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ADP - Q1 2015 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Co. reported 1Q15 YoverY reported revenue growth from continuing operations of 9%.

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PRESENTATION

Operator

Good morning, my name is Kevin, and I will be your conference operator. At this time, I would like to welcome everyone to ADP's First Quarter Fiscal 2015 Earnings Webcast. I would like to inform you that this conference is being recorded, and all lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session.

(Operator Instructions)

Thank you. I will now turn the call over to Sara Grilliot, Vice President Investor Relations. Please go ahead.

Sara Grilliot - *Automatic Data Processing Inc - VP, IR*

Good morning. This is Sara Grilliot, ADP's Vice President Investor Relations. I am here today with Carlos Rodriguez, ADP's President and Chief Executive Officer, and Jan Siegmund, ADP's Chief Financial Officer. Thank you for joining us for our First Quarter Fiscal 2015 Earnings Call and Webcast.

Before we begin, please note that ADP is planning to host a financial analyst conference in New York City in the spring of 2015. We will provide further details in the coming weeks. Carlos will open today's call with an overview of our first-quarter accomplishments and financial performance. Then Jan will take you through our detailed financial results and our fiscal 2015 forecast.

I would like to remind everyone that today's call will contain forward-looking statements that refer to future events, and as such, involve some risk. We encourage you to review our filings with the SEC for additional information on risk factors that could cause actual results to differ materially from our current expectations. With that, I will now turn the call over to Carlos.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Thank you Sara, and good morning, everyone. We had a good start to fiscal 2015, as we intensified our commitment to delivering innovative solutions that help our clients manage and optimize their work force to meet their business needs.

During the quarter we continued to execute well against existing initiatives, including mobile adoption and cloud migration. We deployed new solutions to further differentiate ADP in the market place. By successfully completing the spin-off of our Dealer Services business, we are now truly all-in on Human Capital Management, or HCM.

Going forward, our energy and investment is squarely focused on serving our clients across the full HCM spectrum, from recruitment to retirement. While many companies are focused on technology alone, ADP is focused on the end user, and delivering value-added services powered by leading-edge technology. We are helping employers manage their most important asset, their people, by backing up our work force management technology with comprehensive service and compliance expertise.

Before I get to the quarter's performance, I would like to spend a few minutes talking about our commitment to HCM, which is supported by investments in innovation that drive our future growth. Our newest innovation lab, located in the Chelsea neighborhood of New York City, opened earlier this year and has become a catalyst for accelerated product development. The engineers in the lab, together with thousands of world-class ADP engineers across the globe, have driven a number of our recent product introductions.

At the end of the quarter, we started to roll out our re-imagined user experience, which we view as the ultimate convergence of innovation and intense client focus. The new user experience offers an intuitive and responsive platform, allowing employees to integrate critical HR processes into their daily work streams, and creating a unique experience for employees. We plan to roll out this new user experience to 22 million payroll solutions users in North America by the end of calendar 2014, and across many other solutions in our portfolio throughout calendar 2015.

Adding to our client-centric offerings, we recently introduced the ADP Marketplace, which opens up our platform, and grants clients, partner companies, and third-party developers access to our application programming interfaces, commonly known as APIs. This helps our clients more seamlessly integrate critical applications with our system of record, further optimizing the further HCM process with our cloud platforms.

To help businesses manage one of the most critical challenges they face today, ADP recently expanded its suite of Affordable Care Act, or ACA, compliance tools. We believe ADP Health Compliance is the most comprehensive solution on the market, and the only one able to manage all of the labor-intensive regulatory interactions between employers, their employees, government agencies, and public exchanges.

Featuring the new user experience, ADP Health Compliance is a perfect example of our innovative cloud-based technology backed by ADP's team of dedicated ACA and regulatory compliance experts. With many companies in the US currently unprepared to manage ACA compliance, we believe we are hitting the market at just the right time with this solution.

We are proud to see that ADP solutions are being recognized. Forrester Research recently named ADP a SaaS HR management systems leader, citing our innovation, user-friendly platforms, and expanding big data solutions, as key drivers of improved work force engagement. This endorsement from an independent advisor whose key role is to help companies make savvy technology decisions, sends a clear message to potential clients. Our solutions will help you make decisions that will drive business success.

Now for ADP's performance in the quarter. I'm pleased with the good performance we had to the start of the fiscal year. ADP reported revenue growth of 9%. Worldwide new business bookings growth was a solid 11%, and we continue to successfully drive client migrations to the cloud, while improving profitability.

During our fourth quarter call, I described our refined three-pillar strategy focusing on the HCM market. I think the best way to discuss our first-quarter growth in new business bookings is in terms of how it aligns to each of our strategic pillars. First, in the US, we saw growth across all of our strategic platforms -- Run, Workforce Now, and Vantage -- with solid attach rates, particularly for our benefits and talent modules. Performance in the up market was strong, with sales of Vantage contributing to our overall growth in the quarter.

Second, our business process outsourcing solutions, which we offer across all segments of the market, from small to large businesses, had strong results during the quarter. The PEO continues to perform well with small businesses, and we also saw increased demand for our comprehensive services and comprehensive outsourcing products in the mid and up market. Finally, we continue to leverage our global presence to offer clients HCM solutions where they do business. Our multi-national solutions performed well in the quarter, with growth coming from small to very large multi-national corporations.

During the quarter, we continued to migrate clients to our newer cloud-based solutions. At the end of the quarter, more than 460,000 businesses were supported by our cloud services. We also continued to deepen ADP's engagement with clients and end users through our success with mobile. We now have more than 3 million users on our mobile app, an increase of more than 18% in the last quarter alone. Our first-quarter achievements are a reflection of an effective strategy, combined with a commitment of 52,000 ADP associates, who are pushing every day to deliver on behalf of our clients. With that, Jan will now walk you through the first-quarter results.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Thank you very much, Carlos. As you just heard, we had a solid first quarter. Before I get into the detailed results, I would like to call your attention though to our cash and marketable securities balance of $4.4 billion at September 30, 2014. This includes $2 billion of assets related to outstanding commercial paper in support of our extended investment strategy for the client funds portfolio, and is footnoted in our condensed balance sheet. This borrowing was repaid on October 1.

In addition, with the completion of the spin-off of Dealer Services to CDK on September 30, the results of operations of the Dealer Services business and spin-related costs associated with this transaction, are now reported within discontinued operations. My comments will therefore be in reference to continuing operations.

Now, for the quarter's results. As Carlos mentioned, ADP delivered solid revenue growth of 9% for the quarter, nearly all organic. We achieved a pre-tax earnings growth of 12%, and earnings-per-share growth of 13%, on lower effective tax rate and fewer shares outstanding compared with a year ago. In connection with the spin-off of Dealer Services, ADP sold a portfolio of notes receivables to a third party, which contributed approximately $0.02 to our diluted earnings per share.

