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ADP - Automatic Data Processing Inc at NASDAQ OMX Investor Program

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CORPORATE PARTICIPANTS

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PRESENTATION

Unidentified Participant

Okay, great. Good afternoon. It's a long day, thank you all for staying so late.

Our next company is ADP. Employers around the world rely on ADP for cloud-based solutions and services to help manage their most important assets, their people.

From human resources and payroll to talent management and benefits administration, ADP brings unmatched depth and expertise in helping clients build a better workforce. Today joining us from ADP is their CFO, Mr. Jan Siegmund.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO*

Thank you very much. Delighted to be here in London. We've been attending this conference for a number of years and as always a great experience for us to learn from your insights that you have regarding our shares.

We are in our second quarter and just finished our first quarter, an important quarter for ADP with a lot of milestones achieved. So this is probably a good time for me to update you on the investment story that we have to offer.

And given that we are in Europe and you may not be that familiar with ADP, I thought that we would cover for a quick while our business and overview, share with you of where we are but then focus mainly on our market environment that we operate in as a global provider of human capital management and what we view our key differentiators for the medium and long term to drive continued success of ADP as an enterprise. I would like to conclude a little bit with an update about our financial performance and our key tenets of capital allocation. And we will try to be timely and succinct so that we have enough room for a few questions that you might have for me.

So if that will work for you please let me just dive in. When you think about ADP you might think of us historically as a traditional payroll processor. That is our legacy, that is our proud legacy.

And today ADP has leveraged this client base and our strength and payroll to transform us into really a HR company with a global reach that offers a full suite of technologies and services to help our clients improve the performance and engagement of their employees. That's how we focus on our business and this quarter marks a milestone in that transformation from to this global HCM company as we completed the spin of one of our large business units, dealer services, that you used to be part of our portfolio.

And at September 30, CDK Global became an independent publicly traded company. So what I am talking today is really all in HCM as we like to say, a company that is focused on the HR market only and having completed the spin really left our last revenue source, dealer services, the family.

So as we go ADP is large. We have 610,000 clients across the globe and we are able to offer solutions in 100 countries, which is one of our big advantages is our global reach.

Our other advantage is that we serve clients from company size of one to the largest global corporations. So our solutions span really not only the globe but also the entire space of company sizes. So we're neither a company only for small companies, or a company that serves only the largest of our clients but really all of them.

You'll see here in the statistic that we have a very high penetration of large companies for some of our specialty contract solutions, compliance solutions and of course our core payroll solutions. Very high market share in the upmarket but still growth, room to grow as we expand our reach in the full human capital management suite of services.

We have associates that operate in 40 countries. Our little expansion has been the key tenant for the last 10 years of building this scope and reach. That is in today's globalizing economy a huge asset for us because aside from having language capabilities and new technologies and applications, ADP brings global knowledge about compliance and HR rules and regulations to the table that come to the benefit of our clients.

So a global provider with unmatched reach across the world. As a consequence we have really the ability to serve most of the population that is strategically interesting to ADP. We cover about 99% of all employees of multinational corporations.

So this is not all 99% of the population in the world. But these are employees we're multinational corporations operate and our multinational offering is a core tenet of our offerings. And as you can see it has been growing and is quite comprehensive, unparalleled really.

And when we say we are all in on HCM, what do you mean? We mean a number of things. Our product set and service set ranges through the entire employment lifecycle, so we support our clients with recruiting solutions.

Those would be classic recruiting applications in the SaaS format, but also fully outsourced recruitment process outsourcing where we assume the role of the hiring agent and offer a complete outsourced recruiting solution, which ranges down to the retirement offerings. We are one of the large 401(k) plan administrators in the US and our systems integrate seamlessly with our overall HCM solution and everything in between from payroll, time and attendance, workforce management, benefit processing, performance management and talent management and general HR support.

We have really a full portfolio, which is of course a value to us because clients like to buy the solutions integrated and working well together or better to say as one strategic platform.

In our HCM and human capital management also above and beyond technology with additional services and compliance that we list here and insight and support are cornerstones of ADP's historic success and differentiation. So we pair cloud-based applications with a deep insight in compliance and rules and outsourcing -- outsourced services, HR BPO-type services that really innovate the entire market space. And you might have questions around our position versus pure technology or software-oriented players.

