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ADP - Q2 2015 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

ADP reported 2Q15 YoverY revenue growth of 7%. Expects FY15 revenue growth of 7-8% and diluted EPS growth of 12-14% vs. FY14.

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PRESENTATION

Operator

Good morning. My name is Ashley and I'll be your conference operator. At this time I would like to welcome everyone to ADP's second-quarter FY15 earning webcast.

(Operator Instructions)

I will now turn the conference over to Ms. Sara Grilliot, Vice President, Investor Relations. Please go ahead.

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

Thank you. Good morning.

This is Sara Grilliot, ADP's Vice President, Investor Relations, and I'm 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 second-quarter FY15 earnings call and webcast.

Before we get started with Carlos' commentary on the quarter, I want to give you update on our investor day. The event will be held on March 3 in New York City, and we have an exciting agenda planned that will showcase our new products and include an update on our business strategic initiatives. We look forward to seeing you there.

I'd 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. Good morning, everyone.

This morning we reported solid results for our second quarter of FY15, including revenue growth of 7% and worldwide new business bookings growth of 15%. During the quarter we increased the number of businesses in the cloud to 480,000 and migrated 22 million users to our new user experience, providing them with a new way to access their pay information. And since last year we have more than doubled the number of mobile users to 3.6 million.

We are on track with our client migrations and are pleased that we have migrated almost all of our small business clients to ADP RUN. We now have fewer than 2,000 clients left on the legacy EasyPay platform. We're excited as we prepare to sunset this platform in the coming week.

Our continued progress was made possible by our investments in innovation and our laser focus on leading in the human capital management, or HCM market. We remain optimistic, as our strengthening portfolio of strategic platforms continued to experience success in recent months. This success is evidenced by our year-to-date record client revenue retention in both the US and internationally, and our strong new bookings growth as clients of all sizes are seeing the value in ADP's integrated offerings and the value we provide in helping them manage their workforce.

In the US we continue to be focused on growing our suite of integrated cloud-based HCM solutions, and we are pleased with the number of new clients choosing our flagship platforms, ADP RUN, Workforce Now, and Vantage, as well as the adoption rates of additional modules by our existing client base. Our HR business processing outsourcing solutions, especially our PEO, continue to perform quite well as businesses look to fully outsource increasingly complex HR processes to ADP.

To further enhance our capabilities, during the quarter we launched ADP Health Compliance, targeted primarily at larger enterprises. This new solution, which ADP is uniquely positioned to deliver, helps businesses navigate the challenging and complex landscape associated with ACA healthcare compliance.

We are optimistic about the interest we have seen from clients and the opportunity this represents. We are also keenly aware of our opportunity in the HCM space outside of the US.

And although the European economic situation remains a challenge, ADP's strength in global compliance and our presence in 100 countries has contributed to our success internationally. Not only have we seen solid execution in sales to multinational corporations, but we continue to enjoy a leading position abroad for our in-country solutions.

Overall we are pleased by the balanced success we are seeing across our portfolio, and we are constantly looking for ways to provide better value-added services for all of our clients, whether they are small businesses or multinational corporations. We continue to sharpen our focus and evolve the end-to-end client journey, leveraging our unique insights and expertise to create a more integrated and seamless client experience.

We also understand that no two companies have the same needs or the same way of doing business. So providing flexibility and adaptability of our market-leading solutions is essential.

For this reason we introduced the ADP Marketplace earlier this fiscal year, which is designed to help employers make the most of their workforce data by empowering partner companies and developers to deliver new and innovative applications that leverage and integrate with ADP's data. The openness of the ADP Marketplace, which is enabled through access to our application programming interfaces, or APIs, enables workforce date integration across multiple workforce management platforms, provides clients with a more seamless and efficient HR process, and lets clients extend the value of their relationship with ADP.

In the three months since launch, our development team has begun working with potential partners. We're excited about the opportunity this provides for ADP to collaborate with third-party developers in providing solutions that help our clients better manage their workforce.

And as we leverage ADP's unique big data capabilities, we were delighted with the launch of our ADP Workforce Vitality Report this October. The new report from the ADP Research Institute is unique in its ability to provide insight into the health of the US labor market. Not just job numbers, but the quality of jobs and the trends driving its momentum.

When considered together with our well regarded national employment report, we are sending a clear message to the market that ADP is at the forefront of identifying, analyzing, and driving actionable insights in the HCM space. In that regard we are also encouraged by the demand we are seeing for ADP's Analytics solutions, which is particularly strong among our up-market clients. We introduced these solutions just one year ago.

While the product is still in its early stages, we are enthusiastic about future opportunities for ADP to leverage our big data capability. In summary, we have entered the back half of our fiscal year on solid footing.

While we certainly understand and are aware of the changing dynamics in the HCM space, we are confident that our robust offerings and insightful expertise will enable us to maintain and extend our leadership position. Again, thank you very much for your continued interest in ADP, and I look forward to speaking with many of you at our investor day on March 3.

With that I will turn the call over to Jan to walk you through our second-quarter results.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Thank you very much, Carlos. Good morning everyone.

I'm pleased with ADP's results for the quarter. Revenue grew 7%, nearly all organic. Pretax earnings grew 8%. The effects of foreign currency translation negatively impacted the quarter's revenue and pretax earnings growth by approximately one percentage point.

As Carlos described, ADP's sales force executed well in the quarter, delivering combined worldwide new business bookings growth of 15% over last year's second quarter. And as expected investments in our products and sales force moderated earnings growth in the second quarter.

Earnings per share grew 8%, which included a negative impact of about 1% due to foreign currency translation. Our tax rate in the quarter was higher than last year's second quarter, however better than we anticipated due to an unexpected one-time tax benefit.

ADP continued its shareholder-friendly actions, repurchasing over 5 million shares in the quarter at a cost of $436 million. As a reminder ADP received $825 million in dividend proceeds from CDK as a result of the spin-off which occurred on September 30, which were intended to fund share repurchases in accordance with the tax-free nature of the spin. We intend to complete these share repurchases by June 30, 2015, subject to market conditions.

Employer Services revenues grew 4% from additions of new recurring revenues from our HCM solutions. This growth rate was impact by almost two percentage points from foreign currency translation, as well as higher revenues received in last year's second quarter from administering employment tax credits for our clients here in the US and certain one-time benefits we experienced in last year's quarter, which all resulted in a more difficult compare.

Despite the more difficult compare and the growth headwinds we experienced from foreign currency translations, we continue to be pleased with the fundamentals of our business model. Our client revenue retention, which is at a year-to-date all-time high, improved slightly over last year's second quarter. Same store pays per control remained strong with an increase of 3%, and client fund balances grew 7% driven by net new business growth, as well as growth in pays per control.

As a reminder approximately 15% of our client fund balances are held outside the US, most notably in Canada, the UK, and in the Netherlands. So although our year-to-date balance growth is at the high end of our forecasted range of 5% to 7% for the full year, we anticipate coming in closer to the midpoint of the range due to expected pressure from foreign currency translation in the next two quarters.

