of value that we deliver to our clients.

I talked about our need to be strong and cloud based and innovation and solutions, and we have done so in many, many ways. We today own the most comprehensive mobile HR solution to our clients that we deploy globally. We have made great strides in strengthening our analytical solutions, for example, leveraging the scale and the scope of our solutions and our database.

You may know us from our national employment report that we publish annually in the US and that is just one demonstration of how detailed our understanding is really about key performance factors in the HR space driven by our rich data source.

We believe innovative technology will continue to drive our success in a meaningful way. But we historically had a strength in service, and that means not only answering questions about how to use your application but also driving actually the business impact and solutions in compliance and drive a real insight on how to better strategically manage your HR operation. And that service strength of ADP of course we're planning to continue to build and keep together with our strength and technology. Very important that ADP doesn't try to become a software company. We're sticking with our proven model of technology plus service.

And when we talk about HR and what it means, this graph illustrates really the scope of the solution that we offer. It starts really of how you interact with ADP today, virtual, through a set of mobile solutions or through the web of course, for the whole range of products that I really summarized here in this chart. Payroll forms the



foundation for many of these services because the payroll record is a qualitatively excellent record. It has to be right, it's up to date, and data problems are big in our industry, and it is good to have a clean source of really data that you know is correct based on workforce management and time and labor management systems and so forth.

You go to the more strategic solutions that offer the company better solutions to manage their talent. And that you get the best of these HR solutions by leveraging integrated reporting and analytic solutions that are really the next wave I think of insight that will drive our industry, and I think ADP is excellently positioned to capture the opportunity that integrated reporting and analytics will offer to us.

One example for that is the Affordable Care Act, and it's just one example but an important driver in the US today. You follow of course that the rollout of the Affordable Care Act has been -- has caused certain hiccups and certain delays. It's an industry-wide change of course that offers risks and opportunities.

And I want to use a few moments here to show you how important it is an opportunity it can be for us. Not only will the Affordable Care Act, companies are looking for expertise, and of course ADP's position of strength and compliance and our knowledge and right to have answers for this is a foundation, but also the Affordable Care Act really requires companies to now start to keep better track of their employees' time. If you are a part-time employee you don't have to offer insurance. If you're a full-time employee you have to offer insurance. So it is very important to have good time and attendance systems to have.

The payroll system is the system of record of course in the Affordable Care Act, so we offer really a good base for that. And if you have to enroll your employees, you want to have good benefit administration and service systems to offer integrated work flows.

So primarily we believe that the Affordable Care Act will drive demand for our core HCM solutions across the board. We help companies by managing the process of the eligibility. We will offer a specific reporting solutions to the government and to the IRS in a variety of exchanges as they go, so for us while the ACA offers enormous industry change and certain risks to some businesses, we believe we will be well positioned to help our clients in managing through that change.

And that is supported by our technology solutions. I'm just capturing you here. One, ADP was first to market with a fully mobile payroll solution. That sounds like eons ago but it was just 2 or 3 years ago when we launched this to great success and particularly in our small business segment. We have expanded that leadership position and now offering really comprehensive mobile solutions that really cater to the virtual work that many companies today have, leveraging the strength of services that go beyond even the core services that I list for an integrated access to these systems that a mobile solution can really pull together for our clients.

So quite exciting for us. We love that trend of cloud and mobile. It plays right into our strength and we think we are well positioned to capitalize on it.

If you allow me to spend a few minutes on car dealer services, on our dealer services business. If you're not familiar with it, no harm, but it is really an excellent business. And in a nutshell we are offering a vertical specialized ERP-type solution and service for car dealers and other vehicle dealers, but car dealers are the most important one. We have developed a very strong position in this market and particularly in the up markets, 7 out of the 10 largest dealer groups use ADP's systems and solutions.

It's a complex business. If you're a car dealer you have to have integration to your OEMs. You typically have multiple OEMs that you have to work with. You have to manage your car inventory, your service inventory, parts, and you have to finance the whole thing, and you have to do your own advertising and coordinate advertising with the car manufacturers. It's a web of relationship that a car dealer, a franchisee in the US is in and that requires very specialized solutions, and that's what ADP is offering.

And the Company has been growing nicely, and we have expanded in the last few years to offer a fuller and fuller suite of services to car dealers. And our latest entry a few years ago of offering car dealers also support in their digital marketing efforts is paying off because we have been growing our position as a trusted partner for car dealers to better leverage services like their websites of course but integrated search and optimization and paid search and so forth, coordination with the OEMs digital marketing efforts. We're market leading in that effort and it has driven a good bit of revenue growth in the dealer services business.

We've been gaining share in this space for a number of years now and the business has been improving the margin on a consistent basis. So really a good story.

What do we do with the business success that we do? The financial strength of ADP has benefited our shareholders. We have a 95% recurring revenue base, 90% to 95% recurring revenue base and good scale in the business, so we have a healthy free cash flow generation. And one of the beauties of our business model is that capital requirements are really fairly low. Our long-term capital budget is approximately \$200 million out of our \$1.4 billion of free cash flow last year. Gives you a rough idea.



We have today used that free cash flow of course to fund the long-term success for our business. We have done so through capital, I talked about, but also through acquisitions. And we have pursued on a regular basis smaller strategic-type and tuck-in type acquisitions that either broadened our product portfolio or have expanded us geographically. For example, last year we bought a small provider in Latin America to build out our position in key geographies that we deem strategic for us.

But we also have returned of course cash to shareholders. Our current payout ratio is approximately 55% to 60%, trending a little bit to the upper end of that payout. I mentioned that just last month we increased for the 39th time our dividend by another 10% annually in consecutive years, and we have a share buyback program that pending on market position has consistently returned cash to our shareholders for benefit.

So the business with its low capital requirement offers great return characteristics and with its long-term growth perspective, offers attractive investment opportunities from our perspective. So a company that certainly we as a management team and associates are proud of to work, but is also recognized by others. These are just awards that ADP captured just in the last year, or in this year, ranging and really offering the recognition by third parties of our effort to drive innovation, to drive financial returns to our owners, as well to be an innovative and attractive employers to our own most important assets, our associates.

So overall that's the story of ADP. I think have 2 minutes' time here for your questions, so if you have any I would welcome any questions you may have. I must've been all clear today. I appreciate your time. Have a good day. Thank you.

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