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ADP - Q3 2013 Automatic Data Processing Earnings Conference Call

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OVERVIEW:

ADP reported 3Q13 revenues of $3.1b.

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PRESENTATION

Operator

Good morning. My name is Christy and I will be your conference operator. At this time I would like to welcome everyone to ADP's third quarter fiscal 2013 earnings webcast. I would like to inform you that this conference is being recorded and all lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session.

(Operator Instructions)

Thank you. I will now turn the conference over to Ms. Elena Charles, Vice President, Investor Relations. Please go ahead.

Elena Charles - ***Automatic Data Processing, Inc. - VP IR***

Thank you. Good morning. 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 fiscal 2013 earnings call and webcast. Our slide presentation for today's call and webcast is available for you to print from the Investor Relations home page of our website at ADP.com.

As a reminder, the quarterly history of revenue and pretax earnings for our reportable segments has also been posted to the Investor Relations section of our website. These schedules have been updated to include the third quarter of fiscal 2013. The website schedules also include a statement of consolidated earnings for fiscal 2012 and each quarter, restated for the discontinued operations we spoke about in the first quarter. During today's conference call, we will make some forward-looking statements that refer to future events and as such, involve some risks. And these are discussed on page 2 of the slide presentation and in our periodic filings with the SEC. With that, I'll now turn the call over to Carlos for his opening remarks.

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

Thank you, Elena. Good morning and thank you for joining us. I will begin today's call with some opening remarks and then I'll turn the call over to Jan who will take you through the highlights of the quarter, after which I'll return to provide you with an update on our fiscal 2013 forecast. Before we take your questions, I'll provide concluding remarks. Let's turn to slide 4. Turning to the third quarter, as you read in this morning's press release, ADP reported good results for fiscal 2013 third quarter. I am pleased with ADP's total revenue growth of 7%, 6% organic and earnings per share growth of 9%.

Our business segments performed quite well during the quarter, and overall ADP results were also good despite the negative impacts particularly to our earnings and margins from continued low market interest rates. For the quarter combined worldwide new business bookings for Employer Services and the PEO grew 9%. Field service productivity was again good in the quarter. Peeling back our results, new bookings were mixed, we had strong bookings in the US with most of our major market segments achieving double-digit new bookings growth. However, new business bookings across continental Europe slowed as the economic landscape there is still weak. Now, diving deeper into the US results in the small-business market, bookings for our RUN solutions continued to grow nicely and we continued to gain market share.

Moving to the mid market space, we are pleased with bookings of our Workforce Now solutions and are happy to tell you that our newest version of Workforce Now that has been in pilot these last several months is now in general release and available across North America. New bookings for larger companies in the US were strong as well. New bookings for our COS Solution which is our fully outsourced HR BPO model, were very strong in the quarter as well. We continue to be pleased with the new bookings of our Vantage Solution with the -- and the attach rates are good and improve further for new deals signed during the quarter. 100% of Vantage deals come with HR and the attach rates for the quarter's new bookings approached 90% for benefits and time and labor, and the attach rate for talent was in the mid-60% range.

Before we leave the bookings discussion I want to share with you my thoughts from our recent annual Meeting of the Mind conference which is a gathering of our national account clients and prospects. As always this was a high quality event and was sold out with record attendance of more than 1,000 HR and payroll professionals. We received valuable feedback, both positive and constructive. We showcased some of our new innovations in Human Capital Management, and we were quite pleased with the enthusiasm and overall positive reactions by our clients. This is a true testament of our commitment to an investment in our global HCM strategy.

Moving on to the other key business metrics, as many of you know, our third fiscal quarter is a critical retention period in our business. And I am pleased that Employer Services worldwide client retention increased 40 basis points, bringing us to a 30 basis point improvement on a year-to-date basis. Our same store sales employment metric in the US also increased. Client balances continued to grow, and to remind you, client funds balances are seasonally high during our third fiscal quarter and into April. It's noteworthy that we reached a new record high level of client balances in March of $45.5 billion, which is substantially above last year's record high of $38.4 billion.

And now looking at Dealer Services, Dealer had a good quarter with 8% revenue growth. Digital marketing continued to be a large driver of growth with increased advertising revenues. Additionally, the North American core business benefited from continued strong transactional revenues which are tied to auto sales volumes which were also good during the quarter. Our international business also contributed to revenue growth in the quarter on strength in China from one-time license fee revenues in Dealer. With that, I'll turn the call over to Jan to provide the financial highlights and to look at this year's forecast for our client funds investment strategy.

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

Thank you, Carlos and good morning, everyone. For this quarter, total revenues grew 7% to $3.1 billion. With acquisitions contributing approximately 1 point of growth. Pretax earnings increased 6% and ADP's pretax margin declined by 20 basis points as a result of continued low interest rates, but I'm pleased that pretax margins in the business segments expanded nicely. We reported a 7% increase in net earnings from continuing operations on a lower effective tax rate. Diluted earnings per share from continuing operations increased 9% and benefited from fewer shares outstanding compared to last year.