We continue to be pleased with the overall revenue growth in our international business, as the positive results in Asia Pacific and Latin America as well as the success of our multinational offerings have continued. And although the economic situation in Europe continues to be sluggish, same store pays per controls was flat over the last year's second quarter, following several periods of decline.

Our pretax margin expansion Employer Services was 30 basis points in the quarter. Our business continues to perform well. However anticipated higher selling expenses and planned investments into products caused margin pressure over last year's second quarter.

The PEO continues to outperform, posting another quarter of strong revenue growth of 18% compared to last year's second quarter. Average worksite employees grew 15% to 354,000. The solid execution of our sales force and the strength of our distribution model continued to be a key driver of our growth.

We're also pleased that efficiencies in sales and operations continued to drive margin expansion in the PEO, which delivered about 140 basis points of improvement in the quarter. ADP's consolidated pretax margin improved by 30 basis points in the second quarter, which included a drag of about 20 points from slower growth of our high-margin client fund revenues, as these highly profitable revenues grew at a slower rate than overall revenues.

So now I will take you through our FY15 outlook, which has been updated to reflect the results we have seen in the first half of the year as well as the expected impact from foreign currency translation on our full-year results.

We've experienced a solid first half in the worldwide new bookings growth, and although we have a tough compare in the third quarter compared with last year's third quarter growth of 14%, we now expect to achieve about 10% full-year growth in new business bookings over the $1.4 billion sold in FY14. The fundamentals of our business are solid, and for total ADP we still expect revenue growth of 7% to 8% despite the current environment surrounding foreign exchange rates.

Although the overall forecast remains the same, we do expect changes on a segment level in Employer Services and the PEO. We are adjusting our forecast for Employer Services to reflect expected headwinds of about two percentage points from the impact of foreign currency translation, and now expect about 5% growth compared to our prior forecast of 6% to 7%.

And while once the employment tax program was extended through the end of calendar year 2014, it has not yet been renewed for calendar year 2015, and we therefore expect lower revenue than previously anticipated from these tax credits filed on behalf of our clients. For the PEO we are increasing our revenue forecast to reflect solid performance during the first half of our fiscal year, and we now expect the PEO to deliver 15% to 17% growth compared with our prior forecast of 13% to 15% growth.

So the mix has changed, but overall we expect to be on track for our full-year revenue guidance, even with the expected headwinds from foreign currency translations. Our pretax margin forecast for total ADP remains the same. We still expect 75 to 100 basis points of margin improvement from the 18.4% in FY14.

On a segment level we are modifying our margin expansion forecast for the PEO and now expect margin expansion of up to 100 basis points, compared with our prior forecast of up to 50 basis points. Our forecast of margin expansion in the Employer Services remains unchanged. We still anticipate about 100 basis points of margin expansion.

We are updating our forecasted effective tax rate to reflect the one-time benefit we've received in the second quarter, and we now anticipate a tax rate of 34.2% compared with our prior forecast of 34.6%. Although we have changed our forecasted tax rate, we expect to have earnings pressure from the impact of the foreign currency translation in the second half of the fiscal year, so there is no change to our diluted earnings per share forecast. We still expect growth of 12% to 14% compared with $2.58 in FY14.

And as a reminder this forecast of 12% to 14% includes an anticipated $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 buybacks beyond the anticipated dilution related to equity comp plans and the dividend proceeds from CDK.

There is no change to our previous forecast related to the client fund investment strategy. We could experience some pressure in client fund interest revenue in the second half of the year due to the changing interest rate environment and the impact of foreign currency translation on interest earned outside the US. However, we are maintaining our forecast and still anticipate an increase of $5 million to $15 million over last year from the client fund expanded investment strategy. The detail of this forecast is available both in the press release and in the supplemental slides on our website.

In closing, last week I had the opportunity to participate in ADP's annual ReThink conference in London. This was our largest ever gathering of clients and prospects representing multinational corporations. HR finance and IT executives from some of the largest companies in the world joined us for two days of discussions about the future of HR and ADP's HCM capabilities. In the many personal conversations I had with these leaders at ReThink, it is clear that our vision for HCM is resonating, giving me confidence that we continue to be on the right path.

With that, I will turn it over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from Sara Gubins of Bank of America. Your line is open.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Thank you. Good morning. Great performance in the new business sales this quarter. Could you give us some details on where you saw most of the strength?

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

It was actually across the board.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay, great. With the run migration now over can you talk about where you're shifting those resources? And also could you give us the client count for Workforce now versus those who are still on the legacy platform and when you'd expect to be able to shut legacy platforms down?

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

Jan has the numbers in terms of -- on Workforce now. In terms of our priorities, again I want to reemphasize how proud we are of the organization and small business that took on this very large task of moving several hundred thousand clients which in the benefit of behind sight now seems like the right decision.

We had our retention improve and our margin and cost structure improve in that business over the last two or three years, but that wasn't obvious that that was going to be the outcome at the time, and there was a lot of trepidation about losing clients and competitive issues and so forth. And it turned out to be very well executed migration that really enhanced our competitiveness, our market position, our market share just really across the board.

A great job by that organization. We are right at the end of the show here with only a couple thousand clients.

So I just want to give praise to that organization in terms of the job they did because that will serve I think as an example for the rest of the organization as to what can be done and what the outcomes are when it's done in terms of migrations. Because you can just feel simplification and simplicity entering into that business as a result of having only one platform, having to train only one set of implementations, associates, maintaining only one platform.

It's a real home run. So obviously now we turn our sights to the mid market and to the up market.

We have a lot of momentum and a lot of progress already with Workforce now in the mid market, and really national accounts, or the up market, is where we are now training our sights to as quickly as possible begin moving larger clients. So right now, the focus for us is doing what we can to use both internal resources, and we're actually -- I think we mentioned in the last call actually also using some external resources to help with those migrations in the up market to try to accelerate.

So I guess the answer to the question is we're trying to move resources that were being focused on the migration to run in the small business market over to national accounts. And I think in the mid market it's steady as she goes.

We're just continuing to plow away at moving as many clients as possible over to our strategic platforms. I think Jan has the numbers.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Sara, as Carlos mentioned of course RUN is a huge success story now with almost 425,000 clients on that platform is really a wonderful outcome. We're making similar steady progress on the [P50W] migration in major accounts.

I think we had formally alluded that we would finish this by the end of fiscal year, and we're still on track for that. We migrate in the first half approximately 3,000, and we have about the same left. So we're really here in the final stages of also finishing that major migration project.

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

And I think the other thing just to reiterate why we're doing this, I think there are a variety of reasons, but clearly two of the most important reasons are as we reduce the number of legacy platforms we can reinvest those funds in our strategic go forward platforms. That's exciting to be able to put even more resources into the new stuff.

And second of all, it's to improve our competitiveness in the marketplace. Because these older legacy platforms sometimes create some exposure from a client retention standpoint. So I think we've so far, knock on wood, I think proven that we're getting both of those things and then some from this migration strategy.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Operator

Thank you. Our next question comes from David Togut of Evercore ISI. Your line is open.