Our combined worldwide new business bookings growth was a solid 11% over last year's first quarter. Employer services revenue grew 7%, from additions of net new recurring revenues to our global HCM solutions and our BPO offerings. Each of our businesses contributed to this quarter's growth.

We remain focused on providing a world-class client experience, and we are pleased that our client revenue retention increased 70 basis points over last year's first quarter, though retention is lumpy from quarter to quarter, and the first quarter generally has the smallest volume of losses.

Same-store pays for control in the US was strong, with an increase of 3.1%. In Europe, same-store pays for control continues to flatten out, but still declined 0.2 percentage points in the first quarter. However, we are pleased with the overall revenue growth in our international business, where we are seeing positive momentum in Asia-Pacific and Latin America, as well as continued success with our multinational offerings. Growth in the average client fund balances was 7%, driven by our net new business growth, especially in the small and up market, as well as pay-for-control growth.

Pre-tax margin expansion in employer services was 120 basis points in the quarter. Our businesses performed well, driving solid revenue growth, with controlled increases in our operating costs. We continue to invest in our new products and in our sales force, and we anticipate year-over-year earnings pressure in the second fiscal quarter from these investments, which will result in about $30 million of additional expenses in the second quarter compared with a year ago.

The PEO continues to perform very well, with revenue growth up 18% in the quarter. Average work site employees grew 15% to 345,000. The increasingly complex HR regulatory environment, and the compliance needs of small to mid-sized business, combined with solid execution of our distribution model, and the strength of ADP's offering, are key drivers of this growth.

In addition to this solid revenue growth, pre-tax margin in the PEO improved 90 basis points in the quarter. The quarter's margin expansion was a result of increased operating and sales efficiencies. We are quite pleased with the results of our business segments for the first quarter. We are also pleased that overall ADP pre-tax margin improved by 50 basis points over last year's first quarter. Although our high-margin clients on interest revenues were slightly positive in the quarter, for the first time since 2008, the impact on ADP's pre-tax margin was still a drag of about 30 basis points, as these highly profitable revenues grew at a slower rate than overall revenues. We expect to see this drag lessen as the year progresses.

Let me make -- let me take you through our outlook for fiscal year 2015, which was updated on September 29 to exclude the Dealer Services business. For total ADP, we anticipate total revenue growth of 7% to 8% compared to fiscal year 2014 revenues of $10.3 billion. Pre-tax margin for total ADP is anticipated to improve by 75 to 100 basis points, from 18.4% in fiscal year 2014. Although we benefited from a lower effective tax rate in the first quarter compared with last year, we still expect a rate of 34.6%, compared with 33.9% in fiscal year 2014.

Diluted earnings per share is expected to grow 12% to 14%, compared with $2.58 in fiscal year 2014. This forecast of 12% to 14% includes a $0.02 benefit resulting from share repurchases funded by the $825 million in dividend proceeds ADP received as a result of the spin-off of CDK. However, the forecast does not contemplate further share buy-backs beyond anticipated dilution related to equity comp plans and the dividend proceeds from CDK. Although our share repurchases in the quarter were lower than in prior quarters, ADP remains committed to its shareholder-friendly actions. It is clearly our intent to return excess cash to our shareholders, depending obviously on market conditions.

The high end of our revenue and earnings forecast ranges anticipates renewal of certain high-margin WOTC tax credits in the second half of the fiscal year. Although foreign currency fluctuation had a minimal impact on our first-quarter results, a stronger US dollar continuing throughout the balance of the year could put pressure on the full-year revenue forecast. Finally, as I mentioned earlier, we anticipate having about $30 million of additional expense in the second fiscal quarter, which will moderate our earnings growth in that quarter.

Now for the business segments. There is no change to our forecasted growth of new business bookings. We are still anticipating about 8% growth, over $1.4 billion sold in fiscal year 2014. There is no change to our previous forecast for Employer Services. We still anticipate 6% to 7% revenue growth and 100 basis points of pre-tax margin expansion. Pays for control in the US is still anticipated to increase 2% to 3%.

For the PEO, we are still maintaining our revenue-growth guidance of 13% to 15%, as we continue to assess opportunities related to the increase in complexity of the HR regulatory environment during the remainder of the year. We are still anticipating up to 50 basis points of pre-tax margin expansion for the PEO. There is no change to our previous forecast related to the client funds investment strategy. The details are available both in the press release and in the supplemental slides on our website. Now I will return it over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will take our first question from the line of David Togut with Evercore.

David Togut - *Evercore Partners - Analyst*

Good morning. Are there any significant changes we should expect, Carlos, in the way you manage ADP post the CDK spin?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I think the only -- I think we've communicated that I think part of the reason for the spin-off is for us to just have more focus in terms of our time, our dollars, our energy, on our HCM market, and also to allow CDK to do the same thing in their industry, in their business. I can't -- I don't think there's really any radical news to really provide you other than that.

We really believe it's not a -- it wasn't a financial engineering transaction, per se. It was really a strategic decision that we expect you to see improvement in our performance over time. Because I think that increased focus and energy and investment in HCM, we did it obviously because we think it's going to pay off in better results for our shareholders, but it is not a one-quarter or a two-quarter decision. I can't point to anything that's happening in the first quarter or the second quarter specifically as a result of the spin-off. We just have confidence and faith, and I think our Board had confidence and faith that this will create greater value over the long term by having the two businesses separated.

David Togut - *Evercore Partners - Analyst*

Understood. As a quick follow-up, you highlighted your progress in the ongoing migration to the cloud and mobile. Can you just remind us of the benefits from this migration, whether it be improved customer retention or up-sell opportunity?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I'm not sure we have enough time today to talk about all of the benefits, but I will talk about a couple, and maybe Jan can jump in. There really are many that we have now actually experienced and seen, because it was all theory a couple years ago. Now I think we are seeing some of the benefits.

Starting with the fact that when you think about in the old legacy products, the process of upgrading clients and rolling out new products was cumbersome, difficult, and expensive. I think our new cloud-based version-less products are just much easier to roll out, much easier to upgrade. There's huge benefits in terms of just frictional ongoing costs.

The word cloud and SaaS, I think, can mean a lot of different things to a lot of different people. But I think to us it also means not just the technology, but also the consumer-grade experience, which means that they are easier to use, results in hopefully better serviceability and less need for support, because they're more intuitive. That I think also is something we're beginning to see some benefits of.

I think the most important reason for us to migrate these clients is because we believe these new platforms that we have are being -- are very successful commercially in the market from a sales standpoint in terms of new business. If there's that much demand and they're so great for new clients, they must also be great for existing clients. We just want to have all of our clients on our best products, is really the main driver for the migration strategy. I don't know if Jan has any other items to --

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Jan Siegmund - *Automatic Data Processing Inc - CFO*

I may want to add a little bit about the mechanics of where we are. We did migrate another 20,000 Run clients this quarter, and really coming to the home stretch now to finalize that migration right, along the plans that we had. We may not be 100% completed in this quarter, but we will be very close to execute as we had talked now for many years. We have seen in addition to a great client experience, of course, also a slight decrease in the complexity of the business, which helps in the margin expansion from the down market, that's for sure.