We repurchased 1.7 million (sic-see press release "7.1 million") ADP shares fiscal year-to-date for a total cost of $415 million and we ended the quarter with cash and marketable securities of $1.8 billion. As you may recall, when we entered fiscal year 2013, there were several items that we anticipated would impact the year-over-year comparisons. The [grow] over impact from most of these items was in the first half of this fiscal year and we have detailed on this slide the items that impacted the third quarter. The most impactful item continued to be the low market interest rates which resulted in a lower, high margin client fund interest revenues.

For the third quarter, lower client fund interest revenues negatively impacted ADP's revenues by 1%. The client funds exceeded -- the client funds extended investment strategy which is driven primarily by interest on client funds negatively impacted pretax earnings growth by 3% and pretax margins, 100 basis points. And negatively impacted diluted earnings per share from continuing operations by $0.03 per share or 3 points of growth. Fiscal '12 acquisitions had a slight negative impact on the quarter's pretax earnings and negatively impacted ADP's pretax margin 30 basis points. So, the point I'm making is, that the underlying business momentum is solid. Tempered still by the impact of continued low interest rates on high margin client fund interest revenues.

Let's move on to slide 6 and the business segment results. As we have stated we're pleased with the performance of our business segments. Employer Services grew total revenues 7%, 6% organically. The PEO grew 10% driven by 7% of the growth of average worksite employees. And Dealer Services grew 8%, all organic. Combined worldwide new business bookings for Employer Services and PEO Services grew 9% as Carlos took you through in a few moments ago.

Now, focusing on Employer Services, growth in our low segments from RUN, retirement services, insurance service were primary drivers of our healthy growth in the small business marketplace. In the mid market, revenues from our Workforce Now solution are increasing as are HR services and comprehensive services revenues. At the high end of the market, we're pleased with Vantage new bookings but the contributions of that product to revenue growth is still small at this point.

Revenue growth from the quarter from multinational solutions was solid. Same-store pays per control in Employer Services in the US increased by 2.7%. However, same-store pays per control across Europe declined about 1% in the quarter and were in line with our expectations. As Carlos mentioned, we are pleased that client revenue retention increased by 40 basis points in the quarter, average client funds balances increased 7% for the quarter. Continuing to the growth in balances was our continued new solid client growth, especially in the small businesses services market and growth in standalone tax filing and increased pays per control.

Now, let's turn to slide 7 and I'll take you through the forecast on the client fund investment strategy in support of our overall ADP forecast that Carlos will take you through in a few moments. Before I get into the details of the forecast, I'll point out that the primary objectives of our investment strategy remain safety, liquidity and diversification. At March 31, approximately 84% of our fixed income portfolio was invested in AA or AAA rated securities. You'll notice when we file our 10-Q that our holdings of asset backed securities, again increased during the quarter. Up by $675 million from June 30.

We have increased our position in credit card and auto loan asset-backed securities, taking advantage of an attractive combination of yield and shorter maturities. Consistent with our investment guidelines these securities are AAA rated, senior tranches with predominantly prime collateral. We continue to base the interest assumptions in our forecast on Fed Funds future contracts as well as the forward yield curve for the 3.5-year and 5-year US government agencies. We do not believe it is possible to accurately predict future interest rates, the shape of the yield curve or the new bond issuance behavior of corporations. I also remind you that our strategy usually results in 15% to 20% of investments maturing each year, and are therefore subject to reinvestment risk each year.

Now, focusing on this slide, you see a summary of the anticipated pretax earnings impact of the extended investment strategy for the client funds investment portfolio for fiscal year 2013. Our forecast remains the same as last quarter. We continue to anticipate average client fund balances for fiscal year 2013 in the range of $18.8 billion to $19.1 billion, which represents 5% to 7% balance growth. We anticipate a yield on client fund portfolio of about 2.2%, down approximately 60 basis points from fiscal year 2012. Resulting in an anticipated year-over-year decline in client funds interest of about $75 million.

As you can see at the lower right of the chart in terms of total pretax impact of the extended investment strategy, we anticipated, and that is unchanged, a decline of $85 million to $90 million for fiscal year 2013. Looking forward for fiscal year 2013 we still expect the year to be the bottom of the cycle in terms of the size of our year-over-year decline. And now, I'll turn it back to Carlos and he will take you through the remainder of the forecast for fiscal 2013

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

Thank you, Jan. We're now on slide 8. As a reminder, our forecast continued to exclude discontinued operations. For total ADP we are narrowing our revenue growth forecast to 6% to 7%. We continue to anticipate a decline in the total ADP pretax margin of 30 to 40 basis points from 19.2% in fiscal 2012, which excludes the gain on sale of assets in last year's second quarter. We now expect the effective tax rate will be about 50 basis points below fiscal 2012 effective tax rate of 34.5%, given the Q3 results we just shared.

