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ADP - Q3 2015 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

ADP reported 3Q15 results. Expects FY15 revenue to grow about 7%.

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PRESENTATION

Operator

Good morning. My name is Said and I will be your conference operator. At this time, I would like to welcome everyone to ADP's third quarter FY15 earnings webcast. I would like to inform you that this conference is being recorded.

(Operator Instructions)

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

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

Thank you. Good morning, everyone. This is Sara Grilliot ADP's Vice President, Investor Relations. And, I am here today with Carlos Rodriguez, ADP's President and Chief Executive Officer; and Jan Siegmund, ADP's Chief Financial Officer.

Thank you for joining us for our third quarter FY15 earnings call and webcast. Before Carlos begins with a discussion of our achievements in the quarter, 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 turn the call over to Carlos.

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

Thank you, Sara, and good morning, everyone. This morning we reported solid results for our third quarter of FY15. Which, included revenue growth of 7%. Despite increased pressure from foreign currency translation.

Worldwide new business bookings grew 6% in the quarter, compared with a third strong quarter last year. I'm pleased that fiscal year to date, our new business bookings growth is a solid 11%. Putting us squarely on track to meet our full-year forecast of about 10% growth.

Our results are directly attributable to the continued focus and dedication of ADP teams across the world that are driving our HCM strategy. Recently, we had the opportunity to detail this strategy during our investor day which was held on March 3. If you did not have a chance to attend or listen live to webcast, a recording of the event continues to be available on our website.

During our investor day, we outlined our strategy which consists of three pillars. First, to continue to innovate from our core platforms, to grow a full suite of cloud-based HCM solutions that work together seamlessly. Second, continue to scale our industry-leading outsourcing solutions. And third, to expand into global markets that can benefit from our HCM offering and grow globally with our clients. We see evidence of success in executing on all three pillars, which contributed to our performance in the quarter.

Our SaaS platforms continue to meet expectations. And, fiscal year to date, our client revenue retention remains at record levels. We continue to expand the capabilities of these platforms to meet the demands of clients. And, to respond to their need to comply with an increasingly complex regulatory environment.

One example of this is ADP health compliance. Which, helps clients manage the complexities of compliance with the Affordable Care Act.

This product continues to receive significant interest from our upmarket clients. And, has recently been introduced to our mid-market clients.

Another opportunity for our clients and ADP is big data. Big data represents an opportunity for clients to make better HR decisions.

We pay one in six private sector workers in the US. That's the biggest data set of its kind in HCM. And, affords us a unique opportunity to deliver insights that enable better HR decisions.

For years, we've been bringing data-driven insights to the market through the ADP Research Institute. And, we will soon be announcing new products which leverage our unique data to deliver insight across HR, wages, time, benefits, and talent; depending on the client's HCM platform.

We continue to be excited with the performance of RUN, our strategic platform targeted to small businesses. Which, continues to perform well. We now have all of our small-market clients using RUN. An important milestone for our business.

As we were able to sunset the legacy platform, EasyPay, during the quarter. This is a big achievement. Not only because we completed the migrations and sunset the platform. But also, because the execution exceeded our expectations on several other fronts.

Notably, we exceeded expectations in client retention during the transition. I believe the high level of retention we experienced is a testament to our product and our clients' confidence in ADP.

In addition, throughout the migration, we benefited from greater adoption of HCM modules than anticipated. While this has not driven a significant amount of revenue for ADP, it is certainly a positive outcome.

And, while we do not -- while we do anticipate some level of cost savings associated with this platform shutdown, we plan to reinvest the savings to support further migration efforts of legacy systems to our cloud-based platforms. Again, I could not be more proud of our associates for successfully completing these small-market migrations, and this success reinforces our confidence, as we push forward on this multi-year migration journey.

On the global front, we've continued to grow our capabilities outside North America and have now expanded our offerings of HCM solutions to 104 countries. For clients in these countries, we continue to expand our service capabilities to ensure we are delivering consistent, scalable, and valuable services.

In February, we announced the opening of a new center of excellence in Bucharest, Romania. This is a terrific team that will use standardized and automated systems to help our systems -- our clients optimize HR and payroll operations to build great workforces.

The services they are delivering start with implementation and migration. And, include fully managed outsourced services. Together with our operations in Prague and Barcelona, the Bucharest center enhances our capabilities in Europe.

And, while we're excited about our progress, it's even more satisfying when our clients recognize it. Last month, I had the pleasure of participating in ADP's annual meeting of the minds event in Nashville. The buzz and positive feedback we received from customers and industry analysts validated, for me, that we are indeed on the right path. It was great to share the stage with clients willing to talk about their experiences in driving specific, tangible value from our solutions.

We are also proud of the recognition we continue to receive from third parties. Recognizing the value our solutions are delivering to the market.

Most recently, Nelson Hall, a global BPO analyst firm, named ADP, a leader in recruitment process outsourcing. Their analysis recognizes our comprehensive recruitment service, which help clients recruit high-quality talent at scale. This is a fantastic recognition as we continue to grow our BPO services.

So, we are pleased with the progress we are making on our strategy. And, believe it's contributing meaningfully to our performance. In the end, ADP is the only company that serves clients across the globe, across the full spectrum of HCM, and across the full range of client sizes. And, we have the resources, scale, and expertise to meet the market needs.

With this in mind, we are improving how we communicate the ADP brand to our clients and prospects. To better articulate what makes the ADP experience unique, we have developed a new tagline, "ADP: a more human resource. " We believe this tagline succinctly captures what sets us apart.

We believe that software alone is not enough. To win in HCM, requires deep expertise in outstanding service to help clients not just manage their employees, but build better workforces. We love this new tagline, which you'll start seeing in the market shortly.

Overall, we have great confidence in our team, our strategy, our ability to execute, and our message to the market. And with that, I'll turn the call over to Jan, to walk you through the third-quarter results.

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

Thank you very much Carlos, and good morning, everyone. For the quarter, ADP's revenue grew 7%. And, pretax earnings grew 12%.

This revenue and pretax earnings growth includes a negative impact of approximately 2 percentage points. From the effects of foreign currency translation.

Earnings per share grew 16% in the quarter, on a lower effective tax rate and fewer shares outstanding, compared with a year ago. And, included a negative impact of about $0.02 from the effects of foreign currency translation. I'm pleased with this solid performance, despite the headwinds experienced from foreign currency.

Our tax rate was lower than anticipated in the quarter. As we were able to realize benefits from certain tax items that were not previously forecasted. ADP remains committed to shareholder friendly actions. And, has repurchased more than 13 million shares throughout the end of the third quarter, at a cost of $1.1 billion. These share repurchases were partially funded by the dividend proceeds of $825 million ADP received from CDK. As a result of the spinoff, which occurred on September 30.

Employer services revenues grew 5%. And, were negatively impacted by three percentage points from foreign currency translation. This revenue growth was driven primarily by additions of our new recurring revenues from our HCM solutions. As well as the benefit of revenues from certain tax credits filed on behalf of our clients, that we received in the third quarter of this fiscal year.

