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ADP - Automatic Data Processing at Jefferies Global
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PRESENTATION

Alec Ellison - Jefferies & Company - Vice Chairman & Chair of Technology Investment Banking

I'm Alec Ellison, Vice Chairman of Jefferies and Chair of our Technology Investment Banking practice. And I want to welcome you to our luncheon keynote on Day 2 of our Global TMT Conference.

Our keynote speaker this afternoon is Carlos Rodriguez, President and Chief Executive Officer of ADP. With more than \$10 billion in revenue in its fiscal 2012 and 600,000 clients, ADP is one of the world's largest providers of business outsourcing solutions.

In the new Fortune 500 rankings announced on Monday, the Company was ranked number 255. Now, many of us know ADP for its monthly payroll port, which now rivals the government's first Friday of every month report for telling us how unemployment is going.

But I would also highlight that ADP is arguably the largest software as a service company and it was doing SaaS before anybody called it SaaS.

The Company offers a wide range of solutions for HR, payroll, tax compliance and benefits administration. And it's a leading provider of integrate computing solutions to dealers selling cars, trucks, motorcycle, boats, recreational vehicles and heavy equipment throughout the world.

Carlos has held the CEO title since November of 2011. He previously held a number of positions with increasing responsibility at ADP. These included Chief Operating Officer, and the President position for several ADP divisions, including National Account Services, Employer Services, Small Business Services International and ADP Total Source.

While he was president of ADP Total Source, the division became the nation's fastest growing and largest professional employer organization, otherwise known as a PEO. He also launched the RUN Powered by ADP Payroll Management Service, one of ADP's fastest growing product platforms.

Carlos joined ADP in 1989 when it acquired Vincam, where he served as CFO for a short period. He holds MBA and BA degrees from Harvard University and is also on the boards in addition to ADP of Hubbell and the A-T Children's Project. And he's a member of the Business Roundtable and the Economic Club of New York.

Please join me in welcoming Carlos Rodriguez, CEO of ADP. (applause)

Carlos Rodriguez - ADP - President, CEO

Thank you, Alec. It's really great to be here to talk a little bit about our company and also about what we call the human capital management space.

What I'm going to do today is I'm going to spend just a couple of quick minutes talking about ADP just to give you a little bit of background. And then I'll move quickly into a little description of what we view as the human capital management space.

And then spend a little bit of time on the trends that we see in that space. And then how we're addressing the opportunity that we see in the human capital management space.

ADP is really a terrific company. A lot of different businesses. I think Alec mentioned that one of the interesting things that a lot of folks are not aware of, and I think that we may have our slides mixed up. So we need to go back. That's better.



In terms of the industry that we operate in, we're really split into two different segments. The employer services segment and also the dealer services segment. I'm not going to spend a lot of time talking about dealer today but it is 15% of our revenues.

And it's a business that's actually performing quite well now. The backdrop in the dealer services space, for anyone who's watching auto sales, is actually quite good. Car sales have been very robust for the last two or three years coming out of what was obviously a very bad downturn and a very big bottom in 2009.

So that's a great business for us, 15% of our revenues. Good margins. And we're not going to spend a lot of time talking about it today. Our core service is really our employer services business, which we -- that's really where the human capital management discussion comes into play.

We pay 24 million people in the United States and 10 million outside the United States. So as you can imagine, that raises some eyebrows at cocktail parties. So we pay 34 million people globally. A lot of people aren't aware of our global presence but we are in Europe, in Asia and also in Latin America.

And a lot of people also still think of us as the traditional payroll company, which we're very proud of that heritage. But we're obviously much more than a payroll company today. And it's the -- hence the topic of human capital management. We used to refer to it as really beyond payroll. And I'll explain a little bit in a minute about the difference.

In addition to the number of people that we pay, we also handle benefit administration for 10 million people in the US and including their dependents, 15 million people in total. We have a number of other businesses including time and attendance, benefits administration, FSA, COBRA.

So the list goes on and we'll talk a little more about some of the other products and services that we provide across the full spectrum. We have 57,000 associates around the world servicing our clients.

We move \$1.3 trillion of money per year on behalf of our clients and payments for the employees of our clients. And also collecting and paying taxes on behalf of our clients to both local, state, federal governments, obviously all over the world as well.

And to our international strength, we actually deliver our services and our products in 26 different languages. And as Alec mentioned about the fact that most people don't see us as a SaaS player, but in fact we are -- 50% of our clients today are on SaaS platforms. And I'll go into a little bit more detail as to what those platforms are.

And we've actually been I think in SaaS before SaaS was popular. There's a lot of different terms for it. Application service provider and hosting and other terminology. I think SaaS is just the latest incarnation of the term.

But really as an outsourcer and as a service provider, because we do use technology to enable our services. But as a service provider and outsourcer, we've always been in a model where we're actually hosting and really controlling and owning the technology ourselves on behalf of our clients in a one to many business model.

Sort of a couple of just things that we're proud of the Company, the number one I think on our list is we're pretty proud of still being AAA rated. Only one of four companies in the US today. And I think it's a reflection not only of the strength of our balance sheet, which is pretty darn strong. But it's also a testament to the strength of our business model.

We really have -- there's a lot of things you could I think question and not like about ADP but the business model is one that you have to like. We have a large recurring revenue base. We have very consistent cash flows. We have decent margins. We have low capital intensity. It's really a fantastic, predictable, stable business model.

I think that's really allowed us also to have a very strong commitment to our shareholders in terms of our capital allocation policies. We, for many years now, have been committed to a policy of increasing dividends. And also buying back shares when, obviously, it makes sense from a market condition standpoint.