David Togut - *Evercore ISI - Analyst*

Thank you and good morning.

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

Good morning, David.

David Togut - *Evercore ISI - Analyst*

Carlos, you highlighted increased competitiveness as you move off legacy platforms and onto some of the new platforms. Could you perhaps share some insight in terms of direct competitive variance, let's say down market versus paychecks, and perhaps in the mid market versus ultimate where you've almost completed the transition to Workforce now?

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

We try not to get into specific one by one competitors, but I think overall in the categories that you described we have obviously a lot of data around win/loss ratios, and we have some data around market share. And I think that's why we make the comments that we believe our competitiveness is improving because I think our metrics show that.

And again, these are incremental improvements, but we're still happy with them and they're going in the right direction. I don't know if Jan has any additional color, but we measure competitiveness really in terms of winning or losing in the marketplace. And we believe that our win rates have improved as a result of not just our investments in new products but also these moves of putting our clients on our newest platform.

David Togut - *Evercore ISI - Analyst*

This is the follow-up to that. You mentioned 15% global bookings growth in Employer Services and strength across the board. Can you flesh that out a little bit?

Is some of the strength driven by particular new products? Does this tend to be more down market with RUN? Is it up market with Vantage HCM?

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

I think as we've mentioned in prior calls in terms of us being consistent about giving the same answer when things are good versus when they're not so good, sales for us are more variable than obviously our revenues and other metrics in our business because of the nature of the way our new business bookings work. So there are a lot of things that have an impact.

Incentives have an impact. We've talk about that in the past, how sometimes our incentives can hurt us and sometimes they can create more difficult compares.

The economy clearly has something to do with it. Competitors obviously are a factor as well. So there's just the strength of our product and the timing of product leases, so there's just a lot of things that go into the mix.

So it's very, very hard with a degree of objectivity to give you a specific answer as to what's driven the strength, but this is our second quarter of double-digit sales growth. And when I look at the trends over the last -- I wouldn't call it a trend, but we have a couple of decades of data around our quarterly sales results, and this feels like a very good situation for us because, as you know, last year we ended the year with 7% sales growth after several years of double-digit sales growth.

And I think we are on track this year, obviously based on our revised guidance, to see it at double digits again. So it's incredibly pleasing because I think it appears that we've at a minimum broken what I would call the economic cycle issue, which is we have tended in the past in strong economic cycles to go double digit, then we kind of trail off in terms of our sales growth over time. And then during recessions we end up going negative.

So this time when I look at that chart and I look at that trend, this was an important year for us, important quarter and important six months in showing that we can continue to grow our sales at double digits ex any factors in the economy, or in this case we obviously have some issues abroad, in Europe and a few other places. So I wish could I give you an objective answer other than a combination of a lot of things.

I think our products are getting incrementally better. Our sales force is executing incredibly well. We've refined some of our incentives over the years to drive better sales results.

We've also changed the mix of our sales headcount to have more components in our inside sales force to drive our sales expense to a better level. So it is just, again, I gave a lot of praise to our small business division for the migrations over the run.

I also got to give an enormous amount of praise to our sales force in terms of the way they executed this quarter and these six months, because last year was a tough year. And again, just to reiterate, it is across the board.

I wasn't trying to be short in that answer. It's just that that is the fact. Double digit sales growth across really all of our sales segment.

Up market, mid market, low end. Just really across the board. So I can't, unfortunately, provide you any more detail on that.

David Togut - *Evercore ISI - Analyst*

Thank you.

Operator

Thank you. Our next question comes from George Mihalos of Credit Suisse. Your line is open.

George Mihalos - *Credit Suisse - Analyst*

Thanks. Good morning, guys. Congrats on another strong quarter and good momentum.

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

Thank you.

George Mihalos - *Credit Suisse - Analyst*

I wanted to start off -- can you remind us how new sales break down throughout the four quarters? I don't think there's that much variability, but if you could address that?

And maybe related to that, January is a big month on the small business side. Maybe just your thoughts as we exit that month how the sales activity was there?

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

Funny you should mention that because I asked Sara for that data a couple of days ago just to -- we're obviously not going to talk about January because that's next quarter's discussion, but we do have the January results, and I was curious to see how much of the year's quota has been expended, because we do have very strong sales in November and very strong sales in January due to seasonality. But we also have, as you have probably seen in the past, a very, very strong June mainly driven because of our year-end incentives which we've talked about quite a bit, both the positives and the negatives.

So the long and short of it is that it actually works out the -- right about balance. In 7 out of 12 months we've expended about 7/12ths of our quota.

In six months it was probably a little bit less, but it's really not meaningful in terms of a difference in terms of you being able to think through or me being able to think through the odds of us being able to hit our forecast, given where we are in the year. In other words, we feel pretty good about hitting our forecast.

George Mihalos - *Credit Suisse - Analyst*

It definitely sounds that way. And then just a follow-up to that. The pace per control outlook, the 2% to 3%, you've been at 3% now over the first half of the year.

Is that just conservativism, keeping the low end of the range there? It would seem that you're going to be able to do better than that.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Maybe I'll answer that. Clearly we're at 3% for the first half of the year, and the number itself is not that impactful for our total results.

It's really dependent on is the economy going to change. Significant for us we had great employment growth as a country for now a number of years. So we didn't feel we needed to update it, but it should be right around that number.

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

And as a remainder, a 1% change in pays per control is $8 million in annual revenue. If that were to change by 0.5% for the rest of the year it would be a $2 million impact to revenue.

So I think as Jan said it's really not that impactful. But more importantly we've seen this movie before.

We're incredibly pleased that it's holding up at that level. And it's been that way for a few years, but it will at some point come down to a 2.5% or a 2% or somewhere in that range. But we hope it continues indefinitely, but are not planning on that.

Operator

Thank you. Our next question comes from Smitty Srethapramote of Morgan Stanley. Please go ahead.

Smitty Srethapramote - *Morgan Stanley - Analyst*

Now that the January 1 deadline has passed, can you talk a little bit more about the new ACA product, how it did in the quarter, and how it's done since the beginning of the year?

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

We don't have any specific numbers that we can share, but we're very, very pleased. Jan may want to add his own color, but we had a business review with the folks running that business actually quite recently and the number of units that we've sold and the new business bookings, we have generated new business bookings from this product, and we have actually started a handful of clients. And we have a very large backlog, and we're very excited about it.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

I think, Smitty, the ACA product as a new introduction serves, of course, as an example of ADP's strength of combining technology with compliance. And so we've [funlighted], of course there's one of the largest problems our clients face.

This ACA product is targeted for large clients of market products, so the number of units that we will be selling and trying to achieve is in the realm of a national account type product. And I think what yielded our positive outlook on the product is we really started in earnest in the last quarter and the second quarter to sell this product, and the pace of how the pipeline has filled and our ability to close a number of market names in that space has caused basically optimism.