We are also narrowing our diluted earnings per share from continuing operations forecast to 6% to 7% growth compared with $2.72 in fiscal 2012, which excludes the gain on the sale of assets in the second quarter of fiscal 2012. As is our normal practice, no further share buybacks are contemplated in the forecast beyond the anticipated dilution related to employee comp plans, so it is clearly our intent continue to return excess cash to our shareholders depending obviously on market conditions. And just as a point of clarification, we repurchased 7.1 million shares year-to-date for $415 million.

And now, let's turn to slide 9. And while you can see from the slide that we have lapped most of the items that created difficult year-over-year comparisons through the first nine months of the year, we wanted to provide a clear view of the quarterly impact of these items for the full year. This table shows that the decline in high margin client interest revenues remains a challenge for the fourth quarter and is our most significant challenge for the year, as Jan took you through a few moments ago. I believe the underlying strength in our business is evident from this table.

Now let's turn to slide 10 for the segment updates. For Employer Services, we are narrowing our revenue forecast to about 7% growth with pretax margin expansion of at least 50 basis points. We continue to anticipate an increase in our pays per control metric in the US of 2% to 3%. We are also narrowing our revenue forecast for PEO Services to about 12% growth with slight pretax margin expansion. We continue to expect 8% to 10% growth in the annual dollar value of ES and PEO worldwide new business bookings from the over $1.2 billion sold in fiscal 2012. And for Dealer Services, we continue to expect 8% to 9% revenue growth, with over 100 basis points of pretax margin expansion.

Now, turning to slide 11, I'd like to leave you with some closing remarks before we open it up to your questions. Overall, I'm very pleased with our third-quarter results. Our key business metrics are positive, though our metrics across Europe are mixed given the continued weak economy there. We're focused on our global HCM strategy which is supported by our investment in innovation. We're fostering an agile environment across ADP to keep close pace with the ever-changing market expectations and we are pleased with our progress to date as evidenced by the high attach rates on our Workforce Now and Vantage solutions.

Additionally, we have very good traction with our mobile apps for both employers and employees. This month we will surpass 1 million active users on our mobile applications. There's no question that ADP has the most comprehensive and the most popular mobile app in the HCM industry. We're also making good progress on our client migrations to RUN and Workforce Now in terms of client retention and volumes. And, we're pleased that many of our clients also take additional solutions with the upgrades. And finally, we also remain focused on delivering stellar service to our clients which is our single biggest differentiator.

Our most significant challenge remains continued low market interest rates which weigh on ADP's earnings, but I'm quite pleased with the operating leverage achieved across our business segments. And I'm actually looking forward to fiscal year 2013 being the bottom of the cycle in terms of year-over-year interest rate drag. I believe that ADP is well-positioned to leverage the opportunities of the large global HCM marketplace.

And ADP also remains committed to shareholder friendly actions and returning excess cash to shareholders through dividends and share repurchases. I'm also pleased ADP continues to be rated AAA by both Standard & Poor's and Moody's, reflecting the strength of our business model and of our balance sheet. To sum it up, I believe we're doing the right thing to grow the business and to enhance long-term shareholder value. With that I'll turn it back over to the operator to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

David Togut, Evercore Partners.

David Togut - ***Evercore Partners - Analyst***

Good morning, Carlos and Jan. Carlos, could you quantify ES new business bookings growth by small business, majors and national accounts?

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

We typically don't get into specifics by area, but I think what we can say is that we had double-digit growth really across all of those major segments in North America. And really Europe was where we had some weakness that brought us down to the 9% level.

David Togut - ***Evercore Partners - Analyst***

And as a follow-up, if you could update us on Vantage HCM, is that still on track for general availability in September and any related thoughts on head-to-head competitive performance of Vantage HCM versus some of the pure play SaaS providers and the big ERP's?

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

Yes, David, it's Jan. Vantage is available across the country for general release. Actually we have major upgrade releases coming up for the rest of the year and we're tracking very well against our expectations for new units sold as well as new clients live. So we're making good progress. The numbers are still small, but against our plans we're satisfied.

David Togut - ***Evercore Partners - Analyst***

So, it is available for general release today?

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

It is, yes.

David Togut - ***Evercore Partners - Analyst***

Okay, thank you very much.

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

Thank you.

Operator

Paul Thomas, Goldman Sachs.

Paul Thomas - ***Goldman Sachs - Analyst***

Good morning, guys. Thanks for taking my question. New sales rebounded nicely in the quarter, but I guess you are up against a tough comp in June. And given your commentary about the weaker bookings in Europe could you talk about your confidence level that you'll still be able to grow and keeping the 8% to 10% range over last year's 20% growth?

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

As you can imagine this is -- we're not there yet so, we were confident last quarter that we would have I think good results this quarter and we did. So, I mean I'm always confident because we have really the best direct sales force in the world and I think they're very effective.