While our client revenue retention was down in the quarter, compared with last year. And, we are paying attention to this change. On a fiscal year to date basis, our retention remains at record levels.

Same stop pays for control in the US remain strong, with an increase of 3.1%. Average client fund balances grew 4%. This growth was driven by net new business and growth in pays per control. But, was moderated by decreased balances from lower state unemployment tax rates, compared with the prior year in the US employ -- as US employment continues to improve. As well as the negative effects of foreign currency translation.

Our international business continues to perform well. With growth coming from each major geographic region that we serve.

Multinational solutions continue to perform very well. With solid revenue and earnings growth. And while the economic situation in Europe is showing some signs of improvement, we are seeing some slowdown in our Latin American business.

Our pretax margin expansion in employer services was 190 basis points in the quarter. Primarily, from scale and productivity. The PEO posted 15% revenue growth, compared to last year's third quarter. With growth in average worksite employees up 13%.

And, although this growth has slowed from the first half of the fiscal year, because of a difficult compare, the business continues to perform well as more businesses seek to fully outsource their HCM needs. The PEO continues to deliver solid margin expansion through sales productivity and operating efficiencies. Expanding margins by approximately 150 basis points in the quarter.

ADP's consolidated pretax margin improved by a 110 basis points in the third quarter. Which, included a drag of about 20 points from the slower growth of our high-margin client funds interest revenues. As these highly profitable revenues grew at a slower rate than overall revenues.

So now, I will take you through our updated FY15 outlook. As Carlos mentioned earlier in the call, we are still anticipating worldwide new business bookings growth of about 10%. Because of the negative affects anticipated from foreign currency translation, we are now anticipating revenue growth for total ADP of about 7%, compared with our forecast of 7% to 8%.

Our revenue forecast for employer services, still anticipates growth of about 5%. This forecast includes a negative drag of about 2 percentage points for the fiscal year due to foreign currency translation. However, the impact on the full-year growth is expected to be more pronounced in the fourth fiscal quarter. This forecast assumes pays per control growth of about 3%, compared with our prior forecast of 2% to 3% growth.

For the PEO, we are now anticipating revenue growth of about 16%, compared with our flat -- prior forecast of 15% to 17%. Our forecast anticipate pretax -- anticipates pretax margin expansion, for total ADP, of at least 75 basis points from 18.4% at FY14 compared with our prior forecasted range of 75 to 100 basis points of pretax margin expansion.

On a segment level, we have rise -- we are revising our FY15 forecast for employer services pretax margin expansion to contemplate our year-to-date results. And, are now anticipating margin expansion of about 125 basis points compared with our prior forecast of about 100 basis points. We now are anticipating about 100 basis points of margin expansion in the PEO.

We have narrowed our forecast for the client funds extended investment strategy and primarily due to the impact of foreign currency translation on interest earned outside of the US, we are now anticipating an increase of about $5 million over the last year. This compares with the prior forecast of an increase of $5 million to $15 million over last year.

This forecast anticipates average client fund balances growth of about 5%. Which is at the lower end of our prior range of 5% to 7%. The detail of this forecast is available, both in the press release and in the supplemental slides, on our website.

The improvement in our effective tax rate is expected to continue for the balance of the fiscal year and we are updating our forecasted effective tax rate to reflect this improvement. We now anticipate a tax rate of 33.7%, compared with our prior forecasted tax rate of 34.2%.

This tax rate improvement, combined with the impact of share repurchases on our earnings-per-share growth, is expected to offset earnings pressure, we anticipate, from foreign currency translation. And, due to the solid performance of our business year to date, we are now anticipating growth in diluted earnings per share of approximately 14% compared with our prior forecast of 12% to 14%.

This forecast does not contemplate any further share buybacks beyond the anticipated dilution related to equity comp plans. However, it remains our intent to continue to return excess cash to shareholders, subject to market conditions.

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

QUESTIONS AND ANSWERS

Operator

Thank you, sir.

(Operator Instructions)

Please be aware of the allotted time for questions. Please ask one question with a brief follow up. Sara Gubins, Bank of America.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Hi, good morning. Thank you. First question on competition. I'm wondering if you give us an update on the competitive environment around mid-size clients for payroll services?

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

Our sales performance, I think, in the mid-market, I think, was kind of in line with the overall results. And, maybe even a little bit stronger. But again, we don't like to get into specific details. That's really way -- we don't have a lot of other pieces of data or information that we can give you around specifics around competitors.

Other than, for these quarterly calls, Jan and I both look at, in addition to the sales results. We look at win, losses, against competitors. Whether it's in mid-market, upmarket, or the low end of the market. And, I would say that, we're doing a little bit better from a sequential standpoint. And, executing really well. Particularly, in what we call the lower end of mid-market for us. Which is -- we refer to it as core.

We define mid-market as 50 to 1000 employees. And, we define core as 50 to 150. And, that's a place where I think our performance appears to have improved a little bit. But, again it's limited amount of information. Only one quarter's worth of data. But, I think, there's not much to report in terms of change there. I don't know if, Jan, you have anything.

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

I would say there's a can you -- continued to be competitive in the marketplace, but unchanged, compared to prior quarters. No major change.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great, thanks. And then, just as a quick follow up. At your investor day, you spoke about the potential for leveraged capacity, given the move to the AA credit rating. I know that there's no particular rush, as you think you that. But, I'm wondering if you could give us an update on how you and the board are thinking about over the longer term?

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

Sounds like a question for the CFO. But, since you're asking me, I'll take a stab at it and then I'll let Jan also answer. So, I think that, as we acknowledged at our investor day, I think we, like everyone else, could see that our -- from a capital structure standpoint, we could probably optimize our capital structure a bit more. And, stay within, I think, our strong credit rating that we have that is important to us for a variety of reasons around our money movement strategies and client investment funds.

So, I think that, we -- as you can tell over the last quarter, we returned the entire amount that we received from CDK, $825 millions, and then some. In the form of share repurchases back to shareholders. That still relieve -- leaves us with a, what I would call a very comfortable amount of cash, on the balance sheet. And as you know, we're not real -- we're not really market timers. So, we believe in steady returns to our shareholders over time through dividends and share repurchases. Without trying to actually time the market.

So, I think today, as we sit here today, we're comfortable with where we are. But, highly aware of the capacity that we have on our balance sheet. And, again, that's a discussion that we've been actively engaged in with the board. And, I think as things develop, and we have more to report, we will. But, I think, we don't want to be shy about making sure that's clear. That we are certainly considering the potential to optimize our capital structure and add some debt to the balance sheet. So, Jan.

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

I think that captures it, I think, relative to timeline, Sara. It's, kind of, this year we have been focused on returning the dividend to the shareholders. And, as we evaluate that, we would update, of course, the investment community about the progress. But, right now, there is no update, really.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great. Thanks a lot.