The migration of our mid-market product PCPW on to Workforce Now, also continues at a good clip. We migrated about 1,500 clients there. As a reminder, we do see actually when we migrate these clients improvement in our retention rates. We -- about 30% of the clients actually utilize right at the migration up-sell opportunities to buy broader product portfolios. I think those factors you see really reflect it in our overall results. They certainly contributed to a small degree, but to some degree in our good retention performance, as well as our good sales performance.

David Togut - *Evercore Partners - Analyst*

Thank you very much.

Operator

Our next question comes from S.K. Prasad Borra with Goldman Sachs.

S.K. Prasad Borra - *Goldman Sachs - Analyst*

Thank you for taking my questions -- a couple, if I may. Firstly on the new bookings, you had a strong first quarter, but you made no changes to the full-year guidance. Is it just being conservative, or is there a seasonality aspect we need to account for? Second one, can you provide some color on the attach rates associated with these new products? What is the difference between selling a stand-alone payroll offering and attaching things like benefits and talents to the payroll offering?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I'll let Jan talk about the attach rates. In terms of the seasonality of the results, there is some seasonality, so our first quarter is our smallest quarter -- not by a dramatic amount, but it is smaller than the other three quarters in terms of the total dollar amount of sales that we get from the first quarter versus the full year. So there is a bit of a seasonality impact. We also had a -- what I would call a relatively easy compare, because we had, as all of you know, a difficult first quarter last year. We feel like our forecast is still quite good, but also I think in the right range.

We're feeling good about our momentum and our results, but I don't think it's appropriate to extrapolate an 11% first quarter growth rate in new business bookings to anything higher than what we've provided in terms of guidance in the range. We don't have anything to lead us to believe now that that should change. We obviously know other factors in our sales force, like for example how much head count we've added. Although we have had some positive surprises in the past around productivity, there tends to be a natural governor on sales results that, depending on what your head count numbers are. I think we have some metrics that tell us that I think our guidance is the right guidance.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

On the attach rates, we really attach HR products at all segments to our products, and is of course a very difficult experience if the product is completely seamlessly integrated in the work flow of the user. It is not even a different product, it's just a different feature functionality that we open up in it. We see in the up market where we had a good quarter also for Vantage sales -- stability in the attach rates, ranging between 50% and 80%, depending on the product component.

In the mid-market, we saw actually a slight increase in the attach rates for really all the core product components benefits, in time and attendance and talent, namely, for it. The strategy of having a platform and to up-sell or to have an easy ability for the client to expand the relationship with ADP has really proven to be successful for us, and is an important component of the sales growth that we observed this quarter. =

S.K. Prasad Borra - *Goldman Sachs - Analyst*

Very helpful. Thanks, Carlos. Thanks, Jan.

Operator

Our next question comes from David Grossman from Stifel Financial.

David Grossman - *Stifel Nicolaus - Analyst*

Thank you, good morning. Just looking at the PEO business, I assume the strong 1Q, at least -- or the strong growth in the first quarter versus the guide for the year -- at least partially reflects the increasing difficulty of the comparisons. I guess one, is that in fact the case? Can you also update us on what you view as the underlying drivers of that business, and again, the sustainability of those drivers as we get through this year and into next year?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Yes, I think you're right, the compares do matter. I think there are a couple of other factors that are helping that we seem to be cautious about. One of them is that there is a premium tax that has been added to the health care offerings. This is by the carriers, who then pass those costs through to the PEO. As you know, the pass-through costs are relatively important in that business.

Having said that, the work site employee growth is still quite strong in the PEOs, so it is not coming alone from inflation in our pass-through costs; but the inflation in the pass-through costs is a factor. I would tell you that a better way to look at this business over the long term is to look at work-site employee unit growth, which is really the driver of growth in this particular business, as a good proxy for what to expect in terms of the range.

I think when you look at it that way, and you look at the difficult compare that we have in the third quarter versus the previous third quarter -- because we had a very good net new business result last year -- this business, because of a variety of reasons around tax restarts, et cetera, tends to have a relatively large influx of new business, and also we have a reasonable amount of losses that takes place on January 1.

You take all of those things combined, where we are trend-wise in terms of work site employee growth, the fact that our pass-throughs are a little elevated right now, and the difficult compare that we have on January 1 in terms of net new business, we think that the guidance that we are providing is appropriate.

David Grossman - *Stifel Nicolaus - Analyst*

Then, though, about the sustainability, going into next year, we've got perhaps some distortions this year. As you look into next year, do you see any changes in the landscape that would dramatically change the trajectory of this business?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Let me just go back in terms of -- I think I know what you mean by distortions, but just to reiterate one more time, the business is clearly performing -- is really firing on all cylinders, in terms of absolute growth in units, margin improvement, new business bookings results. They're really performing well. I was really only addressing the issue of the specific growth of the first quarter in comparison to the full-year results. We expect this business to continue in the same positive momentum that we have guided to.

My comment was really more around whether the guidance was appropriate versus whether we are excited or positive about the business, because we are. We don't expect or see any decelerations or issues in the near term in that business over the next several quarters or even into next year, but obviously this is why we talk about forward-looking statements. It's a long way away to start talking about next year. We obviously don't give guidance about next year, about the PEO or any other business, but we don't have any reason to believe that we can't continue the positive momentum.

The backdrop for this business, with health care reform, has helped for sure, in terms of activity of people looking for solutions and options around health care. Just the regulatory compliance complexity that has grown, not just the result of ACA, but just government regulation overall continues to drive small businesses to look for solutions that can help them, allow them to focus on their business. The PEO is about as good as it gets in terms of being able to really have someone else focus on those issues for you.

David Grossman - *Stifel Nicolaus - Analyst*

Great. If I can just ask one quick follow-up. I think you got it -- Jan answered part of this question previously. Now that we're pretty well into the deployment of some of the new HCM platforms, can you help us better understand how much of the ES growth comes from unit growth versus revenue per unit, in contrast to prior years, if you will?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

We didn't get the question in our year-end call, and we can answer it now. Of course last year we had approximately unit growth of approximately 5% year over year, so a very solid client expansion, driven largely by our success in the down market, of course, where most of the units came from. But we had really growth actually across all segments.

The answer is very hard to do, because in the up market we have higher market share, and the proportion of up-sell to clients is higher, versus in the down market it's virtually all new unit growth driven in the revenue growth. Like a curve, it balances out. It's a mix of it. The mix hasn't really changed, as you see, because the unit growth has continued now for the third year in a row at these levels, or slightly accelerated. It is not -- 50/50 is not the right way to do, but it is a balance of growth.