And it's actually the 38th year that we have increased our dividend (inaudible). It puts us in a pretty elite group. So it's really an amazing business model with great predictability, great consistency and very long client life cycles, which really makes for an ability for us to really allocate our capital in a very shareholder-friendly way.

So that's a quick overview on ADP. But what I was really hoping to do today is really spend some time talking about the human capital management space. Give you a little bit of overview of what that is. And then the trends that we see in that market and the things that we're doing to address those trends.

So when we really talk about human capital management, we're talking about everything from recruitment to retirement, which is a lot of different things in terms of managing an employee life cycle.



It's really about, human capital management is really what the name implies. It's about managing your human assets. And when you think about what's happened to the economy to a large extent in the US but it's really happening globally where the economy is becoming more of a knowledge-based worker economy, the ability to maximize and drive efficiency out of equipment and facilities and so forth is incredibly important.

But this shift to a more knowledge-based economy really makes it incredibly important to maximize your return on people. It's no secret that, particularly in this country, the largest single expense that most companies have in their income statements is people. And we've seen over the last several decades so many things being done to maximize operational efficiency, things like Six Sigma and Lean and other things.

Not necessarily focused directly at how to maximize the people assets in a company. And that's really what human capital management is all about. It's also, though, about compliance and a few other things that I'll talk about in a minute. But in the end, it's really -- comes down to its core on helping the company achieve its strategic goals by leverage the people assets that it has.

And when you look at the kind of spectrum of what we consider to be in the human capital management space, everything from recruiting and onboarding folks to then managing them when and while they're employees, doing performance management, making sure that you're keeping track of time and attendance, all the way through succession planning. And then finally through retirement.

All of those things really make up what we call the human capital management space. And to give you a little bit of a flavor of kind of the size of the opportunity, the attractiveness and I'll touch a little bit on where we participate and what parts of the human capital management space we participate in.

We love the fact that this is a very large market and a growing market. So we estimate the market to be around \$90 billion in terms of the opportunity globally across the spectrum that we just went through of all the different products and services.

The attractive part about this industry is that based on external estimates we think it's growing somewhere in the neighborhood of 7%, which is pretty good when you look at a GDP growth in the US, at least, that's only around 2%.

So being in an industry that is growth two to three times the rate of GDP is always something that is positive and attractive for us in terms of opportunity.

You can see here all the different things that make up the human capital management space and how it adds up to the entire \$90 billion. We participate in almost all of these segments of the business.

And the way that we're participating and the things that we're focused on investing in are number one, I think really product and R&D to really take advantage of all the trends that are happening in terms of cloud based SaaS solutions which I think help enable our services to our clients.

So we, at our heart, are really a services business. But technology is an important enabler for us. And it helps make both the processes that we do internally easier and more straightforward but it also helps our clients when they interact with us whether they're using self-service methodologies or just submitting information to us.

So investment in R&D I think is an important and SaaS technology is an important way that we're trying to capitalize on this opportunity. Another important way that we're trying to address this market is really through integration.

When you look at this -- the list of all the things that are in the human capital management space, traditionally up until just a few years ago many of these products were all sold on a best-of-breed basis.

So each vendor had its own expertise and its own strengths. And a client would cobble together a number of different solutions and then try to somehow integrate them. And now with some of the progress from a technology standpoint we're able to really provide unified databases with single integrated solutions that provide almost the entire spectrum that you see here of human capital management services.

So integration is also another important focal point for us in terms of trying to take advantage of what's happening in this marketplace. The other item that I think we're very focused on is consumerization.

A lot of these products and services that you see up here have really become even more -- their growth rates have accelerated even more as a result of SaaS-based technology, which is really providing an opportunity for what we call consumerization of the technology.



So allowing employees, for example, of a client when you're doing benefits administration to actually do their own open enrollment, to go online, pick their benefit plans, make changes to their W-4 or their withholding rates, all of these things have really been enabled by the changes in technology and specifically by SaaS technology.

So consumerization is also another important factor I think in driving this 7% growth rate and the attractiveness of these products and services to the marketplace. Another one I'll mention is really the -- is mobile.

The ability for people to entire their time and check their time and their hours online on their iPhone or on their iPad. The ability for a small business to actually do their payroll on the run while they're at a work site or outside of the office are really important enablers, also, to the growth rates in this human capital management space.

And then lastly all the changes that are happening in the regulatory landscape, particularly health care reform, I think really provide an important I think impetus for people to really rethink their technology solutions. But also their overall outsourcing solutions and how they deal with not only benefits administration but payroll, time and attendance, and all the other parts of the human capital management space.

The -- we'll talk a little bit more in a few minutes about health care reform. But we believe that this is going to present an opportunity for us. But also going to create a large burden for many employers here in the US over the next couple of years. Some of which is not fully appreciated yet in the marketplace.

And so that's a little bit of a background on the HCM industry overall. I want to spend a few minutes now before we go and let you ask some questions on some of the trends that are happening in the human capital management space. And then the things that we're doing to address those trends.

So there's really four things that I would like to talk about. One of them is compliance. I mentioned the health care reform. But besides health care reform you have a number of other factors that have been happening over the last ten to 20 years.

You look at Sarbanes-Oxley, you look at FCPA, you look at the pace of change in terms of tax policy, all these things are making it very, very hard for people to keep up from a compliance standpoint on their own. Particularly companies that either can't afford or don't want to have an entire department just to keep up with all the regulatory changes.