Operator

Thank you. Smittipon Srethapramote, Morgan Stanley

Daniel Tsing - *Morgan Stanley - Analyst*

Hi, this is Daniel Tsing, calling in for Smitti. Thanks for taking my question. Just wanted to touch on R&D. So that, in light of sunsetting EasyPay. Perhaps, could you, just give us an update on where you are in terms of R&D spend? And, how that's, right now, broken down between maintenance and new product development?

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

Yes, so we've actually set a goal to be -- four years ago, to try to move how much we were spending on maintenance versus. And, I think what we relayed to you, was that about 40% of our R&D spend was on new and 60% was on maintenance. And so, I think it's a couple of quarters ago, that we actually switched that around. And now, we're spending 60% on new and 40% on old.

I think, as Jan likes to point out to the organization, some of that is just because of total spend has gone up. And, most of that spend, the increased spend, is on new. And so, we have not necessarily, decreased dramatically our spend on some of our legacy platforms. But, as you can tell from our financials over the last two or three years, we have been steadily increasing R&D spend. In grand ADP fashion, it's not -- it may not jump out at you, it may not be dramatic. But, it is for us, because we've been growing our P&L view spend at the same rate as revenue growth. Which, means as we get margin improvement, that -- other areas from service, operations, implementation, and sales.

Because, this is a place where we've not been trying to get operating leverages in R&D. And so, as you see those increased spend levels, which by the way, don't reflect, really, the true picture of our gross spend. Which, includes capitalized software, which you can see through our balance sheet and through our 10-Qs and our other reporting. But, I think the message you should take away is that we have been, in ADP terms, spending aggressively on R&D. We believe for the right reasons. And, I think it will translate into a better competitive set of products for us. As you've seen already happen here over the last two or three years with some of our strategic platforms that we already have in the market.

But, the bottom line is that, I think, as we've increased the spend overall, and we've held or slightly decreased the spend on our legacy platforms, that mix has shifted over now to 60% on new products and services and 40% on old. So, we're very very happy about that. Because, that was a goal that we set several years ago. That, by the way, happens to be in my management MBOs and as well as my teams. Because, we think it's the right thing to do to continue to invest more in product and technology.

Daniel Tsing - *Morgan Stanley - Analyst*

Got it. Thanks. And, just looking at employer services growth. I guess, FX adjusted, it looks like it was about 8%. So, you mentioned the tax credits. Can you just talk a little bit about what else is driving the strength there? And, how much of that tax credit benefit is, sort of, one-time in nature?

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

The tax credit services business that we have as part of our employer services business is a long-running business. It suffered from the lack of renewal by Congress of certain return-to-work credits in the past year. So, those tax credits have been reinstated.

And, the business is in catch-up mode to collect those tax credits for our clients and receive it's fees for it. So, while the revenue is bumpy, I wouldn't describe it as one-time revenues. Because, these are long-term processing contracts that we have with our clients. They are just dependent on the US government and Congress to renew at certain time points for. So, they were suspended and we lacked the revenue throughout the last four quarters.

And, this quarter, the revenue started to kick in. And, they contributed with a little bit more than a percentage point to the growth, about. So, it's just part of our business that now regains momentum as part of it.

Daniel Tsing - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Thank you. Gary Bisbee, RBC Capital Markets.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hi, guys, good morning.

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

Morning.

Gary Bisbee - *RBC Capital Markets - Analyst*

You know the PEO you've had. Several quarters in a row of really strong margin expansion. After what has been more -- much more flattish. Up a little, down a little, over the last three years. What's really driven that this year? Is a change in the pass throughs? Or, are you getting more leverage because of the faster growth you've been delivering? And, how do we think about that going forward? Thank you.

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

I think, first and foremost, you always have to give credit to the people on the ground, running the business. So, I think they -- that's number one. I think it's good execution. And, but, I think you're right, that it also, particularly in that business, the mathematics matter. And so, the faster these pass throughs grow, the harder it is to get margin expansion from a percentage standpoint. We try to focus more on dollars of profit per worksite employee, or dollars of profit overall from that segment. Rather than margin percentage because of the pass throughs.

But, you're correct, that a slightly slower growth rate of pass throughs, mathematically, helps In terms of achieving percentage margin improvement. But, notwithstanding that, I think we have both things happening. We have a slightly slower growth of pass throughs, which helps make -- helps create the environment for potential margin improvement. And then, they've just executed incredibly well. They've gotten good operating leverage. Including, on the distribution side.

So, the sales productivity there has been phenomenal as you've seen from the sales results over the last two, three, four quarters. And, that obviously helps quite a bit. Because, sales cost tends to be relatively fixed. And, if you get big improvements in sales results, you get nice productivity lift there. And, that business tends to start relatively quickly. As compared to some of our other businesses in the upmarket.

So, you get some of that margin help from distribution costs relatively quickly. The last thing that I'll mention is, just as a caution is, that's a 10 percentage, around the 10% to 11% margin business right now. In large part because of the pass through. In the end, because of the size of the pass throughs and the level of the margin, that's a business you should expect modest margin improvement from. So, the results that you're seeing from a margin standpoint are terrific. Frankly impressive. But, not sustainable. So, just to be clear.

And, part of that is because you never know what's going to happen with the pass throughs. And, we have some visibility to that. So, we would obviously, give you guidance in the appropriate timeframe in August. Around what's happening was pass throughs. But, in general, when you really run through the -- if you take five minutes to run through the mathematics, it is a business that is, inherently, a lower margin than our other business.

But, we still love it. Because, it's like our other businesses, not capital-intensive. And, every dollar of profit that we generate in that segment is a dollar of profit that goes to our shareholders into our EPS. And so, we love that business. Despite the fact that it requires some explanation around the percentage margin.

Gary Bisbee - *RBC Capital Markets - Analyst*

What -- the point on profit per average worksite employee is a good one. It -- I think I've got 10 years of data I'm looking at here. And, it looks like your trending towards, by far the highest level that that's ever been. Up solid double-digits this year. So, is it -- the sales leverage you mentioned? And, I guess, just leverage of fixed costs with the business growing faster? But, is there any reason that level of profits wouldn't be sustainable or be able to continue to trend somewhat higher?

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

As in all businesses, that level of profitability is dependent on your differentiation and your competitive position in the market. In other words, how strong your value proposition is. We feel very very bullish and very good about the -- not only the execution of that business today, but also the value proposition. In part, because of how complex the environment has gotten because of ACA for all employers. Not just for large employers.

So, this is just really creating, I think, a natural trend towards people looking for help. And, you could get help in a variety of ways. And, the good news is ADP has all types of ways we can help you. All the way from, basic payroll to the PEO, which is the ultimate BPO bundle. And, I think this kind of environment, where you have increased regulatory compliance and complexity around healthcare, is really a very very favorable environment for the PEO.

