THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ADP - Q4 2015 Automatic Data Processing Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2015 / 12:30PM GMT

OVERVIEW:

Co. reported FY15 revenue of $10.9b and diluted EPS of $2.89. Expects FY16 YoverY total revenue growth to be 7-9%.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

David Togut *Evercore ISI - Analyst*

Sara Gubins *BofA Merrill Lynch - Analyst*

Tien-tsin Huang *JPMorgan - Analyst*

Smitti Srethapramote *Morgan Stanley - Analyst*

Gary Bisbee *RBC Capital Markets - Analyst*

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

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

Jim Macdonald *First Analysis Securities - Analyst*

Ryan Cary *Jefferies LLC - Analyst*

Glenn Greene *Oppenheimer & Co. - Analyst*

Bryan Keane *Deutsche Bank - Analyst*

Henry Chen *BMO Capital Markets - Analyst*

Robert Simmons *Janney Montgomery Scott - Analyst*

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

Matt O'Neill *Anonymous Research - Analyst*

PRESENTATION

Operator

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

(Operator Instructions)

I'll now turn the call over to Miss Sara Grilliot, Vice President, Investor Relations. Please go ahead.

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'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 FY15 earnings call and webcast. Carlos will begin today's call with some opening remarks and then Jan will take you through the FY15 financial results and our outlook for FY16. We will then take your questions.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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. Good morning everyone.

This morning we reported fourth-quarter and full FY15 results, with revenue up 5% and 7% respectively, despite continued pressure from foreign currency translation. Even more (inaudible) is our exceptionally strong performance on new business bookings, which grew considerably better than our expectations, to 18% for the quarter and 13% for the year. Our strategy to drive sustainable growth at ADP is working, the result of which is strength across all three of our strategic pillars.

In particular, ADP health compliance product line has been particularly well-received in the market, significantly outpacing our internal expectations. We have brought our technology and expertise together in a way that meets an acute client need at a time when businesses are racing to ensure compliance with the Affordable Care Act. Our success here has resulted in higher than anticipated selling expenses ahead of related revenue, and that has put significant but short-term pressure on our fourth-quarter and full FY15 margins and earnings.

In order to transition this strong performance in new business bookings to recurring revenue, we're making additional investments in operational resources that will begin in the first half of FY16 and remain throughout the year. These investments are not expected to contribute meaningfully to recurring revenue until the second half of the fiscal year. Jan will further explain our expectations for FY16 later in the call, but before he does, let me give you other examples of how execution against our three strategic pillars is driving ADP's recent growth and future opportunities.

As we've told you, we are all in on HCM. Overall, it was successful quarter and year for ADP, as we continue to grow our complete suite of cloud-based HCM solutions, delivering customer solutions that work together seamlessly. This past quarter we introduced a number of enhancements across our major platforms.

With RUN, we updated the entire user experience to simplify interaction with the platform for small business owners. We expanded the capabilities of Workforce Now, our HCM solution for mid-sized businesses, to include career and job portals, as well as a consumer-grade experience for employee benefit enrollment. And we delivered a new user experience for Vantage clients as well, which promised to be even more intuitive, engaging and contextual.

For certain clients on our strategic platforms, we were especially excited to introduce ADP DataCloud, which leverages ADP's unparalleled data and insight to deliver workforce analytics that can help boost productivity, help develop talent, increase retention, and identify potential flight risks. About 1,000 ADP clients are already taking advantage of these analytical capabilities.

Not only have we been busy on the technology front, but we have also been busy building partners through the ADP Marketplace. We are excited to have about 60 partners providing solutions through our secure application programming interfaces, or APIs; and there are another 200 that have expressed interest in partnering with us. This is an exciting development for us. We are attracting established leaders like Concur, and Cornerstone On Demand, as well as exciting emerging technologies such as One Page, which provides clients an innovative platform for engaging passive job seekers. The ADP Marketplace is a great example of ADP taking a client-centric, outside-in view of enhancing our HCM capabilities and creating best-in-class solutions for our clients.

In FY15, we also continued to make progress in growing and scaling our market-leading HR BPO solutions by innovating our product offerings and improving the experience for our clients and their employees. Helping our clients achieve success is at the core of what we do. So it's critical that we understand the business issues they are facing in the markets they serve. We recently hosted an insights innovation forum for a number of our

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

clients to help us look around the corner. These client insights provide a framework to enhance our innovation efforts to ensure we are consistently advancing our solutions to address their needs and help their businesses thrive.

To this point, in May, we introduced a new program for ADP TotalSource focused on health, wealth, life, and work, aiming to provide worksite employees with a suite of benefits and tools designed to support employee growth and development. Increasingly, employees are interested in tools and services to optimize productivity and wellness across the entirety of their lives, both at work and at home. We are continuously looking at ways to improve the health of worksite employees by offering new benefit solutions and partnering with clients to implement wellness programs.

We also continue to expand into new markets and grow globally with our clients. In the 104 countries that we now serve, we remain focused on broadening our service capabilities to ensure we are delivering consistent, scalable, and valuable services. In fact, the Avris Group recently recognized ADP for the geographic scope, scalability, and global expertise of our payroll offerings.

The success we have achieved requires that ADP continues to attract and keep great talent. We take great pride in creating an environment that attracts great people, and I'm honored by some of the recent awards we've received recognizing ADP as an innovative company and a great place to work. Specifically, InformationWeek recently named ADP to their list of top business technology innovators; and Computerworld listed ADP as a top place to work in IT. And we are also pleased to have ranked number 20 on the 2015 DiversityInc top 50 companies for diversity.

ADP is the only HCM company that serves clients across the globe, across the full HCM spectrum, and across the full range of client sizes. We focus on our clients' biggest investment, challenge, and opportunity -- their people. We have the resources, scale, and expertise to meet the market needs. Our clients are responding. We now have 500,000 clients in the cloud. More than 5 million people are using our mobile app. And client revenue retention remains at record levels.

In closing, FY15 was a successful year for ADP. We sharpened our focus on the HCM market through the spinoff of CDK Global. We expanded our suite of HCM solutions and our global presence, and delivered solid revenue growth in spite of pressure from foreign currency translation. Consistent with our commitment to shareholder-friendly actions, we returned $2.5 billion in cash through dividends and share repurchases, and during FY15 reached a milestone of 40 years of consecutive dividend increases.