I think last quarter, the fiscal cliff issues and some of the uncertainty with taxes at the end of the year, I think may have had some impact, and as you can see, we're able to come back in the current quarter. But, it's really -- I mean sales are week-to-week and month-to-month so I can tell you that I'm very confident in our sales force but you're just going to have to wait to see what the results are. As you can see we kept our guidance I think the same so we're very comfortable with that range of 8% to 10%.

Paul Thomas - ***Goldman Sachs - Analyst***

Okay, thanks and maybe one more on Vantage. You talked about just under 10 live last quarter and the target was getting to 20 live by the end of the fiscal year. What's the progress there?

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

I think I -- I believe we have 17 as of last week so we will easily be at 20 and then some by the end of the fiscal year.

Paul Thomas - ***Goldman Sachs - Analyst***

Great, thanks, guys.

Operator

Rod Bourgeois, Bernstein.

Rod Bourgeois - ***Sanford C. Bernstein & Company, Inc. - Analyst***

Yes, guys I wanted to see if you could provide an update on the progress in converting clients from the old product platforms to the new product platforms across small, medium and large client segments?

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

Yes, we talked about our migration efforts in particular in the SBS segment as well as in the major accounts segments. In SBS we're converting our clients to the RUN platform and we are actually very precisely executing against our goals and we will meet our goals and the conversions actually gaining momentum very nicely. And we're very pleased in the down market. In the mid market they're going actually better than planned, as Carlos mentioned in his comments, we are ahead of our plans for fiscal year and our clients have good retention rates and good upsell opportunities are realized as we convert them. So, the migrations are really a good point in our performance for last quarter.

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

And I think I would also just add that besides the upsell opportunity, which is obviously a positive from a growth and opportunity standpoint for us, in terms of our competitive position one of the things that I'm confident of, and it's part of the reason why we've been pushing probably a little harder than we typically have on migrating our clients. I believe it makes it more difficult for our competition when our clients are on our best to platform. Not to mention the most important reason for doing it, that it is the best thing for our clients, our clients being on our latest platforms is the best for them, but it also I think makes it a little harder for the competition to I think take some of those clients from us.

Rod Bourgeois - ***Sanford C. Bernstein & Company, Inc. - Analyst***

Yes, just a follow-up to that though, can you give us a percentage of clients that are still on the old platform across each of the segments? And then I think sort of a step beyond that, I guess I'm wondering, you've had good experience with converting clients to the RUN platform, and I'm wondering if that changes or modifies your approach to converting clients in the medium and large client segment. So, can you give us any numbers on the progress in converting across the three segments? And then, are there some best practices that will alter the way you convert in the mid and large client segment?

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

I think, as we've said before and we'll say it again, we're very pleased with the progress and we're achieving our objectives. This is a multi year effort really across all of the segments. So I will tell you that in small business on RUN, we're making really good progress. But we have close to 350,000 clients in total in that segment. In fact, it's probably closer to 400,000 today.

And we have stopped selling our old platform as of two years ago and the natural attrition of the business, which as you know is higher than our other businesses, actually in an interesting way helps us, because in addition to our conversions we also have the natural attrition of the client base. So, it would be fair to assume that over the next 24 to 36 months, if not a little bit sooner, that we would be done with that conversion, assuming that we continue on the pace that we're on. And we're very confident based on what's happening there.

In the mid market, again making really great progress, and there, the retention rates are higher, naturally, in that business so you don't get the natural help from client attrition, the natural client attrition. But again there we're making really great progress and I would probably say that it's the same type of timeframe.

In national accounts, that's a more difficult, I think, question to answer because those conversions are very, very time-consuming. They require a lot of effort on the part of the client, as well as our own. And so, back to the learnings, I think in the small business and in the mid market, we have a very good plan, we've been learning a lot over the last 24 months, and I think we've made adjustments to accelerate the pace. I think in national accounts is a place where we're still learning a lot and still increasing resources and trying to figure out how to increase the pace. But that's probably longer effort than in the small and mid market.

And I will just finally say that in all cases, the pace and the quality of this is all dependent on the quality of the people doing this. We have some of our best people working on these client migrations in all three of those segments, and I couldn't be happier with the fact that we've actually put some of our best folks and they've created some really great teams and I think they're just doing a terrific, quality job.

Rod Bourgeois - ***Sanford C. Bernstein & Company, Inc. - Analyst***

Great and just a question, I mean are you seeing any issues with retention, given that your biggest competitive threat in the national account segment is the clients that are still on the old platform? So, since the old platform conversion is going to take more time in national accounts, are you seeing any sort of increasing competitive threat there, or is it pretty much status quo while you make the conversion?