But, on top of that, I think the PEO has not been, to their credit, over the last five years, has not just been sitting there, kind of, waiting for things to happen on the regulatory front. They've also made great strides in terms of the products and services that they deliver and the value that they add to the clients that they serve. And again, this is not the appropriate call to get into those details. But, we feel very very bullish about the value proposition that has emerged there over the last three to five years.

Gary Bisbee - *RBC Capital Markets - Analyst*

Great and then just a quick follow up. Carlos, you said you didn't -- it's great that you're selling more HCM into run customers, but it doesn't impact revenue. Is that just to scale issue or is there some other reason that's not really benefiting? Thank you.

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

It is a little bit of a scale issue. That, in -- obviously because of -- this is the conundrum we have always have when we talk about ADP. Is, in some respects, it's a good thing that we serve all markets globally at all levels and all segments. That really means that any one segment in one country doesn't usually move the needle when it -- we need multiple parts of ADP moving in tandem to really move the needle. And so, the SBS business, our low -- our downmarket business is a scaled business. And, it's a nice size business.

But, the amount of additional HCM penetration that you get as we migrated clients over, in relation to the total size of that business and the total size of ADP, just doesn't -- it doesn't register. So, we appreciate it and it helps the overall cause. But, we added that line in the script because we want you to understand that we're not getting $40 million, $50 million of lift in one year from that. Now, over time, if we end up having a higher penetration rate of things like HR, and time and attendance, and insurance services, and 401k and other products; because the run product itself is easier to use and more integrated. Then, that over time, would help us. But, just the nature of our business model, these are not big one-time lifts that we got.

And, we just want to make sure that that was clear to all of you. But, we're very happy about it. And, it's, also with an indirect way of making sure that you understood that if we get similar -- which we are, getting similar lift in mid-market and upmarket, where you would assume. And, we are experiencing higher penetration rates, of some of these other products, some of these HCM products. That it bodes well for us as we continue these migrations and we complete some of the migrations in some of our other segments. We think it could be a more significant lift than what we experienced already in our low end.

Gary Bisbee - *RBC Capital Markets - Analyst*

Great. Thank you very much.

Operator

Thank you. S.K. Prasad Borra, Goldman Sachs

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

Thanks for taking my questions. Probably, just to start off, as you continue to increase your focus on expanding your HR suite. What are the metrics you are using internally to judge your success, both from a R&D and a sales perspective? Is it the number of products you are offering? Is it attach rate? And, if you could provide any update on attach rates post-migration?

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

I know Jan has those attach rates at the tip of his tongue. And, I think that's probably, besides our sales results in the attach rates in our upfront sales. I think the attach rates on our migrations; those two metrics are important metrics for us to judge our success of, kind of, our overall HCM strategy. So, for example in the upmarket, Jan has the exact numbers.

But, when you compare to, kind of, prior platforms that we had. The attach rates are much higher of the traditional HCM products. Around, time and attendance, benefits, HR, talent, et cetera. And, we're experiencing the same thing in mid-market. Where you -- the concept of a seamless product that provides the entire solution in one-stop shopping, I think, is resonating in the marketplace.

But, what we needed to have is the products that actually reflect that. And, I think we have that now in our strategic products and we're seeing it in the sales results. And now, what you've been hearing us talk about over the last two or three years, is that we want to do that, also, with our client base. By moving them onto our strategic products. Which, is what we just finished doing in small business and we're now trying to do mid-market and also in national accounts. So, I don't know, Jan, if you have the attach rates?

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

Yes, the -- we have -- and the upmarket, it is really no change from what we have reported in prior quarters. In the mid-70s to low-70s for some of these modules. So they remain high for Vantage and in the mid-market for Workforce Now. We have seen, actually, some increase in the attach rate of our benefits bundle that we believe coincides with strong interest of our ACA offerings.

So, there's definitely something going on in the mid-market driving demand for a complete -- more complete bundling. Including benefits due to the insurance changes and things. So we're looking at these attach rates. Which, are important for new clients as well as for migrated clients and how they buy. And, the trend has continued, really, in line of the numbers that we have previously disclosed. There's no big change.

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

I think we should be clear that our sales force responds to product, to good product. And, the market responds to good product. So, for example, the release of our recent talent solutions. You could see, I -- as I was going through some of the data for the call, you could see a fairly large jump. Which, I'm not going to give the specific percentages, but of -- a meaningful and significant jump in attach rates in new sales. As -- since we released our new talent prod -- new talent solution. So, I think we remain on the same track of being confident. That, despite the fact we want to continue to focus on our compliance on our service. That product really matters, and really drives our attach rates.

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

That's great. Just following up on one of the earlier questions on the PEO business. Taking into consideration, the pass through costs and the mechanics related to that. But, are they -- any other levers from margin expansion? You alluded to expansion of your products and services in this business. So, can those products and services provide some upside, more from a mid- to long-term perspective? But, are we going to be just range stuck? Or, do you think this new products and services should just allow you to expand margins?

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

We're never going to be range stuck. So, I believe that what I was trying to make sure that I communicated is that the improvements that you should expect are not along the lines of 10% going to 20% over three years. It's more in a line of 10.5 going to 10.8 or 10.9. And then, 10.9 going to 11.2.

It's just a different situation when you have more than half of your revenues. We treat more than half of those revenues as pass through revenues. And, they literally are pass through, in the sense that, on the healthcare side, we take no risk. And, we basically pass through the cost that we pay for those healthcare plans to the employees of our clients and to the clients. Depending on which percent the client pays versus the employees. That just mathematically creates a very different opportunity for margin expansion than in a business where you have 90% to 100% of the costs available for leverage. And so, we just -- we have a -- the value proposition can get stronger, and, the other half of our revenues.

So, the other products and services that we provide, that we charge administrative fees for, are leveragable, and we can get operating scale from. But, it's just, mathematically important for people to understand that there -- in that business there is a limit. Because of the large pass throughs. But, we don't -- we do not believe that we're range stuck. And, what we don't want is to take advantage of the largest leverage opportunity, which is slower growth. And so, in all of the ADP businesses, including the PEO, the fact of the matter is that distribution costs, even though we're getting operating leverage from distribution costs in the PEO today.

The fact of the matter is, that the faster we grow, because of the nature of the business, we book all of our distribution expense upfront. And so, fast growth puts very very big pressure. And, it's really quite impressive that the business is performing the way it is, given the high sales growth and the high revenue growth. So, we hope that that doesn't happen anytime in the near future. But, that would be, probably the largest single source of operating leverage and margin improvement someday down the road; is slower growth.

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

That's very good. Thanks, Carlos, yes.

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

Thanks.

Operator

Thank you. Bryan Keane, Deutsche Bank

Ashish Sabadra - *Deutsche Bank - Analyst*

Hi, this is Ashish Sabadra for -- calling on behalf of Bryan Keane. I was just wondering if you could provide some more color on -- we saw that big line, 50 basis point this quarter. Was there any large client or was it mostly in the small and medium businesses?