As I look forward into FY16 and the opportunity we have to assist our clients with growing regulatory compliance associated with the Affordable Care Act, I'm excited about the challenge ahead. The success of our HCM solutions highlights the strength of our direct sales force and our history of assisting clients with navigating the challenges of ever-increasing regulatory complexity. Combine this with ADP's historical strength of expanding client relationships, and this is a challenge I would love to have every year.

The higher selling expense we incurred in the fourth quarter is behind us. To deliver on these commitments to clients, we will invest further in the first half of the fiscal year to convert these new sales to recurring revenues. We believe these investments will reward us with profitable revenue growth and even deeper client relationships over the longer term. I am confident that, as we successfully execute against our strategy, we will continue to drive results for our clients, our associates, and our shareholders.

And with that, I will now turn the call over to Jan to further review our FY15 financials and a discussion of our FY16 outlook.

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

Think you very much, Carlos, and good morning everyone.

As Carlos mentioned, FY15 was a successful year for ADP. Revenues grew 7% to $10.9 billion for the year. This growth includes a negative impact of approximately 2 percentage points from the effects of foreign currency translation. Pre-tax earnings grew 10%, which includes a negative impact of approximately 1 percentage point from the effects of foreign currency translation. ADP's consolidated pretax margin improved by 60 basis points for the year. This included a drag of about 20 basis points from the slower growth of our high-margin client fund interest revenues, as these highly profitable revenues grew at a slower rate than overall revenues.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Diluted earnings per share grew 12% to $2.89, on a lower effective tax rate and fewer shares outstanding compared with a year ago. This growth included a negative impact of about $0.04 from the effects of foreign currency translation. And as Carlos mentioned, our new business bookings for the year exceeded our expectations, finishing at 18% growth for the quarter and 13% for the year, compared with our April 30 forecast of about 10%. This outperformance resulted in higher selling expense than ADP anticipated, and caused pre-tax margins and earnings results to come lower than our own prior expectations.

Overall, I am pleased with ADP's solid performance, which yielded good growth despite the impacts from foreign currency translation and continued low interest rate environment, which puts pressure on the growth of ADP's high-margin client fund interest revenues. I'm also pleased that we continued our shareholder-friendly actions, returning approximately $2.5 billion to shareholders during FY15 for dividends and share repurchases.

So now for a discussion of our segments' results. In our employer services segment, revenues grew 5% for the year and were negatively impacted by 2 percentage points from foreign currency translation. This revenue growth was driven primarily by additions of new recurring revenues across all of our HCM markets we serve. For the fiscal year, client revenue retention remains at a record high level of 91.4%. You have may noticed in this morning's press release that in the fourth quarter our revenue retention rate declined by proximally 30 basis points. And as we told you last quarter, we do experience variability in this metric from quarter to quarter, and we continue to pay close attention to retention across all areas of our business. We are also pleased that same-store pays for control in the US remain strong, with an increase of 3% for the year.

Average client fund balances grew 5% compared with a year ago, including a negative impact of about 1% from foreign currency translation on balances held outside the US. The primary drivers of the client fund balance growth were additions from net new business and pays for control, moderated by decreased balances from lower state unemployment tax rates compared with the prior year, as employment levels in the US continue to improve.

We remain pleased with the overall performance of our international business, which continues to see healthy growth from sales of our multinational solutions. In Europe, the economic situation remains challenging, and while we have seen growth in sales from our in-country solutions that are above Europe's overall GDP rate, the growth has been slower than our overall growth. Pretax margins and employer services were up 70 basis points for the year, primarily from scale and productivity, and reflects pressure from additional selling expense related to the fourth quarter outperformance in our new business bookings.

I'm very pleased with the performance of the PEO in FY15. The business posted 17% revenue growth, with average worksite employee growth of 14% for this year. And along with this growth, the PEO delivered exceptionally strong margin expansion through sales productivity and operating efficiencies, expanding margins by approximately 110 basis points for the year.

Before I take you through our FY16 outlook, I would like to point out that our client funds investment strategy had a positive year-over-year impact to our FY15 revenue and pre-tax earnings for the first time since 2008. The benefit was slight, contributing about $7 million, driven by a balance growth that was offset by slightly lower average yield on the portfolio. However, we are pleased to have turned the corner in FY15 after years of earnings pressure resulting from the continued low interest rate environment.

So now I will take you through our updated FY16 outlook, which excludes the results of a discontinued operations from a small non-HCM-related business we sold at the end of the fiscal year. For FY16, we are anticipating new business bookings growth of 8% to 10%. We expect this growth to be balanced across our three strategic pillars, with continued favorable performance from the sale of our ADP health compliance product. We anticipate total revenue growth of 7% to 9% for the year, including an anticipated negative impact of 1 to 2 percentage points from unfavorable foreign currency translation. This forecast assumes 5% to 6% revenue growth in the employer services segment, including an anticipated drag of approximately 2 percentage points from foreign currency translation, and growth in pays for control of 2% to 3%.

Revenue grew for the PEO is expected to be 15% to 17%. ADP's pre-tax margin is expected to expand about 50 basis points, from 18.9% in FY15. This forecasted pre-tax margin expansion is at the lower end of our goal of 50 to 75 basis points of pre-tax margin expansion over the longer term. We're still committed to this goal, but we believe the opportunity to assist our clients with ACA compliance will contribute to ADP's strategy of driving higher penetration of our HCM product suite, as well as continued revenue growth and profitability. So while we do not expect to achieve

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

more than 50 basis points of pre-tax margin expansion in FY16, we believe that the FY16 investments we're making will contribute to ADP's growth and achievement of our longer-term goals.

On a segments level, we anticipate pretax margin expansion of about 100 basis points for employer services and about 50 basis points of margin expansion in the PEO. Diluted earnings per share is expected to grow 12% to 14% compared with $2.89 in FY15, and includes an anticipated negative impact of about 1 percentage point from unfavorable foreign currency translation. This forecast does not contemplate further share buybacks beyond anticipated dilution related to employee benefit plans. Although as communicated at our March 3 investor conference, it is clearly our intent to continue to return excess cash to our shareholders, depending on market conditions. Our earnings-per-share forecast assumes an effective tax rate of 33.7%, compared with the 33.5% in FY15.

Before I move to the forecast for the client funds extended investment strategy, I want to make a few comments about our expected quarterly growth rates for FY16. As mentioned in this morning's press release, we expect that revenue growth in the first and second quarters of the fiscal year will be below our forecasted range of 7% to 9% for the year, and above the forecasted range of 7% to 9% for the third and fourth quarters in that fiscal year. This is due to two factors. First, we anticipate that the first and second quarters of the year will experience continued negative pressure from foreign currency translation until we anniversary the strengthening of the US dollar that occurred during FY15, assuming no material changes to current foreign exchange rates.