Globalization of businesses and the need to be compliant across the entire world has also been a big factor in driving this HCM trend as large multi-nationals realize that they need to be as compliant in countries outside of their home country as much as they are in their own home country.

Another important trend is talent management. Every company, every business including mine is always looking for the best people and making sure that they have the best team on the field, both at the executive level but really across the entire company to be able to win in the marketplace.

And talent management is not something new. And it's not something that goes up and down with the economy. I think for all leaders, we're always focused on this item. And all leaders that I talk to are looking for tools and ways to help them really identify and hold onto and develop the best people.

Even during the downturn and even today with 7.5% unemployment you hear stories about shortages of certain skilled positions in our economy. And I've never met really a leader who rests on his laurels and thinks that because we have high unemployment that there isn't a need for talent management. So I don't think the economy really has dented I think this focus on talent management.

The next one is really integration. I talked about that briefly but really the trend here is people, not just in the HCM space but across many industries, looking for technology solutions that are easy to use. They provide a more consumerized experience but they're also seamless.

And so in this space in particular very, very important because historically it was very, very -- very common to see a company using one vendor for payroll, another vendor for benefits administration, you might even have a separate ERP that handles your HR requirements and a variety of sundry other vendors as well providing other products and services.

And with the advent of SaaS technology, there's really an opportunity to create a seamless experience across all those different products within the human capital management space.

And it's no surprise that we're pursuing, in fact, those kinds of seamless bundled solutions as our competitors as well. And the clients, of course, are demanding them. And the people who advise our clients are asking for us and our competitors to develop those types of products.



And the last item that I'll talk about is really demographics. When you look at what's happening with our work force, and it happens obviously over month to month we don't notice, but as demographic changes take place the number of people in the work force who are comfortable with using mobile solutions for just about everything they do, and now more recently using social for either hiring or communicating with people or creating a culture within a company are also important parts of a trend in the human capital management space.

So let me talk a little bit about first on the compliance side. So you look at really over the last -- you can go back for decades and decades and there's been an exorable trend towards more government regulation.

And I don't think it matters whether it's a Republican or a Democrat administration. It doesn't really matter what country it is. It's just a constant increase in the amount of burden and regulation on companies, which serves our needs just well as a company in terms of the solutions that we provide for our clients.

You look at just over the last couple of years all of the things that have happened with the Affordable Care Act in order to health care reform and the amount of burden that that's going to create for companies.

There are over 2,700 pages of regulation in just the Affordable Care Act or health care reform as we call it. There are fines and penalties that are going to be involved if -- for lack of compliance. And there are very important reporting requirements which will if not met will be -- actually lead to those fines and those penalties.

You also look at even a more practical, simple issue like what happened at year end with the fiscal cliff where the government was on December 31st deciding what the tax rates would be for January 1st. And I believe they actually made that decision, if I'm not mistaken, on January 1st or on January 2nd as to what the rates would be two days before.

It's a little challenging for a company small or large to be able to keep track of a government that is changing taxes, tax rates and rules on such a fast pace. And this is happening not just at the federal level but happening at the state and local level as well.

When you looked at over the last four, five years in the wake of the financial crisis, many states and many local governments made major changes in the way they collect their taxes and the rate they charge in order to address shortfalls in their budgets.

All of these changes are happening incredibly fast. And a company that's on its own trying to manage these -- the compliance of these rules or these taxes internally is in a very, very difficult spot.

So we don't see any let up in the trend towards more regulation. Certainly the Affordable Care Act is here to stay. There was obviously a lot of discussion about the Supreme Court and the election. Those things are all behind us now and it's really now time to gear up and prepare ourselves for compliance.

And I think if you look at the way that our government has been dealing with issues, we certainly don't expect them to improve in the -- at -- in terms of the lead time with which companies have to be able to react to changes and rules and in laws.

A couple of things that we're doing to address the needs of our clients from a compliance standpoint because the compliance is about making sure that you have the right tax rates and you're keeping up with the all the changes and regulations.

But it's also about providing expertise and guidance to our clients, sort of helping them find really the best way to deal with the compliance to really maximize the objective of their strategic goals in their company.

So we've done a number of things over the last couple of years, including focusing a lot more on providing insight and expertise to our clients. We created something called The ADP Research Institute which happens to now be often quoted in media around the health care reform situation, since we have a number of people that are experts. And they're really able to communicate quite clearly what the requirements are going to be for the clients and what clients are going to need to do to -- in order to be in compliance.

We also have something called Eye on Washington, which is a service for our clients to be able to keep up with the most recent changes in regulation, tax policy. Whether it's on health care, benefits administration or any other part of the human capital management space.

We do a great deal of work with our larger clients in person in terms of training -- of training and imparting some of the information that we have for them in seminars. And we also have a number of webinars and videos available, also, to help our clients to keep them informed and make sure that they understand what's happening in terms of some of the regulatory change.



The second item in terms of a trend in the human capital management space that I wanted to talk about is really what we call in our space the talent management portion of human capital management. And this is back to the discussion about talent really being the number priority for many CEOs and it's certainly my number one priority.

The famous Jim Collins has this term where he says -- you have to make sure you have the right people on the bus if you want to have a successful company. And talent management or the tools around talent management and human capital are really a way of making sure that you have the right people on the bus.

A couple of interesting facts as to why this is a hot topic. And, again, we saw it remaining hot throughout the entire downturn. So even though unemployment was as high as it was in 2009, 2010, the talent management tools in the human capital space were still growing faster than almost any other segment of human capital. Because people still want to find the right people and they want to hold onto the right people.