Here you have it. We like to compliment our market-leading technology with HR services and compliance insights to offer a comprehensive value proposition. That's how we go to market and have defined our success.

So what market trends do we see? Buyers are seeing really we are seeing a number of trends in the market that we are trying to address. We talked a little bit about global.

Today not only large multinational companies have global needs, we see that in our client base, in particular clients that we would define as midsized, maybe 500, 1,000 people have significant employees outside of the US and we have market-leading solutions to connect even these smaller clients to a global processing solution. So global, a big demand for us and we are glad that we have good solutions to answer to that demand.

Buyers want to buy a suite of solutions and this is our opportunity. Historically it is not sufficient to upsell a historic payroll client onto an additional product but our buying mode is really focused on delivering integrated suites of products that have integrated workflows and easy to operate and offer the full suite of services rather than a cobbled together set of solutions. And we have been succeeding in that by focusing our efforts on our core strategic platforms that we serve in the small, medium and large markets in the US in particular.

We believe that a comprehensive value proposition that goes above and beyond the software and the technology that we believe is essential that is our strength to add insight and HR expertise to our offerings and makes us a little bit of a different player compared to software players. ADP brings advantages to that and I will focus in a minute a little bit about more strategic advantages that we have relative to these solutions.

So as a consequence we have devised a growth strategy that addresses these big market trends. When we talk about our core platforms and we get a lot of questions on our quarterly calls, it is mostly around pillar number one, which is how are we doing with our core technologies and what market perceptions do they find. Our core products run in the downmarket; Workforce Now in the midmarket and Vantage in the upmarket in the US are doing well and increased R&D development and focus on innovative technology solutions have helped us to accelerate momentum in that specific pillar.

For our clients that are on our platforms HR BPO is a great opportunity to further focus their business on what matters to them and leave HR centers of excellence to us. One of the prerequisites to work with us is that you put your application -- that you have to operate your HR -- that you have to operate our HR applications for our HR BPO. And this combination of running HR BPO services only on our applications has allowed us to deliver scale and consistent service across all customer segments.

And it has been an important growth contributor to ADP. So we find that our clients like to choose not only the platform but increasingly outsource broader parts of the HR solution to us.

As mentioned a number of times now, our third growth initiative is to leverage the global strength and scale of ADP and integrate these global solutions into a comprehensive solution and where we are very differentiated through our presence in 40 countries. So when you ask how is the HCM portfolio doing, we are doing well because already 75% of our clients are on our modern cloud-based HCM solutions. We would claim that we are the largest B2B cloud provider and you can see the numbers of clients that are operating on these cloud-based platforms today on the chart.

In the small market, RUN is our market-leading product and has already 410,000 clients on its platform. And I think this quarter or later in our third fiscal quarter we will complete the conversion of our legacy products onto this RUN. So a major milestone relative to the execution of our cloud-based technology in the midmarket.

We're making good progress on migrating and selling our Workforce Now platform, which is our midmarket platform addresses clients between about 50 and 1,000 employees. It has a large amount of clients on it for the midmarket, you see 54,000 clients is a good portion of market share in that space. It has good momentum.

We have focused the last couple of years to migrate also our legacy clients onto this platform in order to improve the competitiveness in the space. And these migrations also have progressed and we will achieve in fiscal year 2015 a major milestone.

Our Vantage product is our youngest cloud-based platform in the US. It is targeting the larger market. It targets clients of above 1,000 and was introduced about two years ago and is gaining momentum.

You see we have about 150 clients sold on this platform and we are very satisfied with the development. But keep in mind that RUN has been in the market for six, seven years and Workforce Now for four or five years so we are at the beginning of a trajectory here.

We have focused most of these clients on Vantage are new share clients for ADP and have been very satisfied with its competitiveness in the upmarket. In particular in the last quarter we saw very good results.

And then a trademark for ADP, the global solutions, here illustrated as GlobalView. This is a product that really allows large multinational companies to process all their HR and payroll needs across many countries with large population sizes and it is a blue-chip client list that operates on those systems.