Second, as Carlos mentioned, new business bookings sold during the fourth quarter of FY15 will take time to implement, and therefore, anticipate that the most of the incremental revenue from these solutions will not impact recurring revenue until the third fiscal quarter. Because of the investment and operational resources to support these implementation, and the anticipated lower revenue growth in the first half of the year, our quarterly earnings forecast assumes flat to slightly positive pre-tax earnings growth in the first and second quarters of FY16. As we have mentioned, we believe this investment will yield growth in longer-term benefits to ADP, as well as deeper client relationships.

So with that, I will take you through our forecast of the client funds extended investment strategy. First, a reminder that the objectives of our investment strategies remain the safety, liquidity, and diversification of our assets. As of June 30, approximately 80% of our fixed income portfolio was invested in AAA- and AA-rated securities. In a typical year our strategy results (inaudible) of our fixed income investments maturing, and this year we expect the percentage of maturities will be closer to the higher end of this range. We continue to base the interest rate assumptions in our forecast on the fed funds future contracts and the forward yield curves of the 3 1/2- and 5-year US government agencies, as we do not believe it's possible to accurately predict future interest rates, the shape of the yield curves, or the new bond issuance behavior of corporate and other issuers.

For FY16, we anticipate average times on balances in the range of $22.5 billion to $22.9 billion, which represents 3% to 5% growth and includes an anticipated impact of about 1% from foreign currency translation, as almost 12% of our client fund balances anticipated to be outside the US in FY16. We anticipate that the yield on the client funds portfolio will remain about flat at 1.7%, compared with FY15. These factors are expected to result in an increase of $5 million to $15 million to our client fund interest revenue and a increase of up to $10 million to pre-tax earnings from the client funds extended investment strategy, when compared to FY15. The detail of this forecast is available in the supplemental slides on our website. And finally, before we take your questions, we are anticipating capital expenditures of $225 million to $250 million in FY16.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We'll take our first question from the line of David Togut of Evercore ISI. Your line is now open.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

David Togut - *Evercore ISI - Analyst*

Thank you. Good morning, Carlos and Jan.

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

Good morning.

David Togut - *Evercore ISI - Analyst*

Good morning. How you think about balancing this well, above-trend growth in global new-business bookings with the expense associated with implementation? And what I'm trying to understand is, if you have the opportunity let's say to meaningfully accelerate bookings growth above the historic target levels of 8% to 10%, would you do it in this environment?

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

Yes, absolutely. When you think about the way our business model works and I think we've been saying this probably for multiple decades, it's an incredibly attractive business model because of the retention rates. So if you are keeping clients 10 to 12 years on average and in some cases with large clients 20 years, to spend the sales expense and implementation expense in the first year, to then have that cash flow stream for that long is just adds a tremendous amount of value in what we called lifetime client value.

So we've been saying this I think for decades, all of my predecessors have said it. This is really a great problem to have, is to have new-business bookings accelerating the way they did this year and in the last quarter and frankly, from shareholder value-creation standpoint we would love for it to continue.

David Togut - *Evercore ISI - Analyst*

Understood. So as a follow-up, that said, I'm trying to understand the 8% to 10% growth target for new-business bookings, given the13% growth you put up for FY15? Is that is a conservative outlook? Or is that realistic?

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

We were taking bets on how long it would take someone to ask this question and so you get the prize. And the reality is, I think as we've said over the last three or four years, whenever we have the kind of strong finish that we just experienced, we have I think historically wanted to be cautious. Because, and I think we have had experiences in the past where due to the way our incentive systems work and other factors in terms of how our sales force behaves, that a very, very strong finish in a FY can sometimes lead to a slower start in the next FY.

So we also, I think when we looked at that 8% to 10%, if you look at the five years on a compounded basis, we have had actually right around 10% growth. And so we've been in double digits now for five years and we're definitely coming off of some very strong momentum and I think the ACA boost that we are getting is certainly welcome. But I think when you look at it over a long period of time, I think we feel like 10% is a very, very strong number and that's at the top end of our range, so somewhere in that middle range of 8% to 10% feels like the right place for us to be planning our year.

David Togut - *Evercore ISI - Analyst*

Understood. Thank you very much.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Operator

Thank you. Our next question comes from Sara Gubins of Bank of America Merrill Lynch. Your line is now open.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Hi, thanks good morning. I wanted to start by asking about the strength in the fourth-quarter new bookings. Are these coming from larger clients? I'm wondering if that's why it's taking about six months for them to start to contribute? Is any coming from Vantage or much coming from Vantage? And are you expecting margins to be in the typical range?

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

So I think to be clear I'll let maybe Jan add a little bit of color in terms of specific numbers. But the strength was really across the board in all of our segments and to be clear, it was not only the Affordable Care Act related business, it was also in some of our HCM -- other HCM solutions including our core, strategic platforms. And we just want to remind you also that ACA compliance is a requirement not just for large national-account clients but really effective next year is for clients over 50 employees and currently clients over 100.

And so we obviously experienced some interest in our HCM products and ACA compliance products in our major accounts mid-market business as well, so it wasn't contained really to national accounts. And we also frankly, experienced strong growth in our multinational products as well which have nothing to do with ACA, so we really just had good across-the-board, I think, sales results. Jan --?

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

Yes, I think one way to think is that ACA is triggering basically a broader HCM demand because the integrated bundle is very compelling to our clients. That's particularly as relevant for the mid-and-up market. But in addition to your question or final question is [market] expectations for the ACA business and we have no reason to assume it would be any different from our average that we have in ADP, so this will be a good business for us in the long run.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay. Great. And turning to the fourth quarter, employer-services revenue growth of 2% was below what we've seen in a while and I know that FX is an issue and the comparison is particularly tough, but I am wondering if this was a surprise for you? And if so what led to it? Particularly because you have had strong new bookings for the last couple of quarters? Thank you.

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

I think excluding the FX it was not a surprise. I think that if you look at again, over four to six quarters, there's some variability sometimes in calendar and a few other odds and ends here, but no, the answer is that it is not out of line with I think what we would've expected based on our bookings and based on our retention rates and all the other things that go into that mix.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great. Thanks.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Thank you. Our next question comes from Tien-tsin Huang [with] JPMorgan, your line is now open.