Almost a third of companies when you survey them will you, whether it's the CEO or the Chief HR Officer, will tell you that finding the right people is the single hardest thing that they have to do. And it's certainly my own personal experience.

And something that you probably have seen in the media recently is that besides it being hard to find good people up front, holding onto your best people is also pretty hard. There's been a number of publications that have reported on surveys of employees asking them about their attitudes towards their employers.

And almost a third of them say that they're thinking about leaving their current company. And that as the economy improves they're even more apt to look around and particular -- and potentially leave to a different opportunity.

So talent management I think is on every great leader's mind. And the human capital management space I think provides some tools to really help people really improve productivity. So productivity really as in increasing your revenue per your employ -- per employee or for each employee. Trying to figure out a way to lower turnover.

There are obviously numerous studies that show the cost of turnover and how expensive it is when you lose good people and then the cost of replacing them. Being able to provide succession planning and making sure that you have plans for filling key roles.

And then lastly, just overall engagement. I think companies have come to realize through a variety of tools that having an engaged work force really creates better profitable for the company. And engagement really comes as a result of good talent management.

In terms of talent management itself, it really is a broad landscape. And it incorporates what we call five different pillars of talent management. So you have talent acquisition. You have performance management. Compensation management. Succession management. And also learning management.

And I'll talk a little bit about each one of those very, very quickly here. But on the talent acquisition it seems to speak for itself. Finding great people is -- any help you can get from a tool, whether it's a technology or a service that helps you find the best people and high potential people, is incredibly important.

Performance management is something that's been around for a long time. And traditionally it was all paper based. And people rating their employees on a scale from one to five. And then forgetting to do it for three years and it's really -- technology has really enabled kind of a new wave of being able to focus on performance management in a more efficient way and in a more thoughtful way that can really, truly be tracked.

Compensation is something that again, traditionally compensation discussions are around how much are you doing in terms of a merit increase this year? And the CFO says -- we're doing 3%. Well, how you manage that 3% and how you hand it out, how you allocate it between your best performers versus your not-so-good performers is an incredibly important thing that tools can help maximize the efficiency of.

Succession management, particularly for larger companies, an incredibly important thing that again historically has been done in a very crude and ad hoc basis. And having good talent management systems and the help of technology can really provide more structure around succession planning.

And lastly, learning management. Learning management or what some people would call training has always been a part of the corporate landscape. And an important part of building talent within an organization.

But again, technology, particularly in the form now of online webinars and online training where you can really supplement in-person training with highly leverageable training modules that can be maximized across an entire company, including globally, is an incredibly important part of the talent management suite as well.



All this, of course, go back to my original comment. All the talent management capability really done in the spirit of really trying to improve what you're getting out of your human capital assets and also trying to include -- improve the engagement of your work force to improve productivity and the effectiveness of that work force.

In terms of a couple of items on that -- on those talent management pillars that -- just to give you a sense of kind of what it means. So in talent acquisition things like candidate management. So interacting with job boards.

But also managing the onboarding process using technology to make sure that you gathered all the information that you are supposed to have gathered. And that if you're interviewing several dozen people, which is not uncommon in today's marketplace, keeping track of all of those people and who has the right skills and who doesn't are a very important part of the whole talent acquisition space.

This is an area where we participate with a number of the tools that you see on here, including candidate management, onboarding and new hire reporting.

On the perform management side, we talked about kind of the old paper-based systems. Now it's really, with the help of technology, really enables a company like ours, which is a global company, to set goals and really cascade them over the entire world. And then all the way down to individual managers.

It also provides for tools that are easy to use to make sure that you're doing some of the performance management on a year-round basis rather than just once a year. Or on an ad hoc basis.

Compensation management. The traditional, here's the spreadsheet and here's everyone's getting 3%. Everyone knows that that's not the way to get the most bang for your buck. So having history on individuals in terms of what their compensation is.

Comparing those compensation levels to market. And then having the CFO or someone else provide guidelines with the partnership of the HR organization as to who gets the above-average merit increase versus who gets the below is really viewed as an important tool of maximizing your bang for your buck and driving performance, particularly for your high potential executives.

Succession management. An important part, particularly in a large company to make sure that you're comparing all the available candidates. Looking for a list of key skills across the entire enterprise, not just locally. And being able, most importantly, to keep track of high potential so that your high potential employees are the ones that are always moving to the opportunities the quickest.

And then lastly, in terms of learning management, we talked about the ability to now put a lot of learning online. But not just online learning but also tracking the completion of that online learning.

Keeping track of certifications, this advent of regulation is not something that's happening only with taxes and in human capital. But it's really happening across every industry. So having people with the right certifications and the right skills is incredibly important in many industries across many segments.

And I think keeping track of all that with a good learning management system is important. Is very, very important.

The third trend that I'm going to talk about in terms of human capital management is really this concept of integration. Of people really wanting to move away from having multiple systems and multiple vendors and spending time on what we would affectionately call administrivia.

Layering on top of that the additional complexity that the globalization of our world has really led to most companies now having responsibilities outside of the US. So trying to create integration across borders is also an important objective.

We have an interesting statistic where we looked at our large national account clients. And over half of them had -- and that's clients that are over 1,000 employees. Over half of them had some employees outside of the US. And even in our major accounts space, which is really any company over 50 employees, we found that over 25% of the clients had employees outside of the US.