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

So, as you know, we typically don't get into specifics around where our retention is going up or down. And, so the good news is that, for several quarters as retention went up, we didn't get into the details and didn't brag. And so, we're going to take the same approach today. Which is, this has happened before.

I think it was probably four or five quarters ago, where you do -- we do have variability. And, it does tend to happen more in the upmarket where, when transactions or deals are large enough, they can move the needle in any one quarter. But, today we have really nothing to report other than, on a year-to-date basis, we're still about 10 basis points above last year and still at record levels.

And so, I think Jan put it well. Which is, we're going to obviously watch this very very carefully. And, we are obviously watching it and digging in and looking at, to see if there's anything underneath covers. But, we spent a lot of time on this topic and today we really don't have anything to report other than the usual fluctuations in the business. I don't know if, Jan, you have.

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

I think in particular, in between the second and the third quarter, you should be aware there can be timing of losses between those two quarters. So, we -- the more reliable number is really the year-to-date number. Because, we can have timing differences and prior-year timing differences that make the quarterly number a little bit harder to interpret. So that, I don't think we should put -- other than, you pay attention to your retention. But, read to too much into it. One way or the other.

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

And, I think we've said in prior calls, that, of all -- as people think about us going forward, including at investor day, this is not a place where we are making assumptions of 1 to 2 percentage points of retention improvement over the next two or three years. We've been in this business for so long that we know exactly what is realistic and reasonable and what isn't. And, it's possible, that as we go through these migrations, that we end up in a different place with a higher potential retention rate than what we've had historically.

Because, we'll be in a stronger competitive position. But, from here to there, is still multi-years. And, from here to there, there's going to be turbulence as we go through some of these migrations. So, we're not giving up and are not saying that there isn't a potential higher absolute retention rate that could be achievable. But, we have enough experience and know enough to tell you that, and we've said it in multiple times in prior calls, that when we are at record client retention levels, that is not the time to be factoring in big increases in retention going forward.

Ashish Sabadra - *Deutsche Bank - Analyst*

No, thanks. Thanks for that color. Just quickly on Europe. I was wondering if you could provide some more color on the European business? And, how's the people control trending in Europe?

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

Thanks. So, coincidentally, I happened to be in Europe last week. And, the environment in Europe is obviously, from an employment standpoint, not fabulous. Slow GDP growth. High unemployment, and relatively, the labor market's experienced enough friction that it's not a place where you have big fluctuations, either up or down.

So, the good news is, as the economy tends to weaken in Europe, you don't have the same level of decrease in employment and layoffs that you have -- it takes a longer. Having said that, the absolute levels of unemployment and the absolute levels of GDP, are not attractive backdrops for those markets for us. And, for our total international business, Europe is the largest single segment of our international business by a longshot. So, we do have a fair amount of exposure there. As you noticed from the FX pressure that we just experienced. But, relative to other companies, it's relatively contained.

We have less than 20% of our revenues coming from our international business. And, only a portion of that is from Europe. But, having said that, my view of Europe is that -- and, it's a big continent. So, it's hard to make a generalization. But, overall, it -- when you consider the backdrop in the macroeconomic environment. I would say it's been outstanding performance in the business. In terms of new business sales, client retention, and revenue growth.

So, as we've said in prior quarters, it's not necessarily additive. Europe has not been additive to our growth rate from a revenue standpoint. But, it is positive. And, relative to what you hear in terms of other stories of other situations in other industries, we're very very pleased with the performance of that business and the leadership there.

So, one of the interesting things that I saw when I was visiting Europe is I spent some time in the UK. And, the UK is actually a nice example of what might be achievable for us in the next 10 to 20 years. In the UK, we have strong product from a technology standpoint. We have money movement operations that are generating float income. We have time and attendance systems that we have now added, along with HR, to our payroll to really create an HCM solution. And so, it's really a great example of what, I think, might be achievable for us worldwide and creates some potential growth opportunity for us for many many years to come.

Because, it's really a replication of a little bit of what we've done in the US. Obviously, every country and every situation is going to be different in terms of the product needs and the regulatory environment. But in general, I think it supports the notion that the ADP model is replicable in other parts of the world where we have very very little market share today.

Ashish Sabadra - *Deutsche Bank - Analyst*

Thanks for the color. Thank you.

Operator

Thank you. Mark Marcon, Robert W. Baird.

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

Good morning. With regards to international. Just a little more color with -- if you could, with regards to what you're seeing in terms of the plur -- the strategy in terms of expanding globally. Can you give us some sense, in terms of, what sort of deals you're seeing? What the pipeline looks like? How quickly you think you may be able to expand and ramp that?

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

Well, I -- we appreciate all the questions about international. Because, we do tend to be creatures of habit here and focus a lot on our US business. Which, obviously is our most mature business. But, our biggest opportunities, undoubtedly, from a growth standpoint, are outside of the US. And, I'm talking five, ten, twenty years down the road. The biggest single positive thing that we're seeing right now is our multinational solutions. So, I also spent some time when I was in Europe, in Prague, where we have high concentration of our multinational solutions folks working. Providing service there and from a service -- from a center of excellence.

And, the performance of our multinational business is really quite phenomenal. And, I remember two or three years ago, every quarter getting questions about whether global view was going to be profitable and when it was going to breakeven and so forth. And, I'm not going to get into the details of the profitability of global view, but this is the way it always happens the business. Once things get positive, no one starts, stops -- no one continues to ask questions about it. But, it was a very very positive review in Prague, because the MPS scores of that multinational business. And, we define multinational as not just global view, but also, our streamline solutions. Because, the clients don't care whether it's global view or streamline. They see it as one integrated multinational solution.

And, the MPS scores there are, particularly in -- on the global view platform side, are up. Again, I'm not going to get into the specifics, but they're up a lot versus three or four years ago. Profitability is not just a breakeven business anymore. It's a very profitable business. Growth; strong double-digit growth in that business. That's a business that, it's approaching, including its backlog, around $0.50 billion business. Still growing nicely and still, every quarter, generating new clients that are really a who's who of the global 100. So, it's just a phenomenal opportunity for us. The multinational opportunity overall.

In addition to that, what we're doing to some of our platforms in North America, and probably eventually, we'll do some the same things to some of our more in country best-of-breed solutions, is aligning those platforms to also be global. So, for example, being able to, without having to move to, necessarily a multinational solution. Having Vantage or Workforce Now have global capabilities, is something that we have now. That, we believe will drive some additional opportunity for us in North America. So, the whole global landscape, I think, is an important one for ADP over the next X number of decades. And, we're still on it, even though we tend to be creatures of habit and go back to talking about balances in the US and growth of our sales in employer services domestically. It's a very very important part of our future, and were still focused on it.