Tien-tsin Huang - *JPMorgan - Analyst*

Hi, great bookings. I guess to build on question. Can you force rank for us which markets were stronger than expected on the bookings front and any changes in duration? Of deals, thinking about how they start going?

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

You know, having looked at these numbers last night, I'm not sure that I can force rank it because we really had the strength across the entire portfolio, including global. I probably -- where we have the most variability is in the highest end of the business just because of the lumpiness and the size of those deals and we did have particularly strong results in our multinational products. But when you look at kind of the broader big-business units where we have much bigger numbers and you don't have as much variability, they were all very, very strong and I think we were very pleased with the results.

Tien-tsin Huang - *JPMorgan - Analyst*

Okay.

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

Second was around duration. You mean terms of how much it's taking to close deals?

Tien-tsin Huang - *JPMorgan - Analyst*

Yes, I was more thinking about the revenue realization or the bookings conversion in the terms of the deals?

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

Obviously, as we deal now with a big backlog of implementations, just have to be naturally worked down and secondly, the reporting requirements kick in really in earnest around the calendar end of the year, so I think the ACA product itself contributes a little bit to the back-endedness of our product. And then just regular work. So I wouldn't put anything special into this revenue conversion of a half a year I think it's just how we operationally are going to implement the business and then the ACA timing plays a little bit of a role of it too.

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

Yes, there are some important milestones that happen on January 1 with regards to reporting around the Affordable Care Act and so that just happens to be the that, that six months from now, that happens to be the average guidance that we give in terms of converting new-business bookings into revenues. But we just want to make sure that we maybe gave a little bit of color there that if people are wondering why now and not three years ago? Because the Affordable Care Act was passed quite a long time ago. Some of the requirements for ACA have been phased in over time and there happen to be some important reporting requirements kicking in on January 1.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Tien-tsin Huang - *JPMorgan - Analyst*

Got it. That's very, very clear, makes sense. So just one quick follow. On the buyback front, as expected it's not in guidance, but has your philosophy changed at all with respective to buybacks including how you leverage your balance sheet and approach it, et cetera? Thanks.

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

No, there's absolutely no change in our philosophy. I think it's actually typical that we would not guide to future-share buybacks, so this is right in line with how we've ever done, you should not see any change in our attitude toward returning cash to shareholders.

Tien-tsin Huang - *JPMorgan - Analyst*

Thanks, Jan, thanks Carlos.

Operator

Thank you, and our next question comes from the line of Smitti Srethapramote of Morgan Stanley, your line is now open.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Thank you. Just another question on bookings. Generally speaking, the acceleration in new bookings that you're seeing, are you (inaudible) just generally seeing the markets that you're competing in growing faster than you are expecting or have you also -- do think you're also taking share from some your competitors?

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

I think it's probably a little bit of both and it depends on which market and, probably not going to get into those specifics in terms of market by market, but I think it's a combination of both. Because we have heard anecdotal stories, we obviously don't meet with our competitors to talk about these things, but we have heard anecdotally that the Affordable Care Act compliance requirements, especially the reporting requirements that are kicking in on January 1 are creating a higher-than-normal level of activity in the marketplace in general. But I think when we look at our growth rates across overall ADP and compare them to the growth rate of the industry, we believe we are, I think, [wings] in market share as well.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Got it. And then just a follow-up on ADP Marketplace, it sounds like there's a lot of developer interest. Can you remind us whether this is more about giving customer choice for accessing modules or whether it's about generating revenues?

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

That's a good debate that we've had. I think a fair amount of here internally and I think we are leaning right now in the direction of being more open than not, which means in some cases there will be potentially some either perceived or real gaps that clients will be able to fill in through the ADP marketplace. But we do fully expect this to be monetizable and I think a revenue generator for ADP. But I think as we've said for the last two or three quarters, as excited as we are because of the traction we're getting, at $12 billion, this is really not going to have a meaningful impact anytime in the near future. From a revenue standpoint.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Smitti Srethapramote - *Morgan Stanley - Analyst*

Thank you.

Operator

Thank you. Next question comes from the line of Gary Bisbee of RBC Capital. Your line is open.

Gary Bisbee - *RBC Capital Markets - Analyst*

Hey guys, good morning. I guess I would ask another question about the ACA product. Obviously that sounds like that's doing really well. Two-part question. How do you think about how that trend in booking trends once we get into calendar 2016 and theoretically most companies are using this service? Can this continue to grow or is this more of a one-time mad dash to get into compliance and then it's hard to keep growing that product? The second part, as companies come to you looking for this product, are you seeing them take any other products or is that driving broader demand as they're thinking through these issues into the other parts of your portfolio? Thanks.

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

They are in fact taking broader sets of our product. And part of that is, just to refresh your memories, I think we've been talking about this for a few years, that the Affordable Care Act really requires a core system of record for payroll requires a good benefits administration system and a good time-and-attendance system. I know you've probably heard the stories about the 30 hours requirement for eligibility and some of the other factors that go into complying with ACA, so really having a complete HCM bundle and suite is almost a necessity for ACA compliance.

Now some competitors and in some cases we may choose to provide ACA solutions on a standalone basis just like we do with standalone tax, but clearly with the very effective direct sales force that we have, I think we are using this as an opportunity to really -- as much as possible encourage prospects and existing clients to really broaden their, what they are taking from us in terms of HCM solutions. Because it just makes it easier to report and to comply with ACA, but it also frankly provides lot of other benefits that we've been talking about for years in terms of managing their workforce and optimizing their business.

So the answer is yes, when you look at our sales results, our new-business bookings results, the ACA products dragged along with them additional modules and bundles, particularly around benefits administration. We anticipate that time-and-attendance systems will also be something that will be of increasing interest here over the next couple of years, not just because of ACA but because of the some of the recent proposals around new requirements for the measurement of overtime. So I think that this all bodes well for additional penetration of our products and we did see that in the fourth quarter.

Gary Bisbee - *RBC Capital Markets - Analyst*

Great. And then the follow-up, is there anything particular about the ACA solutions that's different and would require significant level of investment of resources to handle the on-boarding, or is it just that it's a fairly new product and so you didn't have those assets in play?