David Grossman - *Stifel Nicolaus - Analyst*

Very good. Thank you.

Operator

Our next question comes from George Melas with Credit Suisse.

George Melas - *Credit Suisse - Analyst*

Great. Congrats on the good start to the year, guys. I understand the easier comparisons in the first quarter related to new sales and also to retention. But I'm just curious, did the business perform above plan relative to your internal expectations in the first quarter, given more of the second-half difficulties around the comps?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Let me start off by saying again, in terms of clarifying my language, I think it is a financial term of art to say easier compare, which is not well understood by field leaders, because they certainly would not interpret the results as easy. As you can imagine, to deliver the sales results, regardless of what your sales results were last year, which is a financial question, is hard, because you have to execute. Same thing with retention and client losses.

Having said all that, since you're asking a direct question, and we feel compelled to give you a direct answer, the direct answer would be that yes, both the sales and retention results exceeded our internal plans. But I want to qualify that by saying they exceeded them by an amount that is not significant enough for us to re-think and change our guidance. It's the nature of our business model that this recurring revenue model is so positive in so many ways, but it's also very difficult to change the trajectory and the numbers in one quarter. That is exactly what happened this quarter.

We're very pleased that we exceeded our internal plans and budgets, but I don't know how many times I have had to be on this call and mention that retention in one particular quarter was down by 10 basis points because of a large loss or because they're lumpy. What's good for the goose is good for the gander. It goes both ways. We happen to have had a good quarter, and it's no reason to start moving expectations. At least from our perspective, that's where we stand today.

George Melas - *Credit Suisse - Analyst*

Okay. I think we can appreciate that. As a follow-up, a question for Jan. Any reason why in the future you would not be open to adding leverage on the balance sheet, solely for the purpose of accelerating returns to shareholders, buy-backs and the like?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Yes, what you mention is correct. In principal, we of course changed as part of the spin-out of the services to CDK. Our credit rating -- and we have now a AA credit rating, which allows us more financial flexibility. We are aware and evaluating the benefits that it has for us, offers us certainly greater financial flexibility, either for returning cash to shareholders, or pursuing strategic acquisitions. We are aware and we are evaluating it. We have a constructive dialogue about the opportunities. When we feel we can generate shareholder value with it, we would certainly think about these elements.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I think Jan and I both consistently for several years now talked about how we view the world in terms of total shareholder return, or TSR, which obviously dividends and share buy-backs are an important component, over long periods of time, of driving our TSR to what our objective is, which is the top quartile. We appreciate the question, because we are very sensitive to those topics, and certainly are looking at all of our options to help, in addition to our revenue and margin improvements, to find other ways to really drive our TSR to that top-quartile performance.

George Melas - *Credit Suisse - Analyst*

Okay, that's great to hear. Thanks, guys.

Operator

Our next question comes from Smitti Srethapramote with Morgan Stanley.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Your pay-per-control growth was quite strong at 3.1%. Can you comment on what drove that growth rate this past quarter?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Well, it was strong. It has strengthened in line with strengthening of the overall economy. ADP's clients tend to out-grow the US economy over long run, so we are blessed with a very healthy set of clients. The improvement was -- we attribute more to the overall continued improvement in the US labor market, and it happens to be a very good number.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Again, just to add context, when you look at it over the last two or three years and quarter by quarter, it is higher than it has been for sure, but only by 30 to 40 basis points. It is kind of hovering in the mid twos. We had a 3.1. Again, I would just caution everyone that based on a lot of experience that we have, to not take one quarter and extrapolate. If you feel compelled to extrapolate, you should know that the impact of one percentage point growth in pays per control is about $20 million annually. A 30- to 40-basis-point improvement, if it were to remain for the rest of the year -- which is hard to predict right now -- would really not have a material impact on our result, either on the top line or the bottom line for the year.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Got it. Maybe just a follow-up question. Can you talk at a high level about the growth of the ASO, or the BPO business? Does it look similar to what you are seeing in the PEO segment? Could these businesses drive an acceleration growth in the Employer Services segment?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I think as I mentioned in my opening comments, given that's one of our strategic pillars, we specifically mentioned that the besides the PEO, our other BPO offerings are actually growing quite nicely, as well. We have those BPO offerings in the low end of the market, the mid market, and the upper end of the market, in addition to the PEO. The PEO is a separate segment and a different business. It obviously has tremendous synergies with the rest of ADP. But we actually have PBO offerings that are available also in the small market without core employment. We have them in the mid market and we have them in the upper end of the market. Again Jan may add color, but all three of them are performing quite well, and all three are growing I think at better than ADP blind rates.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Yes. I think relative to employees served growth, which is maybe then the common denominator about it, it's a very similar rate. It's a very success story, it's a big success story for us.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Low end of the market, if you combine our PEO work site employees with our ASO paid employees -- we don't call them work site employees, paid employees. On a combined basis, I think you would find that over the last five to seven years it was a marathon. I would say that we are probably comfortably right now, probably the leader in terms of offering BPO services in the low end of the market.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Our next question comes from Jason Kupferberg with Jefferies.

Jason Kupferberg - *Jefferies & Company - Analyst*

I wanted to come back to the PEO segment for a second. Obviously the growth is strong there. Do you guys think you are taking share in the market? Any evidence to support that? Do you feel that it's more the rising tide lifting all boats, just given the ACA and compliance burdens?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

If you look at it over five to 10 years, I think we have taken share in that business. If you look at the last year or two, it would appear -- again, there is not a lot of great data, because most of the PEOs are private, privately held companies. But if you look at the publics, I think that the growth rates have improved. Some of that, it's hard to discern how much of it is acquisition-related versus organic.

But we still feel pretty good that we're gaining share in that specific segment of our business, but we have to acknowledge that there appears to be also a rising tide -- not quite to the level of our execution, which is I think better than average, or better than market average -- but the market is healthy, and appears to be growing at a reasonably good clip, which was not necessarily true over the last 10 years.

Jason Kupferberg - *Jefferies & Company - Analyst*

Okay, that makes sense. Just switching gears a little bit to pricing, I know that PayChex mentioned on their earnings call about a month ago that they were seeing slightly better pricing dynamics in their business. Have you seen something similar at the smaller end of your client base?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

We stay consistent with our overall strategic pricing approach. Just a reminder, approximately 1% of our revenue growth is driven by our annual tax increases across all segments. Anticipating your question in the down market, we actually did review our pricing statistics and behavior and discounting behavior and net pricing and pricing issues for the business, and it is completely in line with our historic behavior in the market place. So no changes on our basic strategy.

Jason Kupferberg - *Jefferies & Company - Analyst*

That's helpful. Thank you, guys.