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

I think the answer on the small and midsize market is no, in fact we're seeing in some cases better retention once we've actually converted the clients. In national accounts it's probably -- we've been doing conversions and migrations in national accounts ironically longer than either in small business or in mid market. We have a very robust team and dedicated resources to that effort, so they've been doing this for a long time.

And to answer your question directly we haven't seen any of that yet because I think to some extent, what creates more difficulty in moving those clients and makes it take a little longer also helps us, because it's evident that there is stickiness. So there's a lot of natural inertia and stickiness in the national accounts space. So, we're not resting on our laurels and depending on that, but I think we so far haven't seen any alarming signs of any need to do anything different than what we're doing, which is to methodically and carefully move the clients over to our new platforms with their cooperation, and with their desire, because they have to be willing clients, as well, to be able to move.

Rod Bourgeois - ***Sanford C. Bernstein & Company, Inc. - Analyst***

Wonderful, thanks, guys.

Operator

George Mihalos, Credit Suisse.

George Mihalos - ***Credit Suisse - Analyst***

Thanks for taking my questions. Just going back to some of the commentary around Europe, is the region decelerating faster than what you guys expected, or is it sort of coming in in line?

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

I think that if you watch the news and you read newspapers, like all of us do, we were expecting Europe to have some challenges and we've been having, we think we've been sharing with you that our pace per control has been weak in Europe, I believe, I'm not sure if we've disclosed it, but it's down 1%. And so that's not terrible, and it's not certainly even as bad as it was in the US at the height of the financial crisis but, it's certainly not helping.

The thing I think is (technical difficulty) our sales results, and that obviously then translates into (technical difficulty) carefully frankly hasn't as of last quarter, it hasn't fallen as much as it could have and as much as I would've thought it would have by watching the news. But it did weaken this quarter and that hence you see that it dragged down our overall results, so if we were double digits everywhere in North America and we were 9% I would tell you mathematically that Europe was probably flat to slightly negative, which is the case.

So if there's any good news for us, is that Europe is, in relative terms, a relatively small part of the overall Company in terms of revenues and sales, but it certainly is not helping our results. But I think it's not surprising in terms of the downturn, based on everything that we're reading and everything that everybody is saying. And I would say that I would still say that it's better than I would've thought. I think people are still executing both in Dealer Services, and in Europe. They're executing I think a lot better than I would've thought in helping to make up for some of the headwinds that are obviously there from an economic standpoint.

George Mihalos - ***Credit Suisse - Analyst***

Okay. Just on the PEO side, the organic growth there has decelerated a little bit over the last couple of quarters, can you speak a little bit as to what is going on there and maybe kind of how the onset of healthcare reform could be impacting that business?

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

During the first half, it's Jan, during the first half of our fiscal year we did see a slowing of our new business bookings and we believe partly the uncertainty around the healthcare reform had delayed some of those decisions, and the impact of slower sales in the first half of the year is now translating into a slower revenue number and worksite employee growth number that you see in our results.

Sales have picked up in the third quarter and so we adjusted our guidance as you saw to about 12% revenue growth reflecting kind of that dynamic. But it certainly has improved compared to the first half of the year.

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

I think I would add that one of the biggest reasons for the revenue number slowing, because I think Jan is right on the worksite employees and on new bookings and so forth but the pass through revenues have a fairly significant impact on that business and the inflation rates of healthcare ironically have come down over the last 12 months. And healthcare pass throughs is the single biggest element of revenue in that business. So that's a fairly important part of the slowdown and we typically tell you the other way around too.

When it helps us we try to focus on what we call processing revenue for that very reason because you can get unusual spikes up or unusual slowdowns in those pass through costs, and I think we happened to this year on a year-to-date basis of be a little bit slower in healthcare cost growth than we were last year and that's impacting the revenue growth. There's no question that the Business has also had a bit of a slowdown, but as Jan said, the third-quarter I think makes us feel a little bit better.

And to your question about healthcare reform, we're trying to be very, very cautious about predicting any specifics. Because there is a lot of regulation that's still in flux and a lot of new regulations being issued but we feel pretty good, at least in the short and medium term, about the prospects for the PEO with regard to healthcare reform, and think that it might actually create at least a lot of activity, and a lot of people asking for questions. And I'll remind you that healthcare reform doesn't apply to companies under 50, so there's a lot of moving parts. But so far we have no reason to think that there's going to be a large, negative consequence, and if and when we feel that way, we're obviously going to share it with the public.

George Mihalos - ***Credit Suisse - Analyst***

Okay, thank you.

Operator

(Operator Instructions)

Glenn Greene, Oppenheimer.

Glenn Greene - ***Oppenheimer & Co. - Analyst***

Thank you, good morning.

One question and one clarification. The first question would be in the context of what you've seen year-to-date in terms of sales, retention, the [float] portfolio, everything sort of tracking in line with expectations that you sort of set out at the beginning of the year, and thinking through the comparison issues we've had, are there any high-level call outs or commentary as it relates to '14? And I'm not asking for guidance, but things we should be thinking about or aware of as we are thinking through into next year. Are we beyond all the comparison issues or is everything playing out as you would expect and we're good to go for '14?