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

Yes, it's a fairly complex compliance solution and we developed it really with ADP's value proposition online, so it goes even further than recording and measurement eligibility. And in particular, the back-end, which has a lot of the filing requirements that are due to the IRS and the exchange of information with the public exchanges on penalties and rebates and so forth is fairly complex, and so that requires some time.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

I think the delay in implementation is not specifically caused by the complexity of the ACA product implementation but more by the volume that we have to work through. And to some degree if clients buy a full suite of HCM services obviously that is a complex implementation on its own, so that combination of it, so don't think of the ACA product as particularly difficult to implement. It does require implementation resources but it is more really that working through the backlog and implementing a large number of broader modules in parallel with the ACA that will cause that time delay that we give you.

Also, the revenue disbursements I just like to remind everybody, is also due to that strong FX pressure in the first two quarters and less FX pressure in the second half the year, so it's a combination of that, that helps with the guidance and even though you didn't ask the question I just want to make sure I get the information out in the first quarter. We anticipate FX pressure of approximately 3% and the second-quarter revenue pressure of FX by approximately 2%, so you can then (inaudible) in the second half of the FY and on NOI it's a little bit less pressure, but kind of in that neighborhood, and so you have really a strong component of this revenue guidance is aided also by the FX impact. So I don't want to have this ACA impact to be too overstated in your thinking.

Gary Bisbee - *RBC Capital Markets - Analyst*

Thank you.

Operator

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

---

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

Thanks for taking my question. A couple if I may. Probably, first one just on the operational costs, can you elaborate on operational costs associated with these new bookings? Is this just probably going to be on services or are you expecting some investments in product offerings, especially for the up-market segment?

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

I think that just in terms of the fourth quarter, I think we may have said in our comments and if not, we should clarify that, we fully, even as of a few months ago, expected to -- our own forecasts were to come in, in line with the guidance that we had provided. And so the entire miss in the fourth quarter, if you want to call it a miss, I kind of call it good news, but if you want to call it a miss, was really due to selling expense. So we had approximately $40 million in incremental-selling expense which again, as I said, will take all day long because that's now behind us and again, given these lifetime client values, we're going to have these clients for a long time, we are going to be collecting revenue and margin from them for long time to come, so that's all good news.

In terms of what we are planning in terms of additional resources for implementation, as Jan said, this is all due to volume, it's not related to complexity or other issues which again, just to reiterate, is a good news story. So we were not anticipating 13% bookings growth, otherwise we would've -- and 18% for the quarter, otherwise we would've told you that last quarter, so that requires us to ramp up some of these implementation resources, purely driven by volume.

But again it's a good-news story because once we get through that expense as well then we will have the benefit of those revenues for many, many years to come. So in terms of quantifying those numbers as Jan said, the first half of the year it's mainly an FX story but we do have probably around $30 million to $40 million of incremental operating expenses in order to implement all of these -- all of this incremental, so it's incremental on top of what we had already planned for in terms of implementation expense. And that adds a little bit of additional pressure in the first half, but the FX is really the main story.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

That's great. On the [competent] landscape can you provide any color on the changing dynamics in various segments, up-market, mid-market, the semi-market and also the [PEO] segment? There's a lot of noise in the market but I want to hear your perspective on your latest offerings and how the [compare there] in the market?

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

I mean that's a lot of ground to cover. I think the general answer is, again as we prepare for these calls and we look at our win-loss ratios and we look at growth rates of new-business bookings, not just for ACA but also in our strategic platforms, we feel pretty good about our competitive position. We don't see any major changes in terms of pricing behavior out in the marketplace.

We're steadily growing our sales force at the rates that we had planned and I think our productivity gains have exceeded our expectations, which I think are a sign of I think getting reasonably good traction in terms of the products in the marketplace. So I think we are pleased with our competitive position but we acknowledge also that there's a lot of competition out there and a number of new entrants. And I'm sure there's plenty of also exits, but this is a vibrant, competitive market but we believe that we are doing a pretty effective job when you look at our new-bookings results which is the ultimate measure of whether or not we're winning against the competition or not.

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

That's very helpful. Thanks, Carlos.

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

Thanks.

Operator

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

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

Hi, good morning guys. I guess 7% nominal and then 9% constant-currency revenue growth from this year, it looked like pays-per-control came in about 3%. Can you [dis] aggregate the other 6 points of constant-currency growth? In their, client growth versus PEO-related revenue growth, versus add-on modules into the base?

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

Sure, Jan can add a little bit more detail, but I think as we went through in the March Investor Conference, pays-per-control really adds less than 1% to our revenue growth and we have a couple of other small items that plus and minus very, very small impact. The main impact of our revenue growth is the difference between our new-business bookings which then turn into starts and then our losses. So what we refer to as starts which is the leading indicator of our starts is our new-business bookings, and so that really is the bulk of the 6% that you were referring to. And by the way, that 6% was probably closer to 2% to 3% three years ago because as the difference between our starts related to new-business bookings and our losses has grown, at a faster rate than our revenue growth, we've been able to accelerate our revenue growth here.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

And that is with a very similar pays-per-control number overall three or four of those years and we've had around 2.5% to 3% pays-per-control growth here for a while. I want add also that for two or three years we had about a 1% drag from client-funds interest because that was a revenue number that was under pressure. We had one year where we had $90 million decrease in interest income, and another one I think we had $50 million. So there are some moving parts where it's very, very hard on the call like this to get through every year, every detail, but in general our net-new business, difference between starts and losses has been expanding and growing and it will continue to, given these strong new-business bookings we just reported, and that tends to accelerate our revenue growth.

Now, versus other business models that are not recurring revenue models, our revenue growth tends to accelerate at a slower rate because of just the dynamics of the existing base which we also love. So we love retaining 91% of our clients, but what that means is that to accelerate that revenue growth requires multiple years of new-business bookings growth in 10% or more, which is exactly what we've accomplished in the last five years. And so that's why you've seen this, I think it was probably around 2%, coming from that net new-business number four or five years ago to today, more like 6% to 7%.

And obviously we think that by the second half of this FY16, that revenue growth rate will be based on -- we were transparent terms of providing the comments and the guidance that Jan gave that we expect to be above our range in the second half of the year. I think that you can extrapolate from that, that we will have robust-revenue growth in the second half, exiting the second half of 2016 and hopefully entering into 2017.

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

Terrific. Sorry go ahead.

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

I think your other question was about decomposing PEO impact versus -- in fact, and I believe from a growth rate decomposition standpoint I believe it's about half and half.

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

Got it. Got it. Good. And then just one follow-up related to the competitive environment. How frequently are you the only sole-sourced? Currently, like in this most recent quarter when you had really strong new bookings? Is it predominately sole-sourced, or are they --?

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

Sole-sourced you're defining as we are in a non-competitive situation basically?