I don't think you -- it will augment clearly and will support the growth rate of new business bookings, but it would be also wrong to anticipate that this would have percentage points difference in our sales growth rate going forward. It is going to be an important product that rounds out our value propositions, and in combination with our core offerings is very powerful, but that's more the purpose of why we talk a little bit more in detail about the ACA.

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

Thanks, Jan. Maybe my enthusiasm got ahead of me because our blessing and our curse is that we have nearly $1.6 billion in new bookings and $11 billion in revenue. So I think Jan is very correct that my enthusiasm wasn't intended to imply that this is going to add two to three points of either sales growth or a point of revenue growth.

You can do the math in terms of what that would imply. We hope that over the next two or three years it could be meaningful and significant, but clearly for this year it's not going to -- it's helping in rounding things out, but I should have probably been more careful in the choice of my words.

Smitty Srethapramote - *Morgan Stanley - Analyst*

Thank you for the clarification. And maybe just a follow-up on the same topic. As the PEO business continues to do very well, can you talk about what you're seeing in terms of customer demand for your ASO type products?

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

Sure. First of all, let me say that I was actually in Atlanta, had a great visit to Atlanta in December and visited with a couple of business units that operate mainly out of our Atlanta office, including the PEO and folks who run the ASO. And that business just in general is executing incredibly well, both PEO and the ASO.

So really all of our BPO offerings, mid market, up market, and the ones that you're referring to, PEO and ASO, are all I think really resonating in the marketplace. Probably driven in part by this increasing complexity around compliance.

So some of it is ACA driven in terms of people looking for alternative, so it's creating more meetings and more discussions which leads to more opportunities and then closing more business. Some of it may be what appears to be a growing need for focusing on talent as the unemployment rate begins to dip here and people start to focus more on attracting and retaining and managing their workforce well.

So I think there's probably a number of reasons in terms of creating some tailwind. But the very -- a great discussion, and just business is really executing very, very well, both the ASO and the PEO.

Just across the board great execution on the sales results but also in terms of the implementation of our business and the underlying metrics of the business in terms of pays per control there. They're all just -- they're all in very good shape. So a great discussion in Atlanta.

Smitty Srethapramote - *Morgan Stanley - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Gary Bisbee of RBC Capital Markets. Your line is open.

Gary Bisbee - *RBC Capital Markets - Analyst*

Good morning. Let me first follow up on that last point. PEO continues to be incredibly strong.

Is there any way to know how long the momentum continues at this level? And I guess what I'm particularly interested in are you seeing any -- now that a lot of businesses are in compliance with ACA, are you seeing any decline or is there any sense that maybe there was some pulled forward demand to get into compliance? Or are those drivers of more people being interested and considering their options remaining strong in calendar 2015?

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

And I think our plan is to have the momentum continue forever. That would be the way we are planning things, because in part the market share of the PEO industry in general in relation to the total employment for small and mid-sized businesses is relatively low.

This is a theme that I think has been true for a couple of decades. I think the backdrop in terms of the economy and the regulatory environment has some impact on whether clients are open to a discussion or not.

But the fact of the matter is you want to be in businesses preferably with lower penetration versus higher penetration. I think the PEO is that kind of business where only a couple percentage points at most of employees, the available market, is actually using a PEO.

So we believe that theoretically the opportunity is very large, and then it becomes a question of execution. Then as I mentioned other factors that may or may not be tail winds, like the regulatory environment which we think happens to be very favorable right now.

We haven't seen any signs yet that everyone is all of a sudden in compliance and that there's no more interest in the PEO because you saw the quarter results. And I think our forecast for sales results for the rest of the year for that business would not indicate any feeling or belief that interest is drying up.

So I think that there is a need to be in compliance, but if you remember ACA is mostly affecting clients with over 50 employees. What's causing some of the interest in PEO is the entire backdrop around ACA and the regulatory environment, which is people scrambling to have competitive benefits plans that can compete also with some of these exchanges.

So it's not specifically clients that need it on a particular date to be in compliance. I think this is something that will continue for many years to come, where small companies and mid-size companies are going to be looking for alternatives to healthcare plans that they may have in the past had on an individual plan basis, whether that be they look at our solutions through the PEO or they look at exchanges. I think people are just looking for alternatives to be able to keep their healthcare policy competitive in the their own business.

Gary Bisbee - *RBC Capital Markets - Analyst*

Great. And then the follow-up, it seems like you're starting to get more whether it's products or other from the innovation lab you set up a year or two ago, and I guess can you give us a high-level sense do you think those investments are going to lead to noticeable incremental revenue in the next few years? Or is it more on the margin?

And as part of that maybe could you just give us an example of what kind of thing the ADP Marketplace offering might be able to lead to? What would be like a tangible example of a potential product there? Thank you.

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

Just in terms of the -- I'll let, actually Jan can maybe talk about the examples in the ADP Marketplace because he is equally excited about that. But in terms of your question about innovation driven products and growth coming from that, again, back to unfortunately you have to go back to the comment in terms of keeping us all on the same page because of our size and our new business bookings.

So our new business bookings per year are larger than most of our competitors combined. So we have a large path. I think the innovation lab and some of our focus on product is intended to as, to use Jan's words to round out and ensure and hopefully improve a little bit on our growth rate in sales and revenue.

So clearly we would be less than ambitious if we told you that we're just trying to stay in place. But we're clearly trying to accelerate our growth.

Again the expectations that we create, very important for us to be transparent. And I think for us to move our revenue growth up a couple percentage points is very difficult and requires a big increase in new business bookings and very, very good client retention.

So having said all that, that's our plan, to try to continue to drive and improve revenue growth through better net new business, which is the difference between start or new business bookings and our loss. And our innovation investments are a large part of that as we've said multiple times.

All of the products that we've discussed that have come out thus far that are new out of either innovation lab or some of our other processes that we have internally in terms of new product launches, are relatively small in comparison to the size of our new business bookings in total and to ADP overall. So it's very, very hard to say today that it's going to add X amount of incremental sales for revenue growth, but that's our plan over multiple years is to really have a pipeline of organically built and organically developed products that are easier to use and provide better value to our clients and are better integrated to really drive more unit sales, but also more sales of our additional modules around benefits, talent management, and other areas around HCM in addition to our traditional payroll. So I don't know, Jan, if you want to talk about the Marketplace?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Absolutely. Of course the Marketplace is basically an offering that allows a third-party software developer says well as clients can easy integrate with our core product offering.

With ADP focusing on human capital management we realize that we're living in an integrated world, and I think we have the utmost flexibility for our clients to integrate our solutions into their overall businesses, which is very important. So we expect, for example vertical-specific applications to be available, maybe the restaurant industry or maybe the retail industry that would leverage employment data for additional value add components to it.

But it could be also products like advanced management that we don't offer and have a close relationship to our core payroll offering that will benefit from tight integration into our core product set. I think the message we want to send primarily with this call is our push for innovation and to be at the leading front of having flexible and easy to integrate technology that makes the value to our clients the highest is our intent.