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

I think that you still have the interest rate drag. I think we've shared, and again you could go to our website, we have a lot of schedules that we've shared over the last couple years that we continually update about what we expect to happen in terms of the cycle. And so, as I mentioned in my comments, we believe that '13 is the bottom of the cycle, but I think this is a good opportunity to also share that even though it is the bottom of the cycle, it certainly doesn't turn positive in '14.

So, if this even makes sense, it is a smaller negative which we're pretty happy about, the fact that this year, I think we said we have an $85 million to $90 million drag from interest rate headwinds. Next year it will be smaller, but it will not be zero. It will be somewhere between zero and $85 million to $90 million, and I think you're going to have to wait a few more months for us to give formal guidance, because as you know the interest rate picture also changes. But, given what percentage of our portfolio matures, we have very decent visibility and the pressure next year on us will be certainly not closer to the $85 million to $90 million than to the zero, but it will be a smaller number, which we're very happy about, because that takes some of the headwinds off of us.

Hopefully, assuming that everything goes according to plan and there's no major changes in terms of the market, by '14, I'm sorry, by the next fiscal year, we then have almost all of our portfolio at rates that were invested in after the financial crisis, that, obviously, have very much lower rates. So, I think that's important to keep in mind that yes, there is one remaining comparison if you will you have to keep in mind, and it is this interest rate headwind. But in our world, a smaller negative is actually viewed as a positive, even though it's still a negative.

Glenn Greene - ***Oppenheimer & Co. - Analyst***

So, you answered my clarification question, which I forgot to ask. So I appreciate that. So, I'll slip in one more. And you might have alluded to it at least a little bit on Rod's question, but directionally what are you seeing in terms of retention in the small market? Has it noticeably improved in the last year?

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

It has improved, I think noticeably it's in tens of basis points, which we're happy about and we'll take, because frankly the retention rates in small business right now are at our record levels and that is, I think we feel good about that. And again, I applaud the people in the field that have been able to accomplish this. So, it really does get a little harder.

That business has a lot of natural attrition and churn because small businesses obviously go out of business, almost 10 percentage points of losses in that business are really uncontrollable, just companies going out of business. So any improvement in retention in small business on a record level is pretty good news and I believe this year we're up call it 10, 20 basis points, somewhere in that range. So, that feels pretty good.

Glenn Greene - ***Oppenheimer & Co. - Analyst***

Okay, thank you.

Operator

Jason Kupferberg, Jefferies.

Jason Kupferberg - ***Jefferies & Company - Analyst***

Thanks, guys, appreciate you taking my question. Just a follow-up on the new sales. Obviously you gave a lot of the commentary around the geographic trends. I'm just wondering, does Europe have to turn positive in Q4 in terms of new sales to make the full year guidance?

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

No.

Jason Kupferberg - ***Jefferies & Company - Analyst***

Okay, that was easy. And my follow-up question is, just on your R&D spending, seems like the growth there is accelerating, which I think we would view positively just in terms of showing your active investment levels in the business. But, would you say that the recent growth rate there is a good proxy for the go forward run rate, where it seems to be growing faster than some of your other expense line items and growing faster than revenue?

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

I'm impressed that you noticed that. I look at that also pretty carefully. So I think it's fair to say that it accelerated but, and accelerated in what I would call ADP terms, which is a fairly modest acceleration. So, we look at it both in absolute terms of growth of R&D, but also as a percent of revenue. And I think we're trying to make sure we're investing the right amounts in R&D because of obviously our innovation and product efforts that we have underway.

But you should also know that we have a lot of business process improvement initiatives in our R&D organization intended to really improve how we spend our money and maximize the bang that we get for the buck. So, as an example there's been quite a lot of work being done around adopting agile development methodologies to really drive more output and more productivity from our existing R&D resources. So, we're doing both trying to extract more out of what we are spending, and you are correct that we are spending a little bit more but I'm not sure that I would read a lot into that because they are relatively modest investments. I have to tell you that it is something that I am happy with.

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

And maybe I add one little technical comment, I think we disclosed last year that we did have additional software capitalization coming through and that makes growth look a little bit larger this year. So, we do have I think it's approximately $10 million help on that so the growth is a little bit exaggerated. Carlos, of course, described the strategic direction that we're taking with R&D.

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

Yes, I think that's fair. So we look at it, so that may be, because the numbers that I look at are gross, and even on a gross basis, we're still, your point is correct which is why I was surprised that you happened to be able to figure it out, because you should not have access to the gross. But I think you're -- you're correct, but I think the numbers this quarter may be giving you the wrong impression in terms of the magnitude of it because of this issue of the capitalization last year same quarter.