Operator

Our next question comes from Gary Bisbee with RBC Capital.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hi, guys. Good morning. RBC is a customer of your FSA product. I recently tried to log into it through the ADP website and was unsuccessful, called the 800 number, and after several minutes trying to figure it out it turns out we are actually a customer of the SHPS product that you acquired 2-1/2 years ago. I guess a two-part question on that.

First of all, is that sort of unique for some reason to the FSA that that's not been fully integrated into the legacy ADP offerings? Secondly, are there any implications from that in terms of the ability to migrate people to the new integrated platforms, and/or up-sell other products or anything else? Thanks.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

It's a great question. It allows me to make a couple comments. First of all, after the call I will give you my cell phone. If you ever have a problem you can call me and I'll make sure you I get you through. I actually tried to log on to the FSA site Sunday night, and had challenge myself because they were doing maintenance. I did call someone and they told me they were doing maintenance. I have the right phone numbers if you ever need help.

The SHPS acquisition is an interesting question, because we actually acquired SHPS in large part to get that platform. We are actually in the process of moving our legacy FSA clients on to the SHPS platform, which is really our platform. It's the ADP platform. Again, that was an example of where we decided to use our capital for acquisition rather than internal development, because as you know, we are doing a lot. Our R&D spend has grown quite substantially over the last three years, but there are many things that we need to address in terms of legacy platforms, and our spending accounts was one of them.

One of the things that came with SHPS, which was an HSA solution, which is very important to have in today's market because of high-deductible health plans. FSAs, as you may or may not know, have now been restricted in terms of the dollar limits are a little built lower. They're still popular. I still have an FSA, but I think you have to have an HSA platform. We decided to get a -- to create a -- to get an HSA platform through acquisition, through the SHPS acquisition.

That's really not a platform that we are actually trying to get off of. We are actually trying to get off of our old platform. We are kind of agnostic in terms of where it comes from, whether it is our platform or an acquired platform. We're just trying to get onto common platforms. This would be an example, rightly so, where we are still not where we want to be in terms of having everyone on one common spending accounts platform, and having it integrated into all of our other products. I think it's still a work in progress.

It allows me also to address the question we got -- I think it was the first question -- around migrations, which is we still have a lot of work to do. To be very clear, because we're talking about all of the progress we've made, you've just kind of hit on actually, ironically, on a chord, because I asked the same question two years ago. When we were looking at a demo of one of our products, my question was, well how does FSA integrate into this?

We still have a lot of work to do, and we've actually accelerated our migrations spend this year, and we have also accelerated our R&D spend. That one is much more clear, because you see it in the 10-Q, and you see it in our disclosures. But we are nowhere near yet where we want to be, particularly when you get into the upper end of the market. I think we have made that clear over the last two or three quarters, but I just wanted to reiterate that in our upper end, payroll HR benefit spending accounts, there is still quite a lot of work to do. But we are doing that work, and we have -- I would say, significantly increased our spend in the up market migrations area. Spending accounts would be one of those.

Gary Bisbee - *RBC Capital Markets - Analyst*

Thanks. That leads into the follow-up, which is I think one of the bull-case arguments on ADP some investors have had is that at some point you actually see costs decline quite a bit from turning off legacy systems and slowing the migration spend. From that last comment, would a reasonable assumption be that that's still more than 12 months away? I know you probably don't want to give us a number, but it's still quite a ways off before you would have that benefit happen, if it does at all?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

That is correct. I think that what's going to be good this year is that by the end of the year, we will be able to tell you that we shut down completely the EasyPay platform, and that it resulted in the benefits of X, Y, and Z. We will be able to at least begin to better quantify some of the benefits and positives of shut-downs of platforms. Besides EasyPay, which is a major platform in our low end of the market, we have three platforms in the mid market that we are planning on shutting down, and a couple in the upper market, as well.

This will be the first time, as much as we have been talking this, it's really been about migrations and not shut-downs. We're actually this year going to start shutting things down. I think we'll at least be able to give you a little more color on what potential benefits might come. But right now for the next 12 months and probably some time beyond that, our strategy is to reinvest everything that we are getting as a result of improvements into accelerating that type of activity -- the migrations and the shut-downs.

Gary Bisbee - *RBC Capital Markets - Analyst*

Thank you.

Operator

Our next question comes from Jim Macdonald with First Analysis.

Jim Macdonald - *First Analysis Securities - Analyst*

Thanks for taking my question. Just one more on the PEO. The growth of work site employees decelerated a little bit this quarter to 15% from 18.9%, even though it's the summer period. Could you talk about that a little bit?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Yes, I think it's one of those peculiarities of -- I believe, of how our sales force behaves, which I talked about a little bit over the last year and probably a little too much. Our fiscal year ends on June 30. The PEO had a -- what I would call a spectacular year-end from a fiscal year-end standpoint. I think it is as simple as that. That is what's driving. I think if you look at it trend-wise prior quarters to that fourth quarter, I think it would be more in line with where we are today. If you look at it on a moving average basis over a four-quarter moving average, I think that business is accelerating, in terms of its work site employee growth.

Jim Macdonald - *First Analysis Securities - Analyst*

Great. Now that you're focused totally on HCM, can you talk about your acquisition philosophy? Would you be willing to add new areas, make bigger acquisitions -- what your thinking is there?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Again, Jan will probably add color, but our position hasn't changed at all as a result of our spin-off of dealer or our change in our credit rating, other than we clearly have much more financial flexibility now. I think we had always communicated to all of you and to the Street, that we would be willing for the right acquisition to change our capital structure. I think what happened was, we have the benefit now, of our capital structure -- (audio difficulty)

Operator

(Operator Instructions)

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Okay, if we're back on, we apologize for the interruption. We wanted to continue answering your questions. I think Jim, if you're still connected, I think your question was around acquisitions and if our view has changed as a result of the spin-off.

My answer was I think we are still consistent with our prior philosophy, which is we want to use our capital both for organic growth and product development, but we also are open to -- and that's really our primary focus -- but we are also very open for the right type of opportunities to use our capital for acquisitions. We just talked a few minutes ago about how we believe that we accelerated our progress in terms of FSA and spending accounts through the acquisition of those SHPS platforms a couple of years ago, and we will continue to look at those types of opportunities in the future.

One of the benefits that we have, and I think Jan talked about it earlier, is that the spin-off of dealer really did ease the task for us, if you will, in the sense that there really wouldn't be -- there is likely to not be a change in credit rating as a result of our need to access the capital markets, either for returning cash to shareholders or for an acquisition, unless that acquisition were to be obviously much larger than the average typical acquisition that we like to do. Jim, I hope that answered your question. I hope you're still connected.

Operator

Our next question comes from Lisa Ellis with Sanford Bernstein.