All these solutions, cloud-based solutions, are offered also as part of an HR BPO service. So very important to think when we compare our performance it is not only the platform but it's also the upsell or brought us selling opportunity that we have to address with HR BPO additional needs of our clients.

What differentiates us? A lot of focus in today's world is in ease-of-user experience. And service bureau traditional full comprehensive BPO or software vendor, we all have to focus on an easy-to-use application. And we have invested and accelerated our focus on our own R&D in a major way and started two years ago, opened an innovation center in our Manhattan Chelsea location to drive accelerated innovation of our own products.

We are very satisfied with the progress we're making. Our new dashboards and our new user experiences are being rolled out as we speak, actually. I think this month 20 million employees in the US will get to use it, so we're kind of excited about that rollout and find that we have really established in many factors here market-leading capabilities of how employees and managers can interact with our applications to get the maximum out of them.

And you will see some examples here, the interactions look and are intuitive and tested. We use our large amount of analytical data and data that we have in our customer bases to enrich the experience for the users, very workflow and flexible oriented today's employee workforce. So this is kind of an early milestone for us to achieve relative to upping the game on technology and innovation.

Mobility is part of that usability. Today's workforce is global and virtual and ever so shifting. So we shifted our design paradigm on to designing our applications for mobile use first and so you will see as we roll out increased functionality and ability to drive our applications from a tablet or from a mobile phone.

We were first to market with the fully functional payroll offering for small business owners so they can process their payroll whenever and wherever they are on their mobile phone. And today more than 3 million employees are using our mobile application to access their vacation balances, book their absence time, submit their FSA receipts, and what not you have in one of the industry-leading functional comprehensive mobile solutions.

Our mobile user ship has been growing almost 20% in the first quarter alone up to 3 million, so this is a very steep trajectory. It is globally available in many languages and is really a great example of the technology push that ADP successfully has undertaken in the last couple of years.

I talked about global. Not only GlobalView for our largest client is a key differentiator for us but we have taken large efforts to make our global capability available to our midsized clients also have that need. And you see here Workforce Now, which is our midmarket product is offered with solutions for 33 countries and is complementing nicely GlobalView and streamline our multinational offerings.

So we pair these offerings and technologies with our regulatory insight. Italian payroll is quite different from the UK payroll and quite different from the US payroll and so forth. HR rules are very different in France versus the US and pairing our regulatory expertise with these solutions has made it one of our fastest-growing product sets in the Company.

We talked about compliance as a cornerstone. Historically we have developed our strength in compliance through our strength in payroll tax filing and money movement, core component, core compliance components of payroll processing. We have leveraged that strength and build really a multitude of compliance products on top of these platforms that help us to solve the real problems of our clients.

The Affordable Care Act is just a very recent and timely example of how we're trying to leverage an ever -- to our advantage and help our clients to manage an ever increasing list of regulatory compliance requirements that rains down on HR departments today. So ADP's Health Compliance product is designed to keep companies small and large compliant with the Affordable Care Act, a very complicated regulation. And ADP I think has a market-leading product out right now as we speak to offer our US clients.

We are in the process of establishing these global centers of compliance excellence even faster and better leveraging our expertise across the globe to help on compliance. You see here a little bit of a dashboard for our ACA, Affordable Care Act compliance dashboard showing how relevant this could be for any company. Large penalties involved and big mistakes can be made, so this is going to be high value add product for our clients.

Big data, I mentioned it in passing. We are using big data in many interesting and intelligent ways, building it into the user experience, helping managers and our employees just by offering help and suggestions on the wealth of data that we have incorporated in our databases.

But even more obvious it is that the 20 million employees that we have in our systems offer a great insight into almost any aspects of HR. We have the broadest product set, we have a unique wealth of information and we are selling today dashboards that offer really a new generation of HR benchmarks, very detailed in nature, very precise because they are based on excellent payroll data that will help managers to answer questions, simple questions like what is the wage benchmark for me in the northeast for a certain manufacturing sector to a degree that we can say wage increases were last quarter 2.5% because we can measure it that precisely.