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

Exactly, yes.

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

We don't really have reliable statistics on it and it switches obviously from, in the down-market of more often than not it is not a direct competitive situation to up-market it's always a competitive situation. And a band in between. So it switches to it in the cross-selling of our additional modules in ACA products it's a more often than not probably that we are asked by our clients to expand our product offerings.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

This a good opportunity also just to put in a plug for our direct sales force. We have 4,000 or 5,000 field salespeople and I think that, that at various times becomes a point of discussion externally and internally about the cost of that because it's an investment. But obviously this quarter and this year proved that whether it's a competitive situation or not a competitive situation, having a sales force is an incredibly important competitive weapon for us that again, we've been utilizing very effectively here for decades and it's a very well-honed machine and they did an amazing job this year.

And I think as Jan said, other than for small clients, where sometimes there's no competition, but even then there are many options nowadays, almost every situation is competitive. In the mid-market, the up-market and many times in the low end of the market and the PEO and benefits across all of our products, and having a well-trained well-incented direct sales force is an important competitive advantage for us.

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

Terrific, thank you.

Operator

Thank you. Next question comes from Jim Macdonald of First Analysis, your line is now open.

Jim Macdonald - *First Analysis Securities - Analyst*

Good morning, guys. I'd like to go back to the ACA product. Could you tell us how you're pricing it? Is it priced monthly? Is there an extra charge in January for the form that needs to be filled out, like a W-2? And how big is the market -- how much is this adding to the market in terms of maybe dollars-per-workside employee per year?

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

Good question, this is a priced as a module like our other HCM modules as a per employee-per-month type charge. For ACA compliance you have to really work throughout the year and so the services offer it throughout the year and the year-end filing requirements of the forms for the employee and the employer is included in that monthly charge.

So once we are going you should expect a steady recurring revenue stream integrated in our HCM solution, so it's not like W-2 for example, it's just an integrated price that we give to our clients. And I'm sorry the second part of the question was how big it is? It's a smaller type module compared to our overall incremental revenue that we sell.

Jim Macdonald - *First Analysis Securities - Analyst*

Okay. And maybe for a follow-up, normally this time of year you tell us what your client count was at year end and client growth? I didn't see it in the release?

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

Jason you're asking too good questions that we're waiting for, and I appreciate them. Our client -- we had another good year of client-[count] growth accelerating and taking market share of 3.5% for the Company.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Jim Macdonald - *First Analysis Securities - Analyst*

Okay. Thanks very much.

Operator

Thank you and our next question comes from line of Jason Kupferberg of Jefferies. Your line is now open.

Ryan Cary - *Jefferies LLC - Analyst*

Hello guys this is Ryan Cary calling in for Jason. First one just on the employer-services side, I saw that the pre-tax margin is expected to be up 100 basis points, and then looking at the PEO which is expected to be up about 50 basis points, but overall pre-tax margins were only forecast to increase 50 basis points. So I was just curious, what are the other pieces here? Is there something that maybe I'm missing?

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

No, I think the -- we have still a little bit of -- number one, it's the balance of the growth, so you have 50 basis points of the PEO which weighs down the overall margin expansion. And you have a very small drag from the client-fund interest rates that depress us anything, but nothing else really that is that meaningful.

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

If you remember that the way we do our reporting is we provide employer services at 4.5%, which again, this has been going on for years that we just fixed it at 4.5%, they get credit for the fund balances at 4.5% in employee services and then we have in the other segment is where we do the adjustment, if you will, for what the real rates are. We just said our 1.7%, so that I think accounts for some of that difference as well.

We really have to -- the missing link for you in terms of it's 150 basis points and then that other segment, at least today and the foreseeable future will be a drag on that overall margin just because of the math. Because of the way we credit interest at 4.5%, so there's no economic difference to ADP overall, it's just that we, for management purposes so that employer services isn't focused on interest rates, we pass back to them credit for interest rates at 4.5%. And that number, one would argue now with the benefit of hindsight that, that number is too high, but it's been that way for many, many years and for comparability purposes we've chosen just to leave it the same.

Ryan Cary - *Jefferies LLC - Analyst*

Great, thanks so much. On client retention, I saw it's down a little bit year over year for the second straight quarter, was flat at record levels for the full year. Can you just tell us what you were assuming for 2016 with regards to client retention?

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

We don't really guide to our client retention but we have I think historically said that maintaining historic levels of retention is for sure a good goal to have.

Ryan Cary - *Jefferies LLC - Analyst*

Great. Thanks so much.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Thank you, and our next question comes from line of Glenn Greene of Oppenheimer, your line is now open.

Glenn Greene - *Oppenheimer & Co. - Analyst*

Thanks, good morning, I'll just follow up on the retention. Obviously two quarters isn't a trend, but we haven't seen two quarters consecutively down. Is there anything to call out there? Or maybe perhaps a lost client from a couple quarters as it continues to drag?

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

I think if you go back you -- not that I'm trying to encourage you to look for bad news, but you will find that we definitely have had prior times in our history where we had two consecutive quarters of decline in retention. It's just the way it mathematically has to have happened just because of the fluctuations that we've had over the years in our client retention. But the answer is you know, you see the tone of how seriously we take this and we've said twice that we watch this very, very carefully and we're looking across all of our segments. Unfortunately we just really don't have anything to report in terms of any kind of patterns or any particular place of concern that we have right now. We will definitely communicate that if we see any of that.

I did, as I prepared for the earnings call, notice that in our major accounts in our mid-market business, as we got off or are in the process of getting off of two of our legacy platforms, we did have retention pressure on those platforms. And that doesn't account for the 30 basis point decline, but as we move from our small business migrations or upgrades where we move clients over on to [RUN], where we had just frankly amazing results, where retention actually has improved and increased overall through those migrations. As we anticipated as we began this process of trying to accelerate the upgrades of our clients in our mid-market and up-market, I think it's safe to say that when we get to the end of the line on some of these platforms, that we do experience a little bit of pressure.

We had a time-and-attendance system for example in our mid-market, where we spent a couple years getting all of the clients off of it and then in the last six months the last few hundred clients, the retention rate was 50%. So the good news is it was only a couple hundred clients and so that 50% retention rate doesn't really have a major impact on overall ADP in terms of revenues or retention. But you combine that with another legacy-payroll platform where we only have, I believe now it's 300 clients left in on our PCPW platform in our mid-market, that also experienced lower-than-historical retention rate as we get into the line in terms of encouraging the last few clients to move off of that platform and to upgrade them.