Lisa Ellis - *Sanford C. Bernstein & Co. - Analyst*

Hi, Carlos and Jan. It's Lisa. I have a question about competitive dynamics. Are you seeing higher win rates in the lower end of the market? Do you perceive that you are gaining share there? In the upper end of the market, you mentioned that Vantage had a fairly strong quarter. To what extent in the upper end of the market do you go to market independently, or to what extent do the competitive dynamics among the software vendors like SAP, Oracle, Workday, et cetera, impact you in and around your partnerships, your go-to-market partnerships with them?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

That is a great question. On the -- again, Jan can add maybe his view -- but I think on the upper end of the market, we really have a situation of co-opetition with many of our -- with all the companies you mentioned. We compete head-on in many respects for the entire HCM bundle, but we have a variety of solutions for example wage garnishments, stand-alone tax, and other solutions that we would provide in partnership with some of our -- what some of you might consider to be our competitors in the upper end of the market.

We believe we have very good relationships and very good integration arrangements with really all of the competitors that you mentioned, and a few others. We believe that's the right posture for us to have in the market place, because we want to be in on deals, and we want to have our foot in the door, so that we have an opportunity. Having the broadest solutions of any provider out there, I think us having a logo or a relationship with a important is very important and very advantageous for us down the road to be able to attach and add on additional products. We do cooperate as well as compete with all of those players in the upper end of the market.

Your other question was on the low end of the market around market share. I think consistent with our prior comments over the last probably year to two years, we believe that we are growing faster than the market. How much of that shifts from software, pure software, to cloud-based software, or to cloud-based software with support and service, which is what we provide, and regulatory compliant, it's hard to know how much of our growth coming from shifts in the market versus direct market share take-aways from a specific competitors. We don't have that level of information, that level of detail, but we do know that we are growing faster than the small business market is growing overall.

Lisa Ellis - *Sanford C. Bernstein & Co. - Analyst*

Terrific. Then a quick follow-up on the PEO. Can you give us a flavor for what the customer retention is like in the PEO business? Does it differ materially from the employer services business? How many -- what's the mix of PEO clients that actually come out of employer services, versus their new green-field wins?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Obviously we don't disclose retention segment specifics, so this would probably be a bad time to start. To give you a sense of where it is, if you look at the low end of our business, the average size client in our PEO is about 30 work site employees. It falls squarely in what we call the small business market, the SBS market. The retention rates of those businesses, just because of natural dynamics that occur in that business, or in that segment of the business, is lower than our average. I think we right now are at around 91% annual retention. Our large national accounts would have a higher than 91% retention, and our small business clients would have lower than 91% retention.

The PEO, because of the size client that they address, would be in that category of between 80% and 90% retention, below the average, but we would rather not get into specifics. We're quite pleased and quite happy with the retention rates and the trends of those retention rates. From the few that we see that we have visibility to in the outside market, we feel that ours compares favorably. I think there was another question, Jan?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

A question regarding the sources of our business. This has to be answered in a very clear way. Our broad field sales force in SBS in a major account has an incentive to generate leads that are suitable for the PEO and such. The sales forces provide lead flow and opportunity into our core PEO sales force. That's an important component of how we generate business.

Those sales forces in SBS and major accounts talk both to existing clients and new clients. Of course in the SBS down market, the larger component of this is really clients that are really newly identified as potential targets to the PEO. The conversions of run clients on to the PEO is of lesser importance in this business. This is really good new unit growth that we get in the PEO.

Lisa Ellis - *Sanford C. Bernstein & Co. - Analyst*

Terrific, thank you.

Operator

Our next question comes from Sara Gubins with Bank of America Merrill Lynch.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Thanks, good morning. I was hoping to get a little bit more color around the 11% growth in new business bookings. It sounded like it was strong across the board. Did you see much improvement with large clients? Last quarter you had talked about new business trends for clients with more than 10,000 employees being down. I'm wondering if you saw a change in that trend?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

This is a great opportunity for me to provide some comments in the sense that I believe that some of my focus -- and I take accountability for this last year after the first quarter on individual portions of our sales results and individual business units -- I think it was counterproductive, both competitively and also internally, in terms of a distraction to our own organization. That's why we worded our opening comments the way we did, which is we're trying to tie our new business bookings results and explanations to our broad strategic pillars, rather than kind of specific segments, because it was counterproductive to have done so.

Having said that, because we spent so much time on it, I think it is appropriate this quarter, but we will try to avoid doing this as much as we have done it in the past in the future. I think it's okay to be a little more specific so that you have comfort, because of some of the noise that we have had over the last three or four quarters. We had strong, very strong sales results across the board, both in our traditional under-10,000 market, as well as with large clients, with multinational clients, in benefits, in RPO, really across the entire national accounts segment. The results were as strong in this quarter as they were weak last year in the first quarter.

That is really all I can say, other than when you look at the numbers, it's quite impressive because of the gap. But that doesn't necessarily mean that in absolute dollars it's anything other than what we want and need in order to grow the business. It's just that we had such a bad first quarter last year that the difference is quite stark. Back in -- I guess the best way to summarize it is, we are happy, and we're back where we want to be, in terms of our performance in our up market. Our intention is in future quarters to try to not be as specific.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay, thanks. Two follow-up questions. The first is, with Vantage, as you are going out to existing clients and asking them to convert, can you talk to us about how those conversations are going, if you are providing any incentives for them to convert, and how the sales force will balance migrations versus new sales?

Second, separately, last quarter when you had given guidance, you talked about $30 million of investment in both the first quarter and then also the second quarter. Did you make that $30 million in the first quarter? I'm wondering if the margin expansion incorporated that $30 million? Thanks.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I'll let Jan answer the question about the investments and the margins. In terms of the question about existing clients moving over to Vantage, we had at the beginning, as we rolled out Vantage, I think in the first 50 sales that we had, I don't think any of them, maybe one was a migration. I think in the next 50, we had maybe a couple more. I think now we are really including in the Q some existing clients that we want to move over. But it's still a relatively limited number. Most of our Vantage sales are new logo, new share type of deals, with very high attach rates for all of the HCM modules.

There are obviously circumstances where it makes sense, both because we think it is the right thing for the client, and some of it is driven by just demand from clients wanting to migrate. For example, at our HR Tech conference or our Meeting of the Minds conference, we show these products, we talk about them, so it's -- we're very excited about them, and they're great solutions, so it is difficult to talk them up and then tell people, sorry, but they're not available.

We are now beginning to move some clients, a limited number of clients, on to Vantage. We are working hard to build capacity to do that, because we have to do both the new share and new logo business, as well as the migration. It's a matter of just creating and adding capacity from an implementation standpoint.