So this concept of having an integrated system not just domestically but also across the globe is incredibly important. But when you look at all the traditional areas of human capital management, whether it's HR, payroll, time and attendance, the talent management that we talked about, or benefits administration, integration of all those systems is not only desired by the clients but it makes a lot of sense intellectually since all these systems actually feed each other.

So your benefits administration system needs to know who's been hired and who's eligible before you send out an eligibility notice. Likewise, it needs to know when someone's been terminated off of the benefit plan so you don't pay the carrier for someone who's no longer on the payroll.



So this concept of having a unified, integrated system is both something that's a pull from the market where the clients are demanding it. But it also makes a lot of sense. And it's becoming easier and easier to deliver because of the advent of SaaS technology.

And besides all of the traditional aspects of human capital management that I just went through, the -- all of -- some of the more ancillary products like absence management, FSA and COBRA also lend themselves to integration.

So COBRA notice is an example. A COBRA notice is really something that's sent out when someone leaves the company and is a requirement that they be notified of their eligibility of benefits.

Having really a COBRA vendor, which 20 years ago was very common to have a separate COBRA vendor from your traditional benefits administration or payroll HR vendor, really in some respects makes really no sense because all those systems really feed off of each other.

And not having those systems integrated just requires an enormous amount of work to create those linkages and those integrations which inevitably are always imperfect, anyway, and can lead to errors.

And the last item that I'll maintain in terms of the importance of integration is back to this health care reform issue that's happening particularly here in the US. Many of the requirements in the health care reform regulations are -- require integrated systems.

It's really impossible to not have -- it's going to be impossible not to have your time and attendance system connected to your benefits administration system, connected to your payroll system, since part of the regulations are really around tracking who's part time, who's not. And making sure that people who are eligible for benefits are really given the proper notification and given the opportunity to enroll in those benefits.

So health care reform I think is only going to accelerate what was already a very strong trend in this space. In terms of how we see this integration or this unification of all of the databases, it really kind of brings together all the different things that we just talked about in human capital management.

You know, at the top you really have talent management, which is really the number one priority, we think, for every company is maximizing what they're getting out of their people and what they're investing and their people.

But you also have a core HR system. You have time and attendance system. Their ability to track but more importantly are going to be important now from a compliance standpoint for health care reform. They're also important for compliance with other regulations that require the paying and tracking of overtime.

And then lastly what were more of a traditional space for ADP is really payroll and benefits outsourcing. So all of those things combined under really a comprehensive cloud-based solution are what we call what we call a human capital management bundled solution.

But what's unique about ADP compared to some more traditional technology providers is that we're really a technology-enabled service company. So we're really wrap service around this entire model that we call human capital management to really provide expertise, insight and service.

And for folks who have any doubt about what that means, if you go through what we just went through at year end with all of the tax changes and you go through what we're going through right now as we speak with health care reform, you should visit one of our offices and take some phone calls from our clients.

Our clients and the market are confused by all the changes. And they're confused by what they need to do. And they're looking for help and assistance. And we're there to provide it. That's been our business model all along.

We have always been an outsourcer and not just a pure technology provider. And it's turning out to really be a blessing for us as things get more and more difficult for companies on a go-forward basis. I think it naturally pushes more companies towards our model of an outsource model with service wrapped around the technology solutions.

I have a picture here of kind of our vision because we don't -- we certainly don't dismiss the importance of technology. ADP for over 60 years has been really using technology to enable what is ultimately our service business and the services that we provide to our clients and the compliance solutions that we provide to our clients.

So the fact that today we're doing them on tablets instead of on punch cards, which we were doing 50 years ago, is -- it's an important evolution. But doesn't change really the fundamental business model that we have today.



But in essence, today you have both a practitioner as well as an employee using very consumer-friendly, easy to use interfaces to be able to do whatever task needs to be done. Either at the practitioner level entering a payroll or at the employee level checking their pay stub, or changing their W-4 or actually doing their open enrollment online and electing what their benefits are for the following year.

So this is an important tool, the technology tool for executives and managers to really have better visibility of what's happening in their business. And better visibility of what's happening with their people and their human capital assets.

The thing that wouldn't be I think fair to not talk about when we talk about the technology is also scalability and security. So we're quite proud of what our investments are in -- on both the scalability side and also on the security side.

And one of the hidden dangers of the progress and the change in technology's really the amount of information that is potentially exposed. And as you can imagine, much of the information that we handle and some of our competitors handle, is very sensitive. Whether it's Social Security numbers or benefits information and personally identifiable information.

So security's an incredibly important component. And something that we encourage all of our clients and our prospects to look at carefully when they're evaluating different vendors in the human capital space.

The last trend that I'll talk about before we go to the questions is really demographics. So I -- we talked a little bit about the changing work force. And there's something for me that's hard for me to believe because I still see myself as just having gotten out of college.

But over -- almost 50% of the people in the work force today are actually born after 1977. And I, myself, have a nine-year-old. And I struggle to teach my nine-year-old to write because he's always on an iPad or on a Mac. And very rarely actually writing things or using kind of traditional communication methods.

So these demographic changes are an incredibly important thing for us to keep in mind as we move forward in terms of the solutions that we develop for our clients from a technology standpoint as well as from a service standpoint.

So as an example, part of the reason why my son spends so much time on the computer is because it's easy to use. All the things -- by the way, he spends a lot of time on Angry Birds which is probably not the most productive thing to be doing.

But it's an example that if you can't have your products be as easy to use as Angry Birds, you're going to be in trouble. So if a nine-year-old can't understand how to navigate through our systems, then we're going to have a problem because that's the expectation everyone has.