And that may be a different notion compared to the ADP that you would have known three, four, five years ago where we were a little bit more proprietary and harder to integrate maybe. And today we really believe in that integrated network of applications. So that's what the marketplace is really about.

And it's kind of an outcome of our investments into innovation, including our ability to have these APIs really accessing a whole bunch of our applications just through one API. So I think a very good step forward for us illustrating the progress we're making in the back of our technology actually.

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

I think in a nutshell it's really an app score and we already have an app there, and we intend to drive more partnerships. We hope that it will not only make things better for our clients because of their ability to integrate, but we do have revenue share agreements like anyone else would have in their types of app scores.

So the key question is what's going to be the degree of success? Because this is literally brand new. So we'll obviously keep you informed because this could end up being a large opportunity, or it may not from a revenue and sales standpoint.

Gary Bisbee - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Thank you. Our next question comes from S.K. Prasad Borra of Goldman Sachs. Your line is open.

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

Hi. Thanks for taking my questions. First on the PEO segment, can you provide any color on the mix of your customer base and what traction are you seeing more at the mid to low end? And what positive impact does it have on operating margins in the midterm?

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

In the PEO the mix of business, our PEO tends to be more white and gray collar than I think the average of the US economy and some other PEOs. So that's number one.

Our average client size I believe is around 40, if I'm not mistaken. Yes, I'm getting the confirmation, around 40. So that tends to be probably slightly larger than maybe some other PEOs.

But we still have a lot of small business clients. So its obvious there are averages. We have a few large clients that improve the average, but it's still largely an under 50 sweet spot business if you will.

In terms of industries, tend to stay away from -- that doesn't mean we don't have any, but we tend to stay away from very high-risk things like roofers and construction and so forth. In terms of the impact on the margins on the overall business, we segment report so mathematically it's a drag on our earnings when PEO is growing as robustly as it is.

Having said that, the fact of the matter is that on a pure earnings growth standpoint, it is an incredibly accretive and profitable and attractive business on any measure, whether it's on an MPV basis, the business really requires no investment per se. Whatever investments we make most of them run through the P&L so there no outside capital investments that would drive a return other than what you are seeing, which is a very high return business despite the fact that because of its profile it just happens to have a lower margin because of all the past. So we will grow the PEO as fast as we can, because it will add to EPS growth and shareholder value, and we will explain and manage through the margin compression if necessary.

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

I'm sorry, I also meant that just from a customer profile point of view as it changes over the next few years based on your investments and based on your sales and marketing push, what kind of a positive or negative impact does it have as your customer profile in the PEO segment changes? And probably just one other question is more from a product portfolio perspective are there any obvious areas in your product portfolio where you want extra investment both organically and through M&A?

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

Do you mind just clarifying, you're expecting what kind of change in our client profile on the PEO?

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

I was saying that if your customer profile size probably decreases from say the 14 number to probably 20 or whatever that is, do you have more profitability as the size of your customer profile decreases?

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

It's been very consistent for a long, long time, and I don't anticipate that it's going to change dramatically. When we had our business review in Atlanta the profitability of our large clients versus our small clients, there's some differences but it wasn't meaningful.

And again, we have 350,000 worksite employees now. To move that number from 40 to 20 would almost be impossible in any kind of reasonable period of time. On your question about what things do we want to -- I think your question was what do we want to make more investments in?

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

From a product portfolio standpoint.

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

From a product portfolio standpoint I think you are going to see us continuing to make the same kinds of investments that you've seen us do over the last two or three years, which are really focused on creating a better integrated, easier to use experience for our clients. And so the work that we're doing in the up market and the work that you've seen us do in Workforce now are all around all of that.

So we have -- we believe we have already a very broad set of solutions in HCM all the way from recruitment to retirement. So what we're really trying to do is enhance the usability of our products and the integration of our products, and then obviously we mentioned in our talking points that we believe that data analytics is a huge source of potential competitive advantage and insight that we could provide for our clients.

Because now that we're all in on HCM what we really want to do is be known for helping our clients better manage their workforce. And that means going beyond just data processing and being efficient to really providing expertise and insight, and data we have I think allows us to do that but that requires some investment as well.

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

That's very helpful. Thanks, Carlos.

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

Thank you.

Operator

Thank you. Our next question comes from Joseph Foresi of Janney Montgomery Scott. Your line is open.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

I wonder on the new bookings growth can you give us some idea of what of that is attributable to either change in incentives versus the macro versus the new product you have in place? I'm just trying to get a sense of sort of how you can break that down. And then I have one follow-up.

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

I may have confused the issue by bringing even the topic of incentive up. There's been no changes in incentives. I just always mention that because it seems to rear its head sometimes in our fourth quarter, either in a positive or a negative.

And then it rears its head again in the first quarter because we have a lot of incentives that drive year-end results. This is true in almost every company that has a sales force where you have accelerators or incentives towards the end of the year.

So I think it happens a lot in software companies. We're no different. This specific quarter no changes in incentives, so there's really nothing to report there.

I should have probably not brought it up. In terms of how much of it was new products versus sales force execution, I think the people from R&D would say that it was 100% product, and sales would say that it's 100% execution. So the truth is probably somewhere in between.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Let me add that it would be, as you know, the sales model drives from adding heads to our sales force, and overall drives productivity of our sales force with enhanced (technical difficulty) of our product and better execution. And we see a balanced growth profile as well. (technical difficulty)

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

And that productivity has really been phenomenal for multiple years now. I'm sure that products are helping, but clearly it's also really great execution and great leadership in that organization. They have proven once again this quarter that we have the best direct sales force in the world.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Got it. And then just on any color on win rate changes, if you want to be at either the company level and/or within the individual mid cap, large cap spaces that you're going after?

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

We watch those numbers very carefully and we're also very, very careful about how we talk about that. I would just tell you the best way to describe it is a generalization.

I think Jan can add, but I would say that we are very, very pleased with the focus that our business leaders have in improving our win rate, our win/loss rate, not just at the retention level in terms of losing clients, but up-front in the sales process. I think we have leaders who understand the importance of winning in the marketplace and of increasing market share and metrics we have are very -- are encouraging.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

As we have discussed both times at the highest level improving sales, improving retention generally just has to be indicators about (technical difficulty) relative to prior periods. And that's really virtually the only number that you can draw from at the high levels. At the detailed level, I think we shared with you that our losses are comprised not of a single poor lost competitor, loss that was to a single competitor, but to a whole range of 20, 30, 40 competitors that we all need to monitor.

So I think it would be probably misleading to point out single ones because -- and it's not a single competitor is material (technical difficulty), but the aggregate of the 30, 40 competitors that we monitor are very important to us. So that's why I think it's probably most fair to go with the directional comments that Carlos gave and round it out with the overall competitiveness of accelerating sales and put them together to form an overall picture.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Bryan Keane of Deutsche Bank. Your line is open.