Obviously, the fact that the European business, which is a significant part of our company, I'm sorry, a significant part of our international results, has had the kind of economic drop -- backdrop that it has had, has probably caused us to be less talkative about our international business. But, we're not any less excited about it. I think Latin America and Asia also continue to grow very rapidly. But again, they're so small still, in relative terms, to $11 billion as a total company. That, it's just going to take a while for us to be able to report that it's actually having a significant impact on the overall results. I know, Jan, if you have anything you want to add on the international front?

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

No, I think that -- multinational is the key driver for us. And, ADP is the clear market leader in that space. And, that drives that multinational business that is now close to $0.50 billion. So, that's really what makes successful.

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

That's great to hear. And then, just a follow up. You mentioned Vantage and the potential to take that international. Can you just give us a progress report on Vantage? You've done such a great job on RUN and Workforce Now. Where do we stand with Vantage?

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

Yes, I -- let me just clarify. It really -- providing global capabilities to Vantage is different from taking internationally. Although, I guess, that's semantics. But, I just want to make sure that we'd clarified that.

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

You -- understood.

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

I think that Vantage continues to perform well. We believe that for -- based on the track that we're now in terms of sales year to date, that we will have good growth of Vantage over the prior year in terms of new business sales. We have a couple hundred clients sold. I think over 100 now implemented.

So, we're very -- we continue to be very excited. That's our strategic platform in the upmarket and we think it's continuing to come perform well. I think Jan mentioned the attach rates. It's very very exciting for us to see the attach rates in the kind of 70 percentage range, for -- I believe that's for benefits. Sorry, for time and attendance. And then, benefits and talent in HR, like. But, HR is automatically part. It's 100% attached.

But, when you look at the talent and benefits in the 60s, I think, 60 percentage range. Those are much higher attach rates than when we used to sell a separate payroll module. With a separate benefits platform. With a separate time and attendance system. So, this seamless integration works. And, it's driving higher attach rates. And, I think it's also driving a stronger value proposition in the marketplace.

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

Great. Thank you.

Operator

Thank you. Jason Kupferberg, Jefferies

Ryan Cary - *Jefferies LLC - Analyst*

Good morning. This is Ryan Cary for Jason. I was just hoping you could just speak to some of the trends in new business bookings. I know growth from the first half of the year came against a weaker comparison. At least, compared to the 14% of third quarter 2014. Is the third quarter 6% due primarily to the tougher comp, or is there something else? And, just rough -- looks like the guidance suggests about 8% in the fourth quarter. How should we be thinking about this number trending, as we say, get that beyond 2015?

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

So, it's a good question. So, this may help you that the 6% was actually, exactly 100% of our plan for sales for the third quarter. So, I think that, that's probably an indication of that it was in line with our expectations. We always like to be positively surprised, but we knew that we had a 14% growth rate last year in the third quarter. Was it 14?

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

Fourteen.

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

14% in the third quarter last year. Which is, at our size again, we're selling $1.6 billion annually. So, the quarter obviously is approximately 1/4 of that. These are big numbers. And so, you -- when you have a 14% growth.

Again, we've been doing this long enough that we know. As you can tell from the planning process, a planned 6% growth. And so, and I think we tried to telegraph that and signal it, as best we could in the March analyst day and through other means. So, I think we're exactly on plan. Very excited that we're 11% year to date, compared to 8% last year, year to date.

So, we are nothing but positive and bullish on our sales force and our distribution and I think the trends are positive. We're -- I don't know how else to put it. Like, we're -- at this size, I'm just thrilled that we can get double-digit sales growth. Because that is exactly what we need to drive the financial results that we're trying to drive for our shareholders.

Ryan Cary - *Jefferies LLC - Analyst*

Great and just as a follow up. At the recent analyst day, you spoke a lot about the new technology and offerings. Particularly speaking about big data and analytics. When do you believe these could be needle moving to results? Or, do you see these offerings more along the lines of helping to a new clients?

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

Well, I think winning new clients would be needle moving. I think that's what -- I think that it's part of the ongoing, I think, desire to create a stronger value proposition and to differentiate ourselves. So, I think, that if you hear a slight change in our tone as we keep talking about HCM and about helping our clients build better workforces, and also focusing on their business results, that's really where the big data comes into play. Like, we think that besides the traditional strength that we have around operating efficiencies and compliance.

All the things that were traditionally known for, for getting mission-critical employment-related tasks done. In addition to that, if we can help our clients do better by giving them more information to make better decisions around their people, we think that creates a stronger value proposition. And, should lead to more client wins, and hopefully, higher market share. Because, at the end of the day, we talked about this at analyst day, there really is no company where the people are not the most important asset. Even if you employ a lot of equipment and you're manufacturer.

At the end of day, because of what's happened with technology, people are the difference maker. And so, hiring the best people, keeping the best people, and making sure that you are -- that they have the proper training. And, that you are tracking their performance and compensating them the right way through compensation systems. And, managing that talent. These are all crucial parts of our HCM strategy that we think are going to drive additional sales in the form of new client wins and hopefully a slightly better market share over time.

Ryan Cary - *Jefferies LLC - Analyst*

Great. Thanks for the color.

Operator

Thank you. Jeff Silber, BMO Capital Markets.

Jeff Silber - *BMO Capital Markets - Analyst*

Thanks so much. Jan, in your remarks, and when you were talking about the funds held balances, you mentioned something about lower balances because of student tax rates going down. I just want to confirm that. If you can give a little bit more color? And, is this an issue that we need to think about in the upcoming quarters as well? Thanks.

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

Yes, I think we adjusted our forecast for the client fund balances to the lower end. So, the SUI impact is traditionally the biggest impact in the third quarter. These are the withholding rates for unemployment taxes. And, if the economy improves, traditionally, SUI rates will go down because a higher employment and the unemployment funds are better funded, as a consequence. So, that was a large driver for the decline this quarter. And, we have also, actually, measurable impact on the growth due to the currency translation that we have for Canadian client fund balances that actually impacted the oil -- overall growth. So, I think that's going to be continued for sure in the fourth quarter and then we'll give guidance for 2015 in August.

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

And, I think one thing I want to just add. Because, I think a number of people here hate it when I do this. But, I just can't resist reminding you that in FY08, we generated $691 million from the net client funds strategy. On 15 -- approximately $15 billion of balances. In FY15, we'll generate around $420 million on $22 billion of balances.

And, I think that just shows the magnitude of what's happened in terms of our yield going from 4.4 in FY08 to1.89 today in FY15. And, we have no expectations that we're going to achieve 4.4 anytime in the near future. So, we get that. But, I just want to make sure that everyone understands the magnitude of the pressure that we've been able to get ourselves through here. And, the potential opportunity down the road.

Because, our balances, obviously, have grown despite this little hiccup with unemployment in the quarter. Which, frankly tends to happen every time there's an employment cycle that's improving. And, it's just very hard to predict exactly where that state unemployment level's going to come down. But overall, our balances are still up from $15.7 billion to $22.1 billion. And unfortunately, interest rates have not cooperated with us during that period of time. But, I think history tells us that we will have our day.