That's the expectation people have who are using online banking and brokerage, online brokerage accounts and other products that really have set quite a high bar. Not to mention Amazon.com, which is probably the king of setting the standard in terms of consumerization.

But things like mobile and social, it's very, very likely, given that we expect to have 70 million people using mobile applications. And the fact that I believe it was just a few months ago the sale of smartphones actually out-paced handsets or regular cell phones.

It's very easy to imagine that in a few years everything will be mobile. So to not have your products mobile enabled is obviously not a smart thing to do because the demographic shift is going to force you into that place, anyway.

And then the latest I think are social and big data analytics. People really want to leverage social tools. It's very, very common now for hiring. As I'm sure many of you know, Linked In is a very popular way of identifying candidates and for people to really market themselves. And that social trend is only going to get bigger and bigger.

And analytics, a big buzz word. But there's a lot of opportunity there to really understand using big data. The behaviors and the trends as a result of -- that are happening as a result of these demographic shifts.

You know, we happen to have a lot of data. So if you want big data, you came to the right place. ADP is probably the grandfather of big data. And some of the ways that we've tried to leverage our information, we've done it both externally and internally.



So externally we have the national employment report, which many of you I'm sure are familiar with. It comes out before the government's report. Our intention is to really continue to leverage that information and refine it more and more to get more specific either on a regional basis or down to the company basis to be able to provide our clients with insight and information that helps them become better employers.

So as an example, we have a lot of transactional data around compensation. And on an aggregated basis, since we never disclose information that is private to a client, but on an aggregated basis our ability to know how much an accountant in Kansas should be paid is very powerful and very valuable to our clients.

When people are trying to use talent management systems to really manage their people more effectively, linking this with data that really helps you make good decisions and helps you be competitive and reduce turnover is incredibly important.

So big data is something that we're focused on and we're spending a lot of time and effort on that -- will help us in terms of our external brand. But we believe will also help our clients in a big way in terms of helping them make better decisions as leaders.

And so those are really the four trends that we're seeing in human capital management. And a little bit of the color of how we're addressing it. And some of the products and services that we use or that we're offering in order to take advantage of the marketplace.

In terms of what we tell people to look for in an HCM provider, I think the global reach is an important differentiator for us. We have global capabilities including global platforms but we also have local knowledge.

We talked about the 26 languages. So we actually have compliance and in-country expertise in many, many countries, which is a very big advantage compared to some of the more traditional technology-based competitors.

We talked a lot about the compliance side. But purchasing a technology solution whether it's in an old fashioned model of shrink wrap or whether it's in a new SaaS-based model, if all you're buying is a software and you're not buying the compliance expertise, you've got to find it somewhere else whether it's through a consultant or through another third-party vendor.

So really trying to find an HCM vendor who can provide you not just technology but also the compliance expertise is important. We talked about the importance of the integration and having a modern cloud-based, consumerized, easy to use platform. Scalability and security is something that we always emphasize.

And then finally this concept of service is a big differentiator for us and one that we continue to emphasize obviously in a self-serving way as a differentiator, again, some of our more traditional technology competitors.

But the service strength is really an important thing that people should be looking for because when it's December 31st and the tax rates haven't changed yet and they're about to change, or when the government is literally on a day-to-day basis changing the rules around what health care reform is going other look like, I think you want to have more than just a software solution in your corner to help you remain in compliance and maximize the value of your human capital.

And so I appreciate the time today. That's all the prepared comments that I had. And I think we wanted to hopefully open it up to some questions. So thank you very much for the opportunity.

QUESTION AND ANSWER

Alec Ellison - Jefferies & Company - Vice Chairman & Chair of Technology Investment Banking

Great. And for the Q&A session we're going to have Jan Siegmund come up, CFO of ADP as well. And I think we have a question on the side here to start.

Unidentified Audience Member

You (inaudible) that SaaS allows for seamless integration, different functions in HCM. But it's also SaaS allows easy deployment of best of breed.



So, Blackrock, for example, we have Success Factor for talent management. We have Cornerstone for learning. We have ADP for payroll. We have a bunch of different things. This seems really easy to implement.

So I'm wondering how do you think about that? The best of breed versus seamless. I understand this idea that it takes a lot of time to entire data, et cetera. But somebody's doing the pipes, I'm sure. So.

Carlos Rodriguez - ADP - President, CEO

Yes, I think that's a good question and it's a fair question. I think that one of the things that you might not see is how much work is going on in the background, both in the implementation and the maintenance of all of those different systems.

So as we talk to prospects, both the person who's leading the effort from the human capital side, so typically the chief HR officer as well as the CIO in the company. The integration and having a single vendor is -- has a lot of appeal.

Now, the fair part of the question is if you have an HR leader and he wants what he perceives is a best of breed of one part of the human capital management stack and he wants another part that's best of breed and another part that's best of breed, that is, I think, something that we certainly run into.

That's why we call it a trend. Because certainly not everyone has come around to accepting the fact that it's better to use one vendor. So I think for us the combination of making sure that we have the best solutions within each pillar.

So we are, for example, developing talent management solutions that we think are going to be as good as Success Factors. And also Cornerstone. By the way, Cornerstone happen to be a partner of ours.

But our goal is to really make sure that we have the best of each of the solutions and the integration. So our strategy's not to have lousy succession planning or lousy benefits administration and then try to sell the integration part of the story.

That is not going to work and it never has worked. But I think if we can do both things I think we'll be successful. And that's really our goal. So I wasn't trying to imply that integration I think trumps all others.