Ashish Sabadra - *Deutsche Bank - Analyst*

Hi, this is Ashish Sabadra calling on behalf of Bryan Keane. Thanks for taking our question. Quickly on the PEO, a pretty solid growth there.

If you look at the average worksite employee paid growth for the last four quarters, those have been trending in the mid-teens or even higher. And those have been significantly higher than what the normal growth has been over the last few years.

So just looking forward to these [ex-rated] growth created -- tougher comps going forward? And also what would be the normalized growth in the worksite employees as we look forward on a more normalized basis? Thanks.

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

I think it's a very good question and again we would hope that the momentum continues indefinitely, but I would tell you that when you look at our operating plans and our forecasts, the compares do get more difficult. That business happens to have a great deal of lumpiness on January 1 because of the way taxes operate in the PEO environment.

Ironically there was a change in the law as part of the year-end Congressional laws that were passed that are going to make that a little bit easier going forward, and PEOs are not going to have to restart taxes. So that should smooth out the lumpiness of that business somewhat, and not have such a huge peak in January.

But the reason I bring that up is because of that peak in January the growth rate of that business, even though they tend to have another peak in June because of our fiscal year end and the incentives that we always talk about in sales there, January has been a particularly important number for us in the PEO business because the difference between the new business bookings and the losses that take place in that December to January time frame tend to drive the year-over-year growth rate on the worksite employees for the next 12 months on a calendar year basis. And because of just the size of the business, which is 350,000 worksite employees, I think anyone can do the math and figure out how many new worksite employees we need to sell.

We know what our retention rate, or you can probably guess close to what our retention rate is, and you can figure out that -- the need to sell that many clients larger than probably all but two or three other competitors in the space. The compares are getting difficult, to say the least.

And we are entering the law of large numbers. So if it were me I would probably be expecting moderation in the growth rate.

It doesn't mean that it is going to happen next quarter or this fiscal year, but I think it's a good idea to moderate the expected growth rate of that business. We've been incredibly pleased with it for the last two or three years, but I think we're just trying to be realistic here in terms of expectations.

Ashish Sabadra - *Deutsche Bank - Analyst*

Carlos, thanks for that color. Quick follow-up again on the PEO side. When I look at revenue for average worksite employee that has been trending more in the 3% range in the first half of the year.

Can you just talk about what are the drivers there? Is it higher fees, more pass through? And as you look forward how should we think about that particular metric? Thanks.

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

Actually, all of the above. So it's additional fees, as in fees that drive our bottom line we call processing revenue and hence our profitability, plus also the past.

So whenever you have inflation in either workers' compensation or in benefits cost, that will also drive growth obviously in revenue and also growth in revenue per worksite employee in that business. So we give you the worksite employee number, and we provide in the Q and in the 10-K pass throughs and you can actually do the math and figure out how much of the growth is coming, because we're trying to be transparent, how much of the growth is coming from pass throughs, and that allows you to back into how much of the growth is coming from our fees, if you will.

And again, back to my visit to Atlanta, I think they're both growing at reasonable rates. So there isn't -- and again, we would tell if you our fees were dropping and it was all because of pass through.

The reason we haven't told you that is because it's not true and there's nothing to report. It's been consistent for many years now that the PEO has been growing its own internal fee income per worksite employee at a call it 2% to 3% rate. And then the pass through has been growing at varying rates, depending on what's happening with healthcare inflation.

Ashish Sabadra - *Deutsche Bank - Analyst*

Thanks for the color. Very helpful.

Operator

Thank you. Our next question comes from Jason Kupferberg of Jefferies. Your line is open.

Ryan Cary - *Jefferies & Co. - Analyst*

Hi, this is Ryan Cary calling in for Jason. I just wanted to dig a little bit deeper into FX.

I was hoping you could give us a little more color on your assumption for the remainder of the year. So when we're looking at the 1% full-year headwind, does that assume the dollar trading at the current levels?

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

That is the assumption.

Ryan Cary - *Jefferies & Co. - Analyst*

Thanks so much. Then now that the dealer services business has been spun out and you really are a pure play HCM company, is it plausible you might look to M&A a bit to extend your reach further into the market?

And kind of even looking beyond that, when looking at the market where do you see the most M&A opportunities? Is it more in the legacy core payroll processing side of the business, or is it more along the PEO/BPO side?

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

We actually -- we do still do acquisitions in kind of our core payroll business, as you have just described. They tend to be kind of tuck ins and they're just -- they're migrations.

As you can tell from our theme, we're trying not to maintain and add additional platforms in our business for the time being. But we do do those.

Again, because of our size we don't talk about those a lot, but we are kind of actively using our capital to, when we can, grow market share as long as there's a good MPV associated with the acquisition. We tend to call those client-based acquisitions where we're buying the client and moving them onto our platform rather than buying the entire entity or the company.

Outside of that space in terms of just the broad HCM market, again we think we have a broad solution from recruitment to retirement, but we absolutely understand and acknowledge that there are people that are stronger than we are in some parts of HCM, and it may be appropriate at some point and in some cases to enhance our capabilities through M&A activity or through acquisitions. So we are -- it may not feel like it or look like it to many people, but we do want to use our capital but we want to use it wisely.

And so it has to make sense in terms of the technology that we're getting, and it can't just be revenue and a new platform. That's not our strategy.

And so there has to be -- it has to be on our terms and it has to fit into our strategic direction. But we believe that there are opportunities out there that would enhance our competitiveness and our ability to grow and add new business bookings, but we're being incredibly disciplined.

And as you know the valuation backdrop is not favorable in the HCM market right now. And I think the other big opportunity for us is geographic. You saw that we made an acquisition in Latin America last year.

This is a place where, again, back to the issues of market share, we talked about the PEO having very low penetration in general, in our PEO specifically, geography is another place where you look at outside the US ADP has really only scratched the surface of opportunities in many of the geographic markets that we serve. Not just multinationals but also in countries.

So this is another place where it would be a safe assumption to plan on us using our capital to kind of expand our reach globally. It may be counterintuitive because today it feels like because of what's happened with FX everyone is running from international, but generally speaking that's exactly the time to look at something, is when everyone else is running away. So we're, I think, continuing to look at opportunities outside the US and trying to find ways of enhancing our competitive and our growth outside the US.

Ryan Cary - *Jefferies & Co. - Analyst*

Great. Thanks so much.

Operator

Thank you. Our next question comes from Jeff Silber of BMO Capital Markets. Your line is open.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much. A thing we've seen in earnings season with a number of other companies is the impact of declining oil prices on their business.

I just was wondering if you've seen any of that either in a positive or negative way. On the negative side I would think would be if you have a lot of energy exposure, if you've seen some reduction in payroll from some of those customers. Thanks.

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

I think it's a good question. Just because of, again, of our size and our geographic spread and our industry spread, the answer would be no. Certainly not something that we've been able to identify.

So we will look at it again to make sure that my answer is correct, but we really don't have that kind of concentration in our business. We're so big and so broad, both in the US and also globally, that the real impact is this FX impact which may or may not be connected to what's going on with oil, but it's certainly connected to what's happening in Europe and in Japan and other parts of the world.