Jeff Silber - *BMO Capital Markets - Analyst*

Okay. Appreciate you pointing that out again. And actually, just shifting gears back to the discussion about your international business. If I remember correctly, you get about 11% or 12% of your total revenues from Europe. Is there a major difference between your employer services and your PEO services in terms of the exposure there?

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

The PEO has no exposure outside of the US. So, I don't know if that was the question. But, the PEO is an only US business. Not even North America. It's US only business. So, there's no exposure internationally.

And, we really don't break out. Employer services is reported as one segment, from a segment reporting standpoint. But, I think that you're generally correct. Or, close to the percentage that Europe would represent of our overall results. So, I'm only --

Jeff Silber - *BMO Capital Markets - Analyst*

Okay. I just wanted to make sure there weren't HCM in the PEO segment. But, it doesn't sound like there is.

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

No, it is an HCM business. There's no possible way, because it does everything.

Jeff Silber - *BMO Capital Markets - Analyst*

Got it.

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

It's already like a bundle from -- all the way from recruitment to retirement.

Jeff Silber - *BMO Capital Markets - Analyst*

All right. I got it. Thank you so much.

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

Thanks.

Operator

Thank you. Lisa Ellis, Bernstein.

Lisa Ellis - *Bernstein - Analyst*

Hello guys, I like your new tagline, by the way.

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

Thank you.

Lisa Ellis - *Bernstein - Analyst*

Can you give an idea of, as you're driving these substantially increased attach rates what type of revenue uplift you're looking for, or aspiring for, like, sort of, in the ideal scenario? Where a client buys, kind of, like the full suite as you've got it defined today?

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

Well obviously, it clearly depends on whether they buy one, two, or three additional modules in addition to, kind of, our core payroll. But, again, just to put it in context. So, because again, because of the way our business model works, these things take time and work slowly over time.

But, in, as an example, the older platforms that we have, where the clients have only payroll. When they migrate over to a new platform. If they purchase a couple of additional modules you can literally get in some cases up to two or three times revenue multiple. Not every client that migrates does that. Some purchase one module. Some purchase two modules. But, the numbers are fairly significant.

And, we have, not only, kind of, the traditional HCM modules that people can purchase and attach onto. But, we are releasing, obviously, new products as things go forward. Like, for example, our health compliance solutions are an additional charge. And, they're not really in the category of benefits or time and attendance. They are an additional sale, if you will, that people can purchase that adds also to the overall revenue -- to the overall revenue number. And, if I'm not mistaken, Jan, maybe can help me. But, I think -- I can't remember what the percentage is of our new sales come from, I guess, additional actuates, versus, but it's a fairly healthy number.

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

It's a healthy number. I think we roughly say 50-50% new clients versus incremental business to it. Although, the consideration has to be, that in the lower end, it's clearly much higher on acquiring new clients. Whereas, on the upper end, as you know, we serve 90% of the Fortune 100 companies. So, there is a -- naturally, it will be almost all incremental and upsell. So, it shifts fairly smoothly from small to low in how we distribute. But, a very important component is selling incremental modules to our existing clients.

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

And, I think that was my recollection. Is around 50-50. And I -- just to be clear in terms of what our strategic objective is. Which is, not to have that number become 40-60 or 30-70. We want to grow both. And so, we are -- part of what we're driving around, our technology solutions and our investments in our product, is that we want to win market share.

And, we want to win additional clients. We also want to benefit from these higher attach rates. Which we are benefiting from. But, one of the very very important objectives that we have internally, is to really be much more attentive to unit growth and to market share. And, the good news is, that that's been a pretty good story here for the last few years. But, we're going to still stay focused on that. Because we're not trying only to grow through higher attach rates.

Lisa Ellis - *Bernstein - Analyst*

Terrific. And then, you've been a little bit quiet so far on M&A. Can you just give us an update on, if there's particular areas you're looking at for acquisitions. Either, product or geography, I suppose.

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

Other than I -- telling you that we're not the ones buying salesforce.com. (laughter) I don't -- we really don't have much to add versus what we said at the March analyst meeting. Which is, we recognize, again, because of our capital situation, that we have capital. That we can deploy in a variety of ways. In terms of returning cash to shareholders, but also reinvesting in the business organically, and also potentially for M&A.

But, I think we've become -- I think we've put ourselves in a box, so to speak. Because, we have to be very very careful now and very very disciplined. Because, it's going to be hard for me to convince you that it made sense to buy another payroll platform or another benefit platform. And, that that makes sense for us. So, and I'm making it even harder for myself now that I'm saying this on a call. Because, it's not our strategy. Our strategy is to create seamless integrated solutions that we build ourselves organically. Right, and that have an incredible UI and an incredible experience from a user standpoint for the clients and for the employees of our clients.

So, creating more migration issues and more platform proliferation is not our number one objective. Having said that, you should know that we are actively looking at things and actively in the market. Because, you never say never and you have to be willing to accept the fact that we're not great at everything. And, so we know that. And so, as long as something fits into our strategic direction, as long as it's on our terms. We're going to use our capital. But, today, we have nothing to report.

Lisa Ellis - *Bernstein - Analyst*

Terrific. Thank you.

Operator

Thank you. Matt O'Neill, Autonomous Research.

Matt O'Neill - *Autonomous Research - Analyst*

Yes, good morning, guys. You answered most of my questions already. But, I figured just to round out the discussion on international. If you could just add a little bit more color to the Lat Am discussion, or the weakness there that you mentioned? Is that just macro FX-based or is there anything else to think about there? Thanks.

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

I think we mentioned Latin America because in prior calls we talked about the success story that Brazil really was for us over the last few years. With very high growth rates and great performance. And, the current slowdown in Latin America, I think, in particular in Brazil. Is mostly due to the softening of the economic environment in that country. So, it's really not -- it's not that material, actually, to the overall result. But, we felt it was consistent. As we had bragged about it and talked about the success in prior quarters, that we would update also when it's getting a little bit slower.

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

And, if we brag about the progress of GlobalView or our multinational solutions over the multiple years, we have to brag about Brazil as well. So, there's no question that a good economic environment there, prior to this last year or two, helped a little bit. But, we have a great team there that's executing very well. And, has helped us expand into a few other countries in South America.

And so, we're still long term very bullish on the management team there and on the business there. But, I think Jan is correct. That, I think we have to make sure that we help you understand, kind of, where things are going in terms of the different parts of our business. But, we're still incredibly excited about what they've accomplished. Again, not for today, it's too much detail. But, the last five years have been an amazing run for that business.

Matt O'Neill - *Autonomous Research - Analyst*

Got it. Thanks very much.

Operator

Thank you. David Togut, Evercore.

David Togut - *Evercore ISI - Analyst*

Good morning, Carlos and Jan.

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

Good morning.

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

Good morning.