Jason Kupferberg - ***Jefferies & Company - Analyst***

Yes, you did have negative growth in that line last year's March, so it was an easy comp. Okay that's great color. Thanks guys, we'll see you next week.

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

Thanks.

Operator

Sara Gubins, Bank of America Merrill Lynch.

Sara Gubins - ***BofA Merrill Lynch - Analyst***

Hi, thank you, good morning. Another question on healthcare, within Employer Services are you having conversations with clients around the need for additional reporting tools and products related to the Affordable Care Act? I'm wondering if you're getting any new business related to ACA yet?

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

I'll take that question. You are I think right on, the reporting requirements from the Affordable Healthcare Act are going to be quite complex and really target a lot of information that we do have in our systems. For example the payroll system was just declared as a system of record and a lot of the reporting will come out of services that we offer. So, we're in the process of developing it and we have a significant amount of interest and partnership with our clients delivering and developing those products. As regulations are still being formulated, it's early stages but we do have a focus on it.

Sara Gubins - ***BofA Merrill Lynch - Analyst***

Great, and then separately, Carlos, as you continue to focus on expanding your HCM offerings and also your multinational offerings, can you talk about organizational changes that you've made or are making?

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

We did make a recent organizational change to really align all of our large Account businesses globally, so this is something that we actually have been talking about for several years. One of the -- we're trying to not only be, if you look at our strategic pillars, we're trying to not only be a global HCM company, but the word integrated I think is in the strategic pillar as well for a very specific reason. So, it's very important for us to come across as one Company to our global clients.

And by the way global doesn't always have to be companies with 50,000 or 100,000 employees. We have some of those, but it's quite common today to have companies with 2,000, 3,000 employees who have employees in multiple countries. So, we have a lot of efforts and a lot of plans to globalize our platforms and ourselves, and we thought that organizational changes were appropriate to really go along with what our plans are, which is to come across as one large global company to our large clients.

Sara Gubins - ***BofA Merrill Lynch - Analyst***

Thank you.

Operator

Jim MacDonald, First Analysis.

Jim MacDonald - ***First Analysis Securities - Analyst***

Good morning, guys. I think you mentioned that Dealer was up outside the US. Is that true even with Europe? And maybe you could talk a little bit about Dealer in Europe?

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

I think we said that Dealer got a little bit of help from some one-time licensing fees in China and that helped. And again, because they are one-time you have to be careful. I think that Dealer as Employer Services is really encountering some significant headwinds in Europe, which affects the overall Dealer Services International business growth, both on the sale side and on the revenue side. Having said that, they are really executing incredibly well. The guy running Dealer Services international is doing an outstanding job in a very difficult situation, but I wouldn't read a lot into the one quarter and the one-time fees in China, other than we're glad we've got them. But I think Dealer Services International, like Employer Services International, I think is encountering some headwinds.

Jim MacDonald - ***First Analysis Securities - Analyst***

So, just as a follow-up could you talk about how big Europe is for Dealer and what kind of magnitude of decline we may be seeing at this point?

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

It's really not, from a magnitude standpoint, again just because of the nature of our business, and again, Europe is a little different from our core business where we have a little more of one-time fees, but is still a largely recurring revenue business. And so, it's maybe a $300 million business international, and it doesn't go from $300 million to $250 million, so that's not what we're talking about. We're talking about 1 to 2 percentage points, either up or down in terms of sales. And on the revenue side it's not negative, it's still positive, but it's not additive to ADP's overall growth rate.

Jim MacDonald - ***First Analysis Securities - Analyst***

Thanks very much.

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

Somewhere between zero and ADP's growth rate.

Operator

David Grossman, Stifel Nicolaus.

David Grossman - ***Stifel Nicolaus - Analyst***

Thank you. I'm wondering if we can go back to a little bit of the discussion about the new platforms? Clearly the migration to the new technology and platforms helps drive both growth and profitability. Can you perhaps share with us some information that would help us gauge the potential financial impact, or the impact on the financial model? To the extent that you do drive incremental attach rates going forward?

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

I will say that I think your comment about that the migrations drive growth and profitability, it depends on where in the process you are. So I have some experience with platform migrations and my experience is that in the early stages, it's not necessarily helpful from a profitability standpoint, and can sometimes be distracting even from a growth standpoint. Because you have to invest and you have to in some cases have duplicate operations, because you have one group of people that are working on one platform and another on another platform.

You have, even though you're only spending money on maintenance, you have R&D for the old platform and you have R&D for the new platform, as obviously once you get off of a platform, completely, there's huge improvements and huge synergies, particularly if you're able to shut down platforms and not have the R&D costs. But, as you can appreciate, even though we try to limit our investments in some of our old platforms, we still have commitments to our clients, and we still have to maintain those platforms and update them for statutory changes. So, as an example at year end when we had all those changes in tax laws and the payroll tax coming back, we had to do all that work in all of our platforms.