And luckily for us only 18%, in this case luckily for us, because it's something that we've been trying to address, and I just mentioned in my previous comments, we're trying to become bigger internationally. But the fact is that today our revenues outside the US are only 18%.

And as you know some companies that are peers are in the S&P 500, have close to 50% of their operating earnings and their revenues outside the US. So we have relatively less exposure, and that happens to work out well right now.

Our operating income I believe is only 15% exposed outside the US. And both the 18% and the 15% include Latin America, Brazil, and include some business in Asia. So our European exposure is even less than 18%. So again, it's a drag on our revenues and our operating income, but on a relative basis it's a smaller impact for us than it is for some of our other large cap brethren.

Jeff Silber - *BMO Capital Markets - Analyst*

Great. And just a follow-up to that. Can you just remind us where your international exposure is the largest?

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

It is in Europe.

Jeff Silber - *BMO Capital Markets - Analyst*

In Europe. And how about Canada?

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

I'm sorry, in Canada --

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Canada was number two.

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

Canada would be number two.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much.

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

And Canada is -- it's actually a relevant good question because Canada is a relatively large business, call it between $300 million and $400 million, and it's quite profitable. It's like a small version of the US.

It's a very good business. Been in Canada for decades and decades. And the reason I mention that is clearly because of the profitability of that business, and we have a very good float income business in Canada as well, the impact of the Canadian dollar move has a decent impact on our overall revenue growth in Canada and also our operating income growth in Canada when it gets translated to US dollars.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much for the color.

Operator

Thank you. Our next question comes from Jim Macdonald of First Analysis. Your line is open.

Jim Macdonald - *First Analysis Securities - Analyst*

Good morning. Thanks for taking my questions. Just on the PEO, one more little thing. Anything of note during the critical year-end selling season?

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

The only thing of note is it did a spectacular job.

Jim Macdonald - *First Analysis Securities - Analyst*

Okay. And you talked a lot about integrated solutions, and I suspect we will hear a lot about that at analyst day.

But how would you sort of view -- grade yourself in integrated solutions? And what areas are you looking to improve there?

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

I don't think I'm going to take that bait. So I think it varies.

I think our strategic platforms are actually quite well integrated and quite broad, and have rich feature functionality. So we still have pockets where we haven't been able to migrate clients where competitors would point out lack of integration.

And I think that's just lack of ability or termination to move those clients to our strategic platforms. Because once we have those clients on our strategic platform, I think these issues of integration tend to fade into the background. So I think it's a legitimate criticism of us, but it's old news and it's historical, and it won't be true in the near future.

Jim Macdonald - *First Analysis Securities - Analyst*

Thanks.

Operator

Thank you. Our next question comes from Ashwin Shirvaikar of Citi. Your line is open.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you. This may seem like a hard question, but over the last few years as you have progressively simplified the overall business, the talk that sort of comes up is what are the synergies?

And are there synergies that you can point to why the Employer Services and PEO businesses should be under one roof? Or can you take advantage of the excellent performance in PEO and the valuations in pure play PEO and shed that business and become really pure play ES?

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

Frankly, the two businesses because of coemployment, because of passages and a number of other issues, it's a separate segment. But the businesses have a lot of -- share a lot of things in common, including the sales forces work very, very close together.

So our small business and mid-size business sales forces of which you know we have thousands of people on the street, provide leads to our PEO sales force, which has its own sales force, but without their brothers and sisters in the rest of ADP I don't believe that our PEO would have the kind of success that it has today. So the biggest synergy we believe that we have in distribution and in sales, and we believe it is large and a very big moat for our business, has been historically and I think it will be going forward.

I think there are other advantages. We have capital so when we run into issues around historically in the marketplace around workers' compensation, we've been able to do things that others eventually were able to do, but we had more flexibility in terms of being able to use our capital and our strong credit rating.

And so I think there are other advantages to having the PEO be part of ADP, but the most important one is the sales synergy. So I would say that I can't envision that business being a separate business.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. Understood. I guess another question I have, and you mentioned this in the past with regards to the ongoing platform consolidation, as we think of the forward margin impact of that and how much will you allow to flow through to the bottom line versus investing in other things, could you help clarify?

I'm assuming it is primarily not so much a FY15, but more like a FY16, FY17 impact. But just trying to quantify if we are going to see potentially outsized margin improvement years.

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

I think that it depends on the competition. If we were ever able to get into a situation where there were no competitors left, then we would not reinvest anything in the business.

But we're trying to build -- I think Jan and myself and the entire Management team are keenly aware that today we have the opposite situation where we have a highly competitive environment and a lot of competitors, some of which have done a very nice job. And so our plan for the short term and medium term, and we'll go into a little bit more detail at the investor day, is to invest as much as we can in creating long-term value for this Company.

So we are a 65-year-old company. We intend to be around for another 65 years. And the on way to do that is to be constantly reinventing yourself and reinvesting in the business.

And so our strategies around migrations are in part to make sure that our stakeholders and our shareholders also get some return in the form of improved margin. But the main reason why we're doing the things we do is to create better competitiveness and to create long-term value for the Company, so that we make sure this enterprise endures and continues to grow at a very good rate for a long time, not just for a year or two.

Ashwin Shirvaikar - *Citigroup - Analyst*

Got it. Understood. You guys sure don't behave like 65-year-olds, but it's a good thing.

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

Thank you.

Operator

Thank you. Our next question comes from Mark Marcon of Robert W. Baird. Your line is open.

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

Good morning. Carlos, I was really encouraged by your comments with regards to international and investing there.

Nice to see somebody take advantage of the strong dollar. Can you talk a little bit more about the opportunities that you see over there and what you are hearing, Jan, in London in terms of the receptivity to ADP and how it's positioned vis-a-vis some of the competitive alternatives?

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Yes, I think, Mark -- thank you for the question. When we talk about ADP's global footprint, just to level set, we have a physical presence of in-country solutions in about 40 countries, and we offer more than 100 countries now solutions.

Some of these countries we serve through partners, and our Latin-American acquisition that we did a little bit more than a year ago was one of those partners that we worked with. So we're great partners.

I think the integration and ownership of certain technology assets allows us to improve the services, to offer clients a more integrated as we talked solution so that when we evaluate where to expand and in what countries, it's really driven by the demand of our multinational clients and the ability to have partners that have good technology solutions and services that would help us further differentiate that solution. They already are market-leading solutions and the vast majority of the outsourced global market is really captured by ADP.

So we're very, very good on the multinational side. We continue to keep that advantage that we have by the investment.

So I think it's really driven by where is a lot of demand and is in that country a good competitor or a good partner that we think is viable to be acquired? And I think that will drive the expansion. To moderate that expectation these tend to be now smaller countries or faster growing countries, so the acquisitions are maybe a little bit smaller in nature and more technology oriented, but they will certainly then help us to cement our leading position over time.