David Togut - *Evercore ISI - Analyst*

I apologize if this has been addressed, since I did join a little late from another call. BUt, I noticed, Jan, you raised your ES pretax margin expansion target to 125 basis points. My question is, does this represent the beginning of a more aggressive margin expansion trajectory for this business longer term? And, if so, what would be the underlying drivers behind that?

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

It probably depends on who you ask. So, Jan is over here smiling. Thinking, yes it does, and I'm over here saying, no, it doesn't. And, I think the truth is somewhere in between.

Clearly, this business is performing better than it was sometime back from a margin standpoint. Some of that, in all fairness, is that we've -- our organic growth strategy, I think, has helped a little bit in the sense that, we were relatively acquisitive in employer services over the years and that generally added margin pressure to us year to year. And, eventually those acquisitions helped with scale and should have been helping to drive the margin. But, it's just hard with a lot of M&A activity and a lot of noise in the system and a lot of platforms to drive good margin improvement. So, I think that, we haven't necessarily made huge progress.

With the exception of EasyPay and a few other places, on the migration front. But, we certainly slowed the proliferation and the increase of -- which, I think creates a better backdrop for employer services to drive margin improvement. I think the second thing, like I did with the PEO or with Brazil or with GlobalView, you've got to go give credit to the people running those businesses. So, there's really really good execution on the ground as well.

So, having said all that, I really appreciate the question because it's important for people to get the tone from us. And, I think Jan and I are on the same page. Which is that, you should not expect this kind of margin improvement in the future because we, like, or, I like, many of my predecessors are incredibly sensitive to making sure that we manage this business for the long term. And, the long term doesn't mean like the next quarter. It means three, five, ten, twenty years down the road.

And, if you extrapolate 125 basis-point margin improvements over 20 years, it becomes very very difficult to believe. And so, we are very very committed to reinvesting in our business. And, that would make me nervous about pushing too hard on the margin front. So, I guess, the best way to answer this, is that we're very very comfortable with the guidance that we gave in March. Which, I believe was 50 to 75 basis point margin improvement over multiple years. And, we're also very comfortable with the guidance that we've given for this year. And, we would not encourage you to focus on one quarter.

David Togut - *Evercore ISI - Analyst*

Thank you for that context. That's very helpful. I asked the question, in part, given the increase in activism we're seeing in the sector. Particularly, among your former colleagues at dealer services.

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

Okay.

David Togut - *Evercore ISI - Analyst*

Thank you.

Operator

Thank you. Tien-tsin Huang, JP Morgan.

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Tien-tsin Huang - *JPMorgan - Analyst*

Hi, thanks so much. Just a quick follow up on the retention side. Any change in -- I've been giving this question a lot. Any change in level of competitiveness from your rivals, when their ultimate highlight is it's largest win in their quarter? So, any thoughts there? Pricing, et cetera?

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

Well, I look at the discount levels that we have in our sales that really unchanged year over year. So, that substantiates our earlier comment that the competitive situation continues to be intense. But, it has not dramatically changed over time and we do focus on some of our key competitors. But, not naming any and we have seen improvements in -- for some of our competitors. And, we've improved our own performance, which we are very pleased with.

Tien-tsin Huang - *JPMorgan - Analyst*

Got it. So, no real change then. It sounds like an intensity from the usual suspects. Is that fair?

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

Overall, yes. But, as the portfolio has many competitors. Some, that you might be interested. I think we are doing pretty well, actually.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay. Yes, and, that's historically been the case. I figured I'd ask. Just as a follow up then. Any change in ADP's share of wins coming from your referral partners?

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

Well, the referral partners are particularly important in our small business segment. And, we're pleased with the channel -- channels that we're built out. And, they're wide-ranging, from banks over accountants to other referral channels. And, they are an important source of our success in the down market.

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

And, what -- the good news is that I think some of that. As we've tried to become more, quote/unquote, one ADP. Some of this success, I think, is starting to move up into -- for example, the person who was running our small business division is now running our mid-market business. I think those types of things help.

In terms of spreading some of this knowledge in terms of how much strong referral networks can help. So, I think our mid-market businesses now has a very robust referral network with insurance agents and brokers. In addition to traditional accountants. That, I think is helping that business as well. And, in the upmarket, we have improved.

I think there's nothing dramatic to report. But really, improved the focus there with working with third parties as well. Including, for example, we've created a small -- a little private equity group that works with private equity firms to help there as well.

Tien-tsin Huang - *JPMorgan - Analyst*

Great. Got it, Thanks so much.

Operator

Thank you. Mark Marcon, Robert W. Baird.

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

I just wanted to come back to the retention question. A year ago, in the third quarter, you had an 80-bip increase in your client retention. So, it seems like it's a pretty tough comp. I was just wondering if you could, kind of frame, on a dollar basis where your retention is currently running? And, what a reasonable expectation is from a longer term perspective?

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

Mark, I don't -- I won't give you the dollar numbers. But, maybe, to help you. Which, I tried to explain earlier. What you're alluding, in the compare to the third-quarter prior year, is definitely true. It's more difficult to compare with improvement of retention rate in the third quarter last year. And that retention rate may have been impacted, if you look sequentially also.

You have to have a look sequential retention rates and a year over year compare. Which makes this a harder quarter to do so, and you have natural variation in retention rates by quarter. Because, some deals can move it. All these together make it risky even if I were to give you this dollars to correctly interpret them. It's better to think about year to date in larger lost dollars aggregating to a total year for the good insight.

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

Yes, I was just thinking about percentage, overall percentage retention

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

Oh, we don't give that quarterly.

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

Annually.

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

But, I think we only provide that what's the year.

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

Right.

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

But, again, our forecast is -- again, our internal forecast, we have one quarter left.

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

Yes.

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

And so, if we had something dramatic to report, we would. So, I think that, we expect to have retention be where we expected it to be, year over year.

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

Which was?

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

Which is, I think we guided to prior year.

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

We actually don't guide.

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

Oh, we don't guide.

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

We don't guide.

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

But, about record high, yes.

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

Okay. Thank you.

Operator

Thank you. And, ladies and gentlemen, this concludes our question-and-answer portion for today. I'm pleased to hand the program back over to Mr. Carlos Rodriguez for closing remarks.

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

So, thank you for joining us today for the call. I think just a couple points. One is, as you can tell, we continue to be very very sensitive to making sure that we're treating our shareholders well. We said that we were going to return the $25 million dividend that we received from CDK and we did that via the share repurchases that exceeded a $1.1 billion.

And so, I think you'll continue to see us focusing on returning capital to our shareholders. The other thing, that I just wanted to mention is. We really had the same kind of pressures that everyone else is having from foreign currency translation. And, we may not have focused as much as others. But, very very pleased that despite that pressure, which was significant, both on the top line and on the bottom line, that our year-to-date performance was -- I'm sorry, that our quarter performance and our year-to-date performance are as strong as they are.

So, I believe that that is evidence that we continue to execute well against our HCM strategy. We appreciate the time today and we look forward to having you join us again next quarter. Thank you.

Operator

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