Glenn Greene - *Oppenheimer & Co. - Analyst*

Okay. Then back to the bookings growth the 18% in the quarter, I know there's been a lot of discussion regarding it, but I guess I'm a little still unclear what the upside was in the quarter? Was it specific to the ACA products? But is sounds to me like that's not a huge driver, or was it just sort of broad-based strength across the board that kind of surprised you to the upside?

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

It was broad-based strength across the board, but ACA was a significant part of it.

Glenn Greene - *Oppenheimer & Co. - Analyst*

Okay. And just to clarify, the $40 million incremental-sales commission, by my math that's like $0.05, $0.06 for the quarter?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

I think that's fair and so we had a little bit better performance in a few miscellaneous items, so we would have point landed our 14% earnings growth without any NSE overage.

Glenn Greene - *Oppenheimer & Co. - Analyst*

Okay. Great. Thanks.

Operator

Thank you. Our next question comes from the line of Brian Keane of Deutsche Bank, your line is now open.

Bryan Keane - *Deutsche Bank - Analyst*

Hi, most of my questions have been asked and answered. What was the expectation for new bookings? I knew it grew 18%, but I know it was over your expectation, but what was it going into the fourth quarter?

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

We had guided for 10% new-business bookings growth in our last earnings call and so our to expectation was to grow 10% for the year. And I'm looking at new-business bookings for our sales plan had to be below -- it had to be below 10% because we exited around 11% (inaudible) YTD in the third quarter. So we had planned about slightly below 10% new-business bookings growth, that's is almost a little bit too much detail here for our purposes, but 10% was our true forecast at that end of the forecast for the year.

Bryan Keane - *Deutsche Bank - Analyst*

Okay yes, because I don't recall in ADP's history missing EPS due to selling expense so I guess it sounds like the size of the direct sales force is increased as well? Maybe that has something to do with it, (multiple speakers) maybe the comp structure?

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

I contribute that to your young age but we do have -- we have missed a number of times actually due to the good sales performance, actually I think in my first year three years ago we did have such a year also, so it does happen. And as Carlos has alluded to, we have two things there, sales incentives that accumulate and accelerate performance in a good sales year for the sales force. So they have a high incentive to book and that causes it and if you multiply out that incremental new-business bookings relative to the NSE cost, you see really that is just a marginal cost that we pay out and have been also distribution channel.

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

Just because of the nature of our business model, really the only, not the only but one of the few places where we get variability in terms of our results is on bookings and sales expense. But the good news is that you know, having additional selling expense is usually related to having a really great bookings results, which is what we had. And as I said, when you look at our business model, that's a great story and a great outcome. But it is the one place where we don't -- as you can imagine, you can just imagine how silly it would be for us to call our sales force in the middle of the

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

quarter and tell them we'd like you to stop selling so that we don't miss our sales expense forecast. That's not what we do. We actually call them and go on sales calls to encourage them to close as much business as possible because of what it does to a lifetime value of ADP.

Bryan Keane - *Deutsche Bank - Analyst*

That makes sense. I mean, it doesn't make sense to not grow the business. It just doesn't happen that often, but then again I guess an 18% bookings quarter obviously in the fourth quarter doesn't happen as often historically. Alright, just last question for me.

I think you mentioned this Carlos, but obviously with the low revenue and profit in the first half of FY16, and then a accelerated growth rate in the back half of FY16, then I think we can assume or should we assume that the first half of FY17 will still have those benefits? So we should have an outsized growth rates in both profit and revenue in the first half of FY17 as well? Thanks so much.

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

Let me just answer your original question which was back to -- I did find some of these numbers here, so the 18% in Q4 of 2015 was 110% of plan. So you can, you can assume that our growth rate expectation was around 7% or 8% for the fourth quarter, and we had 18%. And another piece of information is in the fourth quarter of FY14 we had 4% growth, so just to give you a sense of the grow over issue there. And on the last question, we're not providing FY17 guidance yet.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Yes I just thought you had mentioned something about that it will continue into FY17 because of that growth rate that's in the second half, which will be exponentially higher?

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

I didn't say anything about, I think what I said was that we would be exiting -- and I did get kicked under the table by the way for what I said, but what I said is that it's clear from what Jan said in his comments that we expect to have the second half of the year revenue growth be above the guidance range and the first half to be below the guidance range. That would lead most people to conclude that, assuming the FX doesn't compress even more than has because again this assumes that we plan based on spot rates at the time that we're having this call or at the time that we actually prepare our operating plans, so things can happen. That's why we don't provide FY17 guidance.

But assuming the FX rates stay where they are and that the pressure abates in the second half and that we have all of these new-business bookings implemented and executed upon, then I think what we said was that the second half of the year we would be above our guidance range. And then for folks who follow ADP closely, they know that just because of the recurring revenue nature of the business, that if in the fourth quarter of a FY you have X revenue growth that again barring any changes in FX or other things, that for the following first or second quarters of the next fiscal year, you should be somewhere in the same neighborhood. This is not -- not try to provide guidance, we're just trying to help I guess clarify what I think is already, should be obvious.

Bryan Keane - *Deutsche Bank - Analyst*

Super. Thanks for the color.

Operator

Thank you, and our next question comes from Jeff Silber of BMO, your lines is now open.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Henry Chen - *BMO Capital Markets - Analyst*

Hey, good morning, it's Henry Chen calling in for Jeff. Just wanted to follow up a little bit about pricing. Could you talk a little bit about pricing trends that you are seeing and how much, if any, that pricing was used to generate some of that new-business bookings growth? Thanks.

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

Yes, two components to your pricing question. In the past FY we had price increases approximated a little bit less than 1% of revenue growth, right in line with our long-term expectations. And when the best way to assess pricing competitiveness and pricing dynamics on the new-business bookings is really a way to look at our discounting levels throughout the book of business as we sell. And they are consistent with prior quarters, so we have not seen any changes in our -- in the pricing environment that were meaningful to report.

Henry Chen - *BMO Capital Markets - Analyst*

Got it, okay, perfect. Thank you. And just wanted to touch a little bit on the partnership with Cornerstone On Demand. How are you thinking about or if you have any updates on your thoughts on where it makes more sense to partner on certain areas of HR? Thanks.