And you also have different kinds of buyers. To some buyers, depending on how much financial pressure there is or how much involvement there is of the CIO and how much desire there is to minimize back office maintenance and the creation of all those linkages cost money. And all those interfaces need to be built when you have different systems.

And so every buyer's going to be in a different situation. The incredibly profitable businesses in the financial sector might not have as much pressure as some of the others. That was a joke. (laughter)

Alec Ellison - Jefferies & Company - Vice Chairman & Chair of Technology Investment Banking

Let me ask you a question, Carlos, just in terms of ADP obviously sees a lot of macro employment data. Hence your NER report that comes out every month.

But just talk a little bit about what you guys are seeing in terms of hiring trends among small, medium and large employers right now. And maybe you can cut it by geography a bit as well, whether you want to cut it kind of within different regions of the US.

Maybe talk a little bit about Europe as well, since you guys are a great read on the overall economy.

Carlos Rodriguez - ADP - President, CEO

That's a great question. I'll start with Europe, which is no surprise to anyone that we -- there is softness in Europe. And again, we have the data. We pay millions of people in Europe. So it's a very statistically sound sample, if you will.

And we have something that we call Pace Per Control Growth that we measure which is on a same-store basis are clients hiring people? Or letting people go?



As an example, in the US at the bottom of the crisis we were as bad as negative 5% in one month or one quarter, I can't remember what the time period was. So that means companies were shrinking on a same-store basis because you have to take out the noise of new business coming in.

In Europe, that number -- by the way, that number now is between 2% and 3%, which is what we've disclosed publicly. Our guidances. And it's falling right in that range in the US around 2% to 3% growth of pace per control on a same-store basis.

In Europe, that number's actually negative 1%, which is not as bad as you can imagine it being some of that is the inflexibility of the labor markets. Ironically in Europe where it's very, very difficult to let people go and it takes quite a long time. It's very expensive to do.

I think actually in some respects causes some slowness in the decrease in employment over some period of time. So Europe has clearly been -- is not a great place right now from an employment growth standpoint based on the data that we're seeing.

In terms of a couple other things on the data that we're seeing in the US that you might find interesting. So Moody's Analytics is our partner on the National Employment Report. And they really do -- Mark Zandi does some really incredible work.

And he actually made -- the one insight that we got from the last National Employment Report, because we break down the data also by segment, by client size. So clients that are 0 to 50, 50 to 100, 100 to 1,000, over 1,000.

And again I have to attribute this to Mark Zandi in case it doesn't work out. So but the one insight that he believes he's seeing because he needed to wait several months to make sure that there was a trend, is the reaction of people to the Health Care Reform appears to be that very, very slow growth in kind of the segment of the work -- of the client base that is around 50 employees.

Which makes sense because the Health Care Reform rules really start at 50. So if you're under 50 employees you're to some extent exempt. At least you're exempt from the part of having to provide benefits. You still have to report and track and so forth. So we'll be able to provide some services there.

But the compliance itself, where the real money, the fines and the requirements to provide benefits occurs over 50. So if you're a company with 48 employees you're probably not anxious to get to 52. And if you're a company with 55 employees, you're probably pretty anxious to get to 48.

And so Mark and the data would tend to indicate that in fact we're having some strange -- some of that could be just more people becoming part-time. So there are a lot of -- there's a lot of noise and a lot of moving parts.

But we're going to be tracking this information very, very carefully because I think it's going to form an important part of the debate over the next two or three months as we get closer and closer to the zero hour on January 1st.

And we'll be reporting, obviously, publicly into people on what is happening around that behavior using our data and our information. But overall employment in the US based on our sample is very in line, as you would expect, to what you're seeing in the US, which is much better growth than we had in 2009, 2010 in terms of employment.

But still not where everybody would like it to be in order to get unemployment down to 6.5% or 6%. So the data from month to month is such a large -- 140 million private the employed people in the US ballpark.

Government is one set of data. Ours is a different set of data. So the two numbers, the range of error in either of those two numbers is very understandable. So the numbers are never going to be exact but they both are trending in exactly the same way and they tend to follow each other quite closely. And I think the trend is improving.

Unidentified Audience Member

Just sticking on kind of small, medium, large segmenting. Your employer base, that wage, just talk a little bit about the competitive environment in each. I mean, I think most people perceive that at the small end your biggest competitor is Paychex. In the midsize people hear about Ultimate all the time. And at the larger end people talking about Workday more and more.



So maybe just talk about how you differentiate what you've seen in terms of any market share shifts between yourself and your biggest competitors in each of those three segments.

Carlos Rodriguez - ADP - President, CEO

Sure. I'm going to let Jan take that question. As many know me, maybe not know, Jan was our chief strategy officer. So he spent a lot of time over many years sweating that detail around what was happening competitively and what we did about it in terms of our products and so forth.

So I think Jan has very keen insights on what's happening competitively across all of the segments. So, Jan?

Jan Siegmund - ADP - CFO

Yes. Thank you, Carlos. ADP is really, in the human capital management space, the only company that has such a global span and spans really the small segment, the medium segment and the largest clients across. So we always say it's a multitude of competitors.

We have in our last call last Friday reported really solid net new business backgrounds. And continued increases in our client count. So as a company we feel optimistic about continued market share gains. Really that we can report reflected in the client count number that we talk about on an annual basis.

We have seen for the last few years really a very solid development in the down market up to 50. We were -- we're very satisfied with the bookings and our retention rate in that market. And we have continued to take share in that space against a variety of competitors. More traditional competitors but also smaller cloud-based technology vendors across the board.