In terms of incentives, our -- the good news about Vantage and also about Workforce Now is that these new platforms really make it natural to purchase more than just the traditional payroll solution that ADP was known for, hence our focus on HCM. The attach rates of time and attendance and benefits administration and talent and some of the other modules are in some cases are up to 80%. There is a natural incentive, as a result of additional revenues to the Company, which our sales force gets credit for and gets commissions for. I don't think it's an incentive issue. I think it's really a capacity and execution management issue.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

If I went to your question on the incremental costs that we guided to at the end of our last, of our year-end call a quarter ago, we talked about incremental expense pressure driven by our investments into IT, and some acceleration of our investment in our sales force for the first two quarters, $30 million in each quarter. Yes, we did incur incremental costs in this quarter, slightly better than the $30 million, so we didn't quite spend as much money as we thought to, but a large component of this materialized and is in our results. I think I would expect the same split for the second quarter, about half on the sales force expense and half on IT acceleration, if you kind of want to place it in your P&L. That's what will occur.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

The only thing I would add is we also had a couple of -- which we disclosed -- a couple things that helped us in the first quarter that are not occurring in the second quarter. It will be easier to see the difficulty of the additional investments in the second quarter compared to the first quarter, because we did get some help in the first quarter that we hadn't anticipated. Otherwise, we would have included it in the guidance.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Operator

Our next question comes from Bryan Keane with Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Hi, guys. Just want to ask about the increased use in mobile. Does mobile bring any additional revenue opportunity? On the flip side, on the cost side, is it just an additional cost, or can it lower the cost to serve ADP clients?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

We do believe that it has an impact on the cost side, because a number of actions that people would take that both practitioners and employees, things that they might be able to do themselves on their mobile devices, are really issues that we would avoid either calls or avoid e-mails or chats or texts or whatever method people choose to communicate with us, to ask the question, or to get service. I think there is some benefit in terms of lower costs for ADP, as a result of some of our mobile solutions being out there.

But I think there are a couple of other very positive impacts. I don't think we can attribute directly revenues, so we can't tell that you we're advertising, for example, through our mobile platforms, and generating advertising revenue. But I can tell you that the connections and the relationships we're building with the employees of our clients, in addition to the traditional relationships we have with our clients, are very helpful in terms of our sales and our client retention.

As an example, if you go to the app store, the ADP app, believe it or not, is one of the more popular business apps out there, for the simple reason that people can check their -- it's not just about checking your pay and whether you got paid and how much went into your direct deposit, but you can check also your -- you can clock in, clock out. If you are an employee that has a time and attendance system with ADP, you can actually do your open enrollment and choose your benefits, you can check for a doctor. There's virtually an endless number of things that you can do on the mobile devices.

That creates stickiness and a stronger relationship and a deeper relationship with our clients, not only at the practitioner level, but at the employee level, as well. We believe that it's helping us in many ways in terms of the growth of our new business bookings. It's probably helping us with our retention, but we really can't point to specific metrics to tell that you that it had X impact on either of those. We just know that it's helping. Down the road in the future, there may be other monetization opportunities, but at this point, that really hasn't been our focus.

Bryan Keane - *Deutsche Bank - Analyst*

As a follow-up, curious to know now what percentage of revenue now comes international. With that, just particularly interested in Europe, and what you're seeing out of Europe, since a lot of concern about the European economy, still. Thanks.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I think Jan will give you the kind of percentage and the details. I think that we have to say that we are pleased with -- given the backdrop -- in Europe, we are pleased with the new business bookings results in the first quarter, and with the revenue growth, which as you can imagine, are both lower than the line averages that we're reporting, both from new business bookings overall for ADP, and revenue growth for ADP overall.

Our international business obviously includes more than just Europe. It includes our multinational solutions, it includes Latin America, and it includes Asia-Pac. When you add all those together, those are actually quite close our -- despite the drag from Europe -- are quite close to the line average of ADP. I think in view of the backdrop, it's -- I would have to say that we are quite proud of the performance of our business in Europe. I think Jan may have a little more color around pays for control, retention, those kinds of things.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Yes, I think Carlos you captured the vast majority on the revenue side. International revenue is roughly in line with our overall ADP revenue. Europe is a slight drag, but really doing well. That is paired with good bottom-line performance in Europe, really. The overall results of the performance in Europe are really quite good in this quarter.

You have been -- I have been dancing around the pay for control numbers now for quite a few quarters in Europe, with seeing several linings coming closer. We did have one month where we were actually slightly positive in the quarter. Too early to call it a sunrise there, given also the kind of more stark economic reports that we receive out of Europe. But gradually it has been improving, and we are now basically flat. I talked about the 20 basis points decline, so flat on the pays for control side, paired with the performance that Carlos described. Europe had a good quarter.

Bryan Keane - *Deutsche Bank - Analyst*

Jan, what is the percentage of international revenues now as a total?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Yes, I apologize. Approximately 20% for ADP.

Bryan Keane - *Deutsche Bank - Analyst*

20%. Lastly on that, is Europe improving or is it actually getting worse, just when you're looking at the trend line?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

If you want a trend line, ever so slightly improving.

Bryan Keane - *Deutsche Bank - Analyst*

Okay, great. Thanks so much.

Operator

Our next question comes from Kartik Mehta with Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

Good morning. Carlos, you talked about the ACH compliance tools that have you now. Do you find those tools as a retention of clients a tool, or will you be able to price? Is there a revenue opportunity with those tools?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

It is clearly a revenue opportunity. We have -- sorry, clearly to us, I mean not to anyone else. But the level of complexity that is involved in compliance with ACA is quite high. In our view, the model that we have is -- again, as usual for us, it's not only technology, it's also expertise. That really will be our differentiator. Where others might just add an additional report, and which makes it sometimes harder to monetize, we are really building capabilities to help people make decisions -- so a decision-support tool, as well as expertise from people.

Right now we actually have sold a number of clients. These are incremental sales dollars with additional annual recurring revenues with our ACA compliance solutions. I think we have only had it out in the market three or four weeks, or a couple months.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

A couple months.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

A couple of months. We -- I think we are very positive. We are very bullish on what the take rate is going to be and the attach rate is going to be. We have had a few Vantage sales that had ACA attached to them. It was pleasing to see the attach rates of ACA, in addition to the traditional time and attendance, benefits administration, et cetera. Again, the caution here again would be on $10 billion in revenue and $1.5 billion in sales, you want to -- our sales plans for ACA for this year would not be something that would register on your radar screen. Call it 12, 24, or 36 months out, it could be an important element of our sales growth, which we will -- if it gets to that point, we will obviously let you know.

Kartik Mehta - *Northcoast Research - Analyst*

As a follow-up, you talked about the improving client retention. I think you have talked about two things that have helped, maybe, the cloud-based system, and a little bit easier comps. Is there anything else that's changed that's helping you improve retention in terms of maybe comp, or how you are going about interacting with clients?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

One factor that I probably should have mentioned earlier and I will say it now. One of the ways that I have described it to some of our associates internally as to why, one of the reasons we wanted to move aggressively on this migrations is I described our situation a few years ago as our competitors really fishing in an ocean, when they were competing against us in our legacy platforms.