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

I think we offered a couple of examples [other the] set of 60 participants in the marketplace picking a couple of very well-known partners and market participants in the HCM market, just as examples that we have really -- you shouldn't read more into it. We have larger and larger and established companies in the marketplace and we have startups in the [market] company place. We're really emphasizing the need to be part of an overall-integrated environment that the utilization of this API will allow us to pursue to better serve our clients.

Henry Chen - *BMO Capital Markets - Analyst*

Got it. Okay. Thanks for the comment.

Operator

Thank you.

(Operator Instructions)

Our next question comes from the line of Joe Foresi of Janney Montgomery, your line is now open.

Robert Simmons - *Janney Montgomery Scott - Analyst*

Hi, great, thanks, this is Robert Simmons on for Joe. You called out that FX hit employer services by 4%. Can you say how much it hit the PEO line? And then how do each of those compare to your expectations?

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

That's a good question. The PEO has no FX impact. (inaudible)

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Robert Simmons - *Janney Montgomery Scott - Analyst*

And then [wrote off] expectations for the 4% on FX for employer services?

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

For employer services it's kind of in line with what I give you for the overall Company. I'm sorry, I misunderstood. Yes, revenue, why not, it's a mathematic -- it's about 4% in the first quarter for ES and between 2% and 3% in the second quarter for next year.

Robert Simmons - *Janney Montgomery Scott - Analyst*

Sorry, I was asking though actually what happened in the fourth quarter compared to what you thought was going to happen in terms of FX (inaudible)?

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

It was right in line. I'm sorry. It was 4%.

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

Just to be clear, it's 4% because it is greater than the overall ADP impact because the PEO has none, and it's $2.5 billion of revenue, so I think by definition, the ES impact has to be a larger percent impact than the overall [ADP] impact.

Robert Simmons - *Janney Montgomery Scott - Analyst*

Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Mark Marcon of Robert W Baird, your line is now open.

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

Good morning. Post the new sales that you had, what percentage of the client base is required to file 1095s has actually signed up for the ACA-compliance product?

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

I don't think we want to talk about it in detailed numbers, but your question Mark, yields on are we anticipating future ACA sales in future years and the answer is yes, so it's not everybody has signed up. We have still opportunity in future years.

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

It would be significant would it not?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Yes, we have a large portion of our clients signed up, but not all.

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

Okay. And then with regards to nationals, what percentage of the clients are on Vantage at this point versus some of the older systems and what's the plan in terms of the transition?

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

So Jan will probably get you -- I think I have it here somewhere, in terms of how many [week] clients we have live on Vantage --

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

129 clients live

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

I knew he had a number. So 129 live on Vantage. So we did this year go through some migrations and so we have been, I guess I would call it dabbling and working on some migration tools and moving some clients. But we have several thousand clients in our national-accounts base and frankly we kind of like -- we wanted to do both but we really like new share and incremental growth to the Company. And so our focus for the last couple of years has been on kind of new logos, new share but we realize that we also need to bring our existing clients along. Just like we're saying, we need to do that in the mid-market and in the low end of the market, so I think you'll continue to see us do both. So new share and also migrate clients. Sorry, upgrade.

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

And just from a servicing perspective, is there any changes contemplated in terms of the service methodology going forward in any of the lines to even further strengthen the retention rate?

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

Yes, we have a number of initiatives on continually enhancing our service and compliance offerings which are, as you know, an important part of the overall ADP value proposition. So in addition to the technology of Vantage and work with now on RUN, very important and so they are ongoing and incremental and they in particular focused on improving the overall client experience by offering a more integrative service offering that further strengthens the togetherness of payroll, HR talent and benefits. So that the client gets really the best of ADP from an integrated source of service. It's an ongoing transition as we work on continually improve it, but in parallel with us becoming an integrated, HCM-technology, platform provider, our services is migrating into that same method.

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

And we've I think, invested more than the normal amount in user experience and usability over the last 12 months. And I think it's getting us good traction in the marketplace because that is frankly in today's world the expectation is to have a consumer grade experience both for the workside employees or the employees of our clients and the work that employee is in the PEO, as well as for the practitioners or that use our products at the

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

client site. And so if you do market checks you will see that we have an updated -- we mentioned it in some of our comments, I think we have been investing quite a bit in usability and user experience.

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

Great. One last question. What's the remaining authorization on the buyback?

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

I can get that for you, Mark.

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

Enough for now.

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

Enough for good day.

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

You don't have to worry about it, but we're going to get that for you.

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

Okay. Thank you.

Operator

Our next question comes from the line of Matt O'Neill of Anonymous Research, your line is now open.

Matt O'Neill - *Anonymous Research - Analyst*

Good morning, I'm just curious if you guys can go back and discuss the DataCloud offering that you mentioned, you now have 1,000 clients signed up for? Maybe how the revenue model works for that business and if it's a nice to have or a must-have for the clients who've given you feedback on it at this point?

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

Yes, I glad that you're asking for, DataCloud is the branded name for our data analytics and big data product that we are developing and it is our new market-leading comprehensive reporting and analytics solution that includes benchmarking and capabilities for it. And it's sold in our mid-market as an incremental module reporting -- or analytics module if you want, it's called DataCloud and you subscribe to it on a per-employee, per-month basis and this has just launched and we have 1,000 clients mostly in the mid-market. Vantage has it built in and it's included and we're seeing good traction.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

I think this is going to -- for my personal expectation it should be a must-have because it is truly unique the way you can now drill in and compare your performance to a level of detail of comparative benchmarks, it's really not available elsewhere. So we're putting big investments into our data analytics product development and DataCloud as we did the first version of it and you should see continually expansion and broadening of the offerings. So it's very exciting early stages and I think you'll hear more from it over the next year for sure.

Matt O'Neill - *Anonymous Research - Analyst*

Thank you.

Operator

Thank you. This concludes our question-and-answer portion for today. I'm pleased to hand the call over to Mr. Carlos Rodriguez for any closing remarks.

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

Thank you all for joining us today. I think that the 2015 results as you see, I think are an example of the enduring quality of the ADP business model. As we continue to combine best-in-class sales operation with breakthrough products and services to try to meet the needs of our clients.

I also want to take this opportunity to say that, as excited as we are about the opportunities in front of us, we need to thank our associates and in particular our sales implementation associates for the hard work in 2015. There was a lot of extra hard work to make these new bookings results happen and there's still a lot of work in front of us here in 2016, and it would appear beyond, in order to get all this is business implemented, started and provide the clients the service they expect from us. So I appreciate their hard work as well and I look forward to talking to you again next quarter. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participating in today's conference. That does conclude today's program, you may all disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.