But we can include other operational metrics like what is the hiring time between opening and closing unique, insight that will I think differentiate ADP's overall product sets for a long time to go. Because 610,000 clients, that is not so easy to replicate and weaving that into an intelligent set of managerial dashboards, benchmark analysis, and into the use of our applications is going to drive long-term growth for ADP to come.

You may follow us in the US; ADP is kind of well known for our ability to protect the US labor market. We have augmented these offerings and they will support the strength of our analytical offerings.

Here in our latest incarnation of our National Employment Report is the Workforce Vitality Index where we can take unique things into consideration like tracking employees switching, from one employer to another and understanding what the change in the economics and job characteristics are between different jobs. So really quite a level of sophistication that has not been available at all really in prior years. And I think we're taking the industry here to the next level relative to big data.

Same thing for social is true. Social is an important tool. HR is about working with other people and we have great applications and solutions and development to leverage really innovative components and performance management like peer-to-peer network and social performance elements and recruiting.

Of course more standard today to leverage the social networks for recruiting. But really on the performance and talent management side next generation of tools coming out for us and ADP. So as you can see not only the historic strength of ADP in our size, our market leadership in many of the more traditional HR products but the next generation of trends, cloud-based applications, big data and social will help us to drive sustained growth for ADP in the future.

So what is the result of it? We had posted for the last few years really very solid results. If you look we have grown our client count over the last few years, systematically reported about a 5% client growth from a number of clients on ADP systems, 5% up for last fiscal year.

We have really retention levels at historic highs and have a fast growth of our most modern and most powerful applications as illustrated here with a number of mobile users and cloud clients. So the transformation and leverage of the industry trends that are around us are playing to ADP and will be enhanced by ADP's historic strength. So that's the kind of longer-term outlook.

That's what we're driving as a company. And if I illustrate that a little bit by our current numbers to get us into the reality of what we're doing today, I get us back to a bit of the technicalities. I mentioned in my opening that we did spend our dealer services unit.

This is a \$2 billion revenue unit that has been part of ADP for many many decades. In our focus on HR we felt this was a good time to give dealer services, now CDK Global, a good opportunity to become their own public company. So ADP shareholders received CDK shares in a tax-free spin and ADP received a dividend from CDK of \$825 million.

CDK carries now a capital structure that is adequate for their own industry and we completed this spin, tax-free spin, on September 30. And we are planning to return that cash to our shareholders over the next nine months subject to share buyback subject to market conditions, obviously.

So as you restate and think about the new ADP, and we did restate in our public filings our performance, you should think of us as last year as a \$10.3 billion company excluding dealer services. Our first fiscal quarter that we reported just about a month ago was a solid quarter as we reported.



We offered 9% revenue growth, nearly all organic and a solid 13% earnings growth all on continuing operation excluding the impact of the dealer spin.

It is driven by a very good sales performance. We had 11% new business bookings growth, which is an indicator of how we are distributing our products and another quarter of record high retention. So as we looked around and commented, really an all-around good quarter.

The year is not done yet but clearly better to be off to a good start than the other way around. I talked about our new business bookings. If you don't follow ADP on a regular basis, retention and new business bookings are our core business indicators driving really the revenue growth and both performed very well.

We paired the good revenue growth and the good new business bookings performance with margin expansion that is indicated here on the chart. Pretax margins in both businesses, employer services business as well as in our PEO service increased nicely. And that package of revenue growth paired with margin expansion forms a solid base to deliver obviously good bottom-line results for all of us.

The metrics and the business environment continues to be solid. Our US pace for control is 3.1% reflecting a strong US labor market. Hiring was good.

ADP clients actually tend to outperform the US labor market by a little bit. As you know ADP carries client fund balances as part of our payroll business.

There is a \$20 billion client fund balance on our balance sheet that earns us interest revenue. So we have an impact from interest rates on our performance and the client fund balances actually did perform very well with the growth of 7%.

PEO, our second reporting segment a \$2 billion business that offers fully outsourced HR services including insurance solutions to our small- and medium-sized companies grew by 18% driven by a solid sales performance and good retention. So all around a solid quarter for us in the first quarter of our fiscal year.