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

I appreciate that color. Carlos, on the PEO side, can you talk a little bit about what your -- the clients that you're gaining, are they existing PEO clients and you're taking them from competitors?

Or are they brand-new to the PEO and it's a complete conversion? And which regions of the country are you seeing that stem from? In other words, is it the well penetrated markets like Florida and Texas, or do you see a rapid expansion across the country?

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

Again, back to the visit Atlanta, we got some information on some of those questions. And I think that we've actually consistently for many, many years had a mix of clients that we get from other PEOs.

And again it's very similar to the ADP business model, and a fair amount that come from what we call in-house. So they're doing it themselves. They have an insurance broker for insurance, and they do payroll with ADP or with someone else.

So I don't think there's really any meaningful change to report there. Clearly there are more competitors that have a higher profile now in the PEO space than maybe two or three years ago, but again this is a business where we clearly run into competition.

But because of penetration rates and market share for both us and our competitors, there's still a lot of open territory out there in terms of -- I don't mean geographically, but I mean in terms of clients to sell that are not necessarily with a competitor. Having said that, we clearly take our fair share from competitors and some of them take their fair share from us.

But there's really nothing meaningful to report there. In terms of the geographic distribution of our success, again because of the size of the business, we clearly have variability in terms of different regions and different parts of the country which are driven in some cases by execution issues, in other cases by pass-through costs like healthcare.

So a variety of reasons that might cause shifts in one region versus the other. But because of our sheer size there really isn't any one region who is performing very poorly, because it would be impossible for us to generate the kind of results that we're delivering now if we had any one specific geographic region not performing.

So they're really performing well in a fairly balanced way. There's really nothing significant to report there either.

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

So from a longer term perspective do you believe that with the new legislative change that the penetration rate can become more even across the country relative to the way it is now?

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

The changes in the law really affect the way taxes start at the federal level, and so I don't think that really causes a change in geographic -- well, it could because higher wage clients in California and New York, for example, the tax restart issue was more pronounced in higher wage areas and higher wage states.

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

Right.

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

So there might be some small impact from -- a positive impact from the fact that taxes won't have to restart again. But I think the biggest impact that we expect to see is more evenly distributed sales throughout the year, and clients not having to wait until January 1 to start because of this negative impact from the tax restart.

So that's really the most meaningful issue. And I think that helps a lot in terms of the execution of that business.

And it might actually help a little bit in terms of incremental sales because it's not always easy to talk to a client in June and then convince them to sign but start on January 1. So the fact that a client can now sign up and start in June without any negative impact from the tax restart should be an enhancement to our competitiveness and to the industry's competitiveness.

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

Great. If I could squeeze one more in, just on the mid market space, what percentage, I missed it, what percentage of your client base has been switched over to Workplace Now?

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

Workforce Now?

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

Workforce Now.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

So we have now about 1,000 [TCW] clients meaning?

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

Out of --

Jan Siegmund - *Automatic Data Processing Inc - CFO*

Out of what? In the mid market?

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

Out of how many?

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

We have about almost 55,000 clients on Workforce Now. So a very small number. So we're kind of really on task to hopefully finish this as planned in this fiscal year, end of FY15.

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

Great. Thank you.

Operator

Thank you. Our next question comes from Lisa Ellis of Bernstein. Your line is open.

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

Question on the PEO. I think when we've discussed it before you've indicated that a small sized M&A in the PEO market, like rolling up these 700, 800 odd small PEOs out there is tricky because of the underlying insurance risk in those companies. Given the secular growth -- accelerated secular growth we're seeing in that market, have you revisited that? Or is that still off the table in terms of accelerating the growth in the PEO?

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

Well, I think the best way to answer that is that I think that the PEO in general, depending on how much risk you take and have -- I don't think the secular growth or tailwinds really impact the, I guess our view of the world that way in the sense that insurance cycles tend to take place over long periods of time. They don't take place in one quarter or one year.

Whenever you take risk, whether it's on healthcare or workers' compensation, the balance sheet reserves that you have are very, very important. Secondly, what you've been taking in terms of P&L expense to drive those reserves is incredibly important too, because it either accurately reflects or doesn't accurately reflect true profitability of those worksite employees for those clients.

So I guess I could go on and on but no, it doesn't change our view that these businesses have underlying insurance risks. And as long as a PEO is taking risk, have to then analyze it and look at it as a insurance risk rather than as a recurring revenue processing business which the rest of our businesses are.

So we treat the PEO as one of those ADP businesses and transfer the risk to either the carriers through healthcare or in the case of workers' compensation to a captive, which is run by our corporate group at an arm's length. And hence we believe that we run ours by isolating or limiting the insurance exposure. And I think most of our competitors take a lot more risks than we do, whether they're small or large, and that's not of interest to us.

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

Terrific. Thank you.

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Operator

Thank you. And our final question comes from Tien-tsin Huang of JP Morgan. Your line is open.

Tien-tsin Huang - *JPMorgan - Analyst*

Thank you, I'll try and be quick. Just following up on that, on all these PEO questions, just to clarify, was the raise in the outlook driven by what you are seeing in January or something else? Just trying to get some understanding around the change there.

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

It was really based on the prior six months. Any questions on the PEO?

Tien-tsin Huang - *JPMorgan - Analyst*

I guess I'll ask one more, just on the sales headcount growth on PEO. Have you disclosed what that is? Have you elevated that number in the last 12 months?

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

No, we don't really disclose sales headcount by business unit, but you can assume that it's growing at the same -- in line with kind of the overall sales headcount growth of plus or minus a little bit. But as Jan said, we're trying to grow our sales headcount call it between 2% and 4%, and then try to achieve the rest of our sales results through productivity improvements.

Tien-tsin Huang - *JPMorgan - Analyst*

And then just quickly on the international base for control, can you give that by the three regions, big regions, and that's all I had. Thanks a lot, guys.

Jan Siegmund - *Automatic Data Processing Inc - CFO*

I think we disclosed the European thing. As I mentioned it was flat for the quarter, and we had like 10 or 20 basis points decline in each of the quarters before.

So it really has flattened out in Europe. So a very gradual stabilization. I think when we talked about the European performance and how much that backdrop is still sluggish as we would describe it, but overall the performance actually of our national was quite good.

Tien-tsin Huang - *JPMorgan - Analyst*

I'm all set. Thanks. Sorry.

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

Thank you.

Operator

Thank you. This concludes our Q&A session for today. I am pleased to hand the program back over to Carlos Rodriguez for any closing remarks.

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

Thank you all for joining the call today. You probably could tell that we're very pleased with the fundamental performance of the business here in the first six months.

Very, very happy with the record client retention and the very, very strong new business bookings growth. And I think both of those things reflect that we're winning our fair share in the market.

And despite the economic headwinds from the foreign currency translation and some still ongoing pressure from interest rates, we're still on track to deliver our full-year revenue and earnings guidance which is very satisfying for us. We hope to see you at our investor day on March 3 in New York City. Thank you again for joining us, and have a nice day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.