I think we have started to reduce that ocean to a lake in terms of taking clients that were in my opinion vulnerable as a result of -- they're still getting good service, and still getting solutions that help them with whatever needs they had, but it didn't have the consumer-grade experience and the ease of use that I think some of our new platforms have, and didn't have the integration.

We went from an ocean for people to fish in, our competitors to fish in. I would say these are competitors in both the low end and the mid market, and in some cases in the high end, but mostly in the mid market and the low end, and we took that from an ocean to a lake. I think we're getting close to the point where we are going to reduce their fishing area to a pond. I think that is part of what you're seeing in terms of the retention rate.

I think we are in a better position -- we are much better positioned offensively in terms of our product set, but we are in a much better position also defensively in terms of being able to protect our client base.

Kartik Mehta - *Northcoast Research - Analyst*

Thank you very much.

Operator

Our next question comes from Mark Marcon on with Robert W. Baird. We only have time for two more questions.

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

Good morning, and thanks for squeezing me in. I wanted to follow up a little bit on that in terms of taking the ocean down to a pond. Can you talk about the migration that you would anticipate on the upper end in terms of moving to Vantage -- how long you think that would take? How do you -- how are you -- the commentary that you made about the ocean to the pond, does that apply to the upper end?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Not yet.

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

Okay. When would that -- when would we start seeing that apply? Secondly, you've gotten a lot of new logos on Vantage. Who are you taking them from?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

I think that we -- again, we hate to be boring, but we have a lot of detail around where we get our clients from in the upper market because they're obviously specific clients. They're big enough that we know them specifically, where they come from, what they were using before. We also have the same information for clients that we lose, so we have our wins and we have our losses, where they go.

Unfortunately, there really isn't -- I think we said this numerous times and it hasn't changed, that there really isn't one specific competitor or category, even. We take our fair share of on-premise software, but we also take our fair share from other cloud-based outsourcers like us. There's really -- I wish could tell you that there is a specific pattern, but there isn't, which is a -- in my opinion, is a good thing. We don't see any one competitor that is creating an enormous problem for us, and we also don't see any one competitor where it is kind of easy pickings for us. I think it is fairly balanced across the board.

On your comment about Vantage in the upper end of the market, I do think that we still have work to do there, to improve both our -- I mean our offensive position I think is much better than it was, but we are working very hard, and investing significant amounts of dollars, in making sure that we have the same kind of situation competitively in the upper end of our market that we have in the mid market and the lower end of the market.

At the risk of sounding too bold, because I think as you repeated it, it may have sounded a little arrogant and bold to say that we have created a pond now. That may have been a better term to use internally than it would have been externally, because there is really no way for ADP to ever be a pond for people to fish in, because we are the biggest, and we have the largest market share, without any question.

The question is, not whether we will be viewed as a pond or an ocean, we will always be viewed as an ocean. The question is, what will be the success of the fisherman in our ocean? I think we have gradually reduced the success rate, and we intend to continue to do that. But we will always be a very large target, because we are very large. By the way, we are pretty proud of that, because I think that indicates we have been doing something right for the last 65 years.

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

I fully appreciate that, Carlos. I fully understood what you meant by the pond. I was just wondering, in terms of that migration, how -- is this -- would this be a two-year, three-year, four-year process? How should we think about that?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

We've taken some actions to supplement our resources, our migration resources with, for the first time, with external resources. We're not going to get into a lot of detail about who or how, but it's a meaningful commitment with a third party to help us with acceleration of our migrations. We will let you know as that progresses how it's going, because it hasn't started yet. We're optimistic that that will help accelerate our progress; but frankly, we don't have anything to report now. We will let you know as that moves ahead.

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

Okay. One last one, just on Vantage in terms of the new sales. Would you expect the new sales performance on the upper end to be as strong as it would be in the mid and the small for this year?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

In the mid and -- the mid and low end of national accounts, or in --?

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

No. In national accounts, would you expect it to be as strong as it will be in mid and in the small, in terms of your plans.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Overall ADP.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Of overall ADP, yes we do.

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. Thank you.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

In case it wasn't clear, in the first quarter our national account Vantage sales were a multiple in terms of growth rates of our mid and low end of the market.

Mark Marcon - *Robert W. Baird & Company, Inc. - Analyst*

Appreciate the clarity. Thank you.

Operator

Our next question comes from Tien-tsin Huang with JPMorgan.

Tien-tsin Huang - *JPMorgan - Analyst*

Hi, great. I will be quick. Just wanted to ask about some take-aways that we got from the HR technology conference, which is that it seemed like a lot of the SaaS and tech-oriented HR providers were starting to invest more on the servicing side, with specialists, et cetera. I'm curious if you're starting to see a little bit of convergence, with ADP obviously missing greatly and technology doing a nice job there. Also on the flip side, the SaaS players starting to invest more in outsourcing elements. I'm curious if you're seeing that in the market place?

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

We haven't felt it or seen it, because we don't -- an answer from maybe all of you would have a greater sense of. We're happy to see that other people are seeing the value in our business model and coming to our way of doing business.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay. I just wanted to check, figured you would be a good person to check on that. For Jan, on the FX side, obviously I know that you have mentioned FX could have some impact on revenue, but how about the sensitivity to earnings on FX? Can you walk us through what the sensitivity is there?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Yes, thank you for the question. The good part about ADP is that our expenses and revenues on the international fronts are well aligned, so the translation risks we have on the FX is moderated of course by having the two components of the P&L being parallel. I said FX rates can be volatile, so we don't really forecast them, and we take them as they come. My comments were leading to we had minimal impact of FX in the first quarter, but at current rates it could be some -- maybe a percentage point or so, if the rates were to stay where they are on the revenue side. But I don't think we would impact our bottom-line forecast for overall ADP based on the FX impact. It is not as meaningful on the bottom line.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

It was really a comment made for revenue growth. That could be an impact, but it should not impact to the same degree, or to a much smaller degree, really, on the bottom line for us.

Tien-tsin Huang - *JPMorgan - Analyst*

Thanks as always.

Operator

This concludes our question-and-answer portion for today. I am pleased to hand the program over to Carlos Rodriguez for closing remarks.

Carlos Rodriguez - *Automatic Data Processing Inc - President, CEO*

Thank you for joining us today. As you can see, we are very focused on delivering against our HCM strategy. We're going to continue to combine our expertise and our technology strength. Hopefully it's obvious that we are in a great position to help our clients successfully manage their most important asset, their people.

I also want to make one other comment, which is next week I actually reach my three-year anniversary as CEO. I want to thank my leadership team and the 52,000 ADP associates for all that they do every day, and all that they have done over the years. The one thing I have learned over the last three years is it's a lot easier to sit around and prepare for conference calls and report results than it is to deliver the great results that we have had. I want to thank all of them, and specifically also my leadership team.

I want to thank you for joining us today, and we will see you at the next -- we hope you will join us for the next conference call. Thank you very much.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may all disconnect, and have a wonderful day.