ADP as a company has a strong credit rating. Those of you who follow us closely know that we used to be one of four AAA rated companies and as part of the dealer spin we also changed our rating agency, adjusted our credit rating to a AA/AA+ between Moody's and S&P, which is among the highest of course for our industry and represents really the exceptionally strong balance sheet that ADP brings to the table.

The advantage of our business model is that it is 90% recurring revenue based, which has allowed us to generate a consistent and strong cash flow over many many years. You'll see that the capital requirements with \$250 million a year are fairly small relative to our \$10 billion of revenue base. And as a consequence we have generated really a good return on our equity over the last few years.

Talking about capital, we have low, relatively low capital requirements even though of course growing our business strategically and funding the necessary investments is a priority for us. But with \$200 million of capital and room for strategic acquisitions that we planned for there's ample of room to return cash to our shareholders. And we just announced that it is also a good time to be on stage here, our 40 year of dividend annual dividend increases.

So it puts us into a list of a very few dividend aristocrats. And we did so despite dealer services leaving the Company and really temporarily increasing our targeted payout ratio of 55% to 60% to close to 68% of payout. So we decided to keep the dividend level and increase our dividends despite the Company getting smaller and having a reduced profit pool for the next year or two.

With that the dividend growth was this year for 2% which allows us to gradually regrow into our targeted payout ratio of 55% to 60%. And we will continue to return our shareholders through a very measured and thoughtful share repurchase program. And historically we have reduced our share count by almost 1% per year as part of our total shareholder return creation that we are targeting.



You see the returns to our shareholders in cash for fiscal year 2015. And that will be of course augmented this year by the dividend of the \$825 million that we received from dealer services.

So overall I hope that is an interesting and good story for European investors. And delighted to answer a few questions, if you may have them.

QUESTIONS AND ANSWERS

Unidentified Audience Member

First question, you currently said you had 600,000 clients and then you said you had the potential to serve 99% of multinational employees globally. What would be your total addressable market then of clients? The second question is just, where do you see FX affecting revenue into 2015 assuming say the dollar/euro goes up another 10%?

Jan Siegmund - Automatic Data Processing, Inc. - CFO

So the addressable market goes above and beyond the 99% of multinational employees. We estimate our total market size to be approximately \$100 million globally, about \$50 million of market to be addressed in the US and the rest outside the US. Our own strategic staff plans call for the HCM markets growing in excess of GDP, close to 2 times GDP if I trust our own market research expectations, one of the reasons why we like to focus on our business on the HCM market.

We have ample of room to grow relative to our \$10 billion of revenue, if that answers your question, so that's kind of how I roughly feel. In the US we pay one and six, so 18% market share employees roughly plus expansion opportunities to sell the full HR bundle. So the market size is not so much our concern but addressing the client needs and switching them around when they are ready to switch and be sold will be kind of the guiding factor for us to grow the business.

FX will impact our results. I think I mentioned this in our last call, in particular on the revenue. The revenue in Europe of course with the weakness of the euro would be the biggest impediment. And so it is hard to predict but there could be some impact.

But no bottom-line impact that we can foresee right now because we are translations as well were covered. Our expenses in Europe are also in things, so we expect some revenue impact but not, no meaningful bottom-line impact at this point in time. Any other questions?

Unidentified Audience Member

You are mentioning strategic acquisitions. Can you tell us were you may buy something strategic?

Jan Siegmund - Automatic Data Processing, Inc. - CFO

Historically ADP has acquired companies for three big factors. We have acquired product, we've acquired regional expansion and we have had client conversions in our client program where we have acquired client bases that converted onto our revenue base and product platforms.

And I think you will see us to continue to seek out geographic expansion and continue to seek out to acquire capabilities. Maybe less so in form of a new product because we have a fairly complete product set. But maybe along the lines of capabilities like strengthening our capability in the big data space or in social and so forth.

So forward-looking, strategic capabilities in the broader sense could be product, could be services would be in the space. We tend to do small- and medium-size acquisitions that we then plan to leverage by having access to our client base. That has worked the best for us.



But historically the last 12 months we have not done any acquisitions. No more questions?

I appreciate your time. Thank you very much.

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