Our solution, which is the RUN solution, a cloud-based solution, and our global solution (inaudible) has led together with a solid sales execution to good gains.

We're very satisfied also in the midmarket with the progress we're making of rolling out our CTG platform that Carlos described to you. And holding our own I would describe it in the midmarket.

In the up market the trend really against a variety of competitors. Workday's on everybody's mind but keep in mind it's a very large market. It's still large chunk of this space is occupied by (inaudible) vendors, traditional vendors.

Best of breed vendors as we heard. It's a space where we're satisfied with the win ratios that we achieve with our platforms against each of these competitors. So we have a long trend of building market share very, very slowly in that space. But very continually.

So the competitive position has always been from our experience -- almost I'm 15 years with the Company -- intense. And play up -- pop up and pop down. And the emphasis is different. And the overall result is satisfying to us.

Alec Ellison - Jefferies & Company - Vice Chairman & Chair of Technology Investment Banking

So maybe just one follow up on that, because you mentioned the intense nature of competition. And some might argument would be emergence of SaaS space technologies. Perhaps there's potential for the competition to intensify further. But what are the implications for industry pricing?

Jan Siegmund - ADP - CFO

Yes, we have reported that we have not seen a trend -- a change in pricing in the last few years. We have executed with our pricing strategies. And throughout the last few years and this year approximately 1% of our revenue growth is driven by price increases, which is roughly in line and a trend that we have seen in the last few years.

So price competition has been always and particularly for smaller vendors been the way to compete. Again, our aim is -- we're the superior service, value proposition, a superior proposition on compliance and solutions really to be the market leader.



And it has played out so far.

Carlos Rodriguez - ADP - President, CEO

And if I can add, I think that the intense competition. Competition is usually the most intense when you have the least differentiation. (coughs) Excuse me.

And I think that one of the things that you heard through our theme is we're really trying to stick to our roots, which are really providing in addition to technology, which we recognize is important. In addition to that providing really insight expertise and service.

In other words, helping our clients really solve their business problems and achieve their strategic goals. Not just selling them a software solution, whether it's off the rack or shipped to them or delivered online. Either way because SaaS, some of the SaaS solutions, not all. Some of the SaaS solutions are really software solutions that are really just software.

You still have to go hire Accenture or PWC or someone to help you implement it, to customize it, to then -- you may then have to hire Hewitt or someone else to give you some advice on what things you should be setting up in it from a human capital management standpoint.

So our niche or our space is really a little different from the traditional technology vendor. But it's a fair question, because we spent a lot of time on that question. And again, net, as Jan said, we are by nature a paranoid people. So we're very aware of what's happening in terms of the technology changes.

But so far it's actually a help to us. It's an enabler because it's really creating a more seamless experience for our clients, which allows us to cross sell at higher rates. So the sales of our bundled services, our entire human capital suite which includes multiple products, is much higher today than it was two or three years ago.

So for us it's really been so far a big help, not a hurt.

Alec Ellison - Jefferies & Company - Vice Chairman & Chair of Technology Investment Banking

Okay, great. We have one question here in the middle.

Unidentified Audience Member

Employers responded to the health care reform in any way. So have they reduced the number of hours of going from full time to part time if they've had to be representative to the health care measure? And have you seen a difference in hiring patterns with those companies that haven't previously insured their employees?

Carlos Rodriguez - ADP - President, CEO

So I think that there have been a number of (coughs) -- excuse me. A number of articles written about what people expect to happen and a lot of predictions and a lot of surveys.

So they've been asking companies what are you going to do in response to health care reform? So I think we're the only company that's actually published real data in terms of real results of what's happening.

The first of which is this apparent trend to stay away from being over 50 employees if you can. Like, if you're 300 employees, it's going to be hard to be under 50. But clearly there could be some impact.

The second one is, you -- one that you alluded to, which is people using more part time labor. We have seen some of that. But if we don't have any real great data that we're going to publish just yet on that but something that we're watching very carefully.

Because if you work under 30 hours, you're also considered part time and not -- you don't -- it's not required to offer health care benefits.



And so I think there are a number of things that are inevitably going to have to be watched very carefully. And the government I'm sure will try to respond to make sure that they achieve the goals that they were still trying to achieve.

So I think it's going to be an iterative process where regulations will be promulgated, will be implemented. One of the interesting things about the legislation is the legislation was very broad. And the regulatory changes were really left up to the regulatory bodies.

And it's really now only after all the uncertainty was resolved around the Supreme Court and the election that a lot of work has begun in earnest to define what is really a part time employee?

So do you track the hours on a weekly basis? Is it the average over a month? Is it over six months? So all of these things now are being actually promulgated and defined. And once they get defined, they will have to be re-defined.

Which is just fine by us because we feel like we have lifetime of work to do in keeping up with what is going to be I think a lot of iterative changes around the health care reform to make sure the government still achieves the objectives that they've set out for themselves.

So the answer is yes, we have seen already in our data changes in behavior among clients. I think one of the changes that I know I'm sure will happen is companies will just try to find ways to just fly under the 50 employee radar.

Setting up multiple entities, whatever things they might be able to do. And I'm sure the government will have its opinion on whether that's okay and what to do about it.

Alec Ellison - Jefferies & Company - Vice Chairman & Chair of Technology Investment Banking

Okay. I think we have to end it there. Thank you very much. (applause)

Carlos Rodriguez - ADP - President, CEO

Thank you.

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