And so I would tell you that based on the color you heard of my earlier comments, that it would be premature to expect, in the next 12 months, some significant acceleration of our growth and profitability only from migrations. We're working on other things to try to accelerate our growth and profitability, but this would not be one -- this is one that we're working on for the long-term and the medium-term, not for short-term.

David Grossman *- Stifel Nicolaus - Analyst*

So, can you remind us at least the timing, I think you gave some numbers last call and again a few minutes ago, but as I recall Workforce Now you were hoping to have that completed by the end of calendar '14. Is that still the objective?

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

No, I don't think we ever -- I'm sure we never said that because that was never part of the plan. I think what I mentioned earlier, which I think I'm going to have to stick by, is I think in both businesses, in small business and in mid market, I think a 24 to 36 month period is I think a reasonable timeframe. I will tell you that as you do pass, when you first start migrations is the worst part from a profitability and growth standpoint.

As you get to the middle, say half of the clients are on one and half are on the old, I think you probably reach an inflection point and as you start going down that you do get the benefits on the way down as you get further, as you get closer to 100%. So I'm not trying to imply that you have to wait until we're 100% finished to see some benefits, but we're closer to the beginning and the middle right now than we are to the end in all fairness. Because I think it's important for you guys to understand that.

But we're excited about what we're going to get out of this. I'm incredibly excited about having a more simplified platform structure, more simplified organization, which is going to no doubt be more efficient and I think more profitable, and it's going to really enhance our growth prospects.

David Grossman *- Stifel Nicolaus - Analyst*

So, with that said then, Carlos, obviously you had some -- a lot of headwinds to the margin this year including this migration. So, with some of that abating more kind of related to acquisitions and other things how should we think about the levers that you've got going forward? Particularly as the rate headwind begins to abate over the next couple of years?

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

Well again just to be clear, the abatement of the rate headwind is closer to what it was this year than to 0, and it's still negative, so I want to make sure that no one walks away from this call with the wrong I think expectations. We haven't given formal guidance yet so I'm asking for people to please wait another three months or so for us to have a more clear picture of that. But in terms of other headwinds, when you really get down to our business model, the difference between sales and losses is everything.

So what we're focused on is driving new business sales, giving the people that are selling the best possible products so they can win more business in the marketplace. And we're trying to keep as many clients as possible. That net new business number is what drives our top line growth, and our top line growth is what drives our operating leverage and gives us opportunity to pull levers. That's -- it's really not that much more complicated.

It's hard, but it's not that much more complicated, so actually getting double-digit sales is hard, I'm very happy that when I look at over the last I believe 12 quarters, I think 6 of those quarters we've had double-digit sales growth. Obviously, that kind of consistent double-digit sales growth really adds a lot to the net new business and helps drive that organic growth up. That's really the lever that we're focused on everyday. There's a few other small ones here and there but that's what it's all about.

David Grossman - ***Stifel Nicolaus - Analyst***

Okay, thank you. Very helpful.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - ***Deutsche Bank - Analyst***

Hi, guys, good morning. I might have missed it but just pricing, where are we right now in the pricing environment compared to maybe what it usually is historically?

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

Yes, we have seen a stable pricing environment versus the competition and continue to execute at price levels that we had planned for, our usual level of price increases in our revenue growth. So nothing unusual to report.

Bryan Keane - ***Deutsche Bank - Analyst***

And then as you move people to the new platform, what does the revenue per client look like? When you move to a SaaS environment?

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

Well, if I remind you also, many of our traditional platforms are cloud-based platforms so, they are, of course, Internet-based platforms. But as they move to our latest platform, which are really the more advanced platforms, we see the revenue uptick in particular in the mid market, where clients really do have more opportunities to sign up for additional modules.

We've been careful because there are also costs involved in the migration so we have not talked about the incremental revenue yet. It is all contemplated in the guidance that we have for the year, and as we get bigger, I could envision give you a little bit more insight. At this point I think it's a little bit too early to quantify and give you data. It's not as big that it would impact your going forward estimates.

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

But I think just to clarify, I made a comment in my prepared remarks about service being our differentiator, so I just want to continue to remind everyone that we're not a software company. And we have been delivering our solutions in the cloud for many, many years. But we are highly differentiated from software, whether that software is delivered shrink-wrapped, or whether it's delivered in a SaaS model. So we did not engage in new product development in order to lower our prices or to change our business model. And so, our new products and our new technologies are supportive of our existing business model and our existing pricing model.

Bryan Keane - ***Deutsche Bank - Analyst***

Okay. And then can you give us a sense of how many clients have converted to the new platforms? It sounds like we're still in early days but I'm just trying to get a sense for, we're at 5%, 10%, 20%. Where are we in that curve?

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

As the question has come up repeatedly, I give you some high-level guidance around it. We have approximately, as Carlos mentioned, 400,000 clients in our small segment, and we have exceeded I think we reported that the 230 -- we have about 230,000 clients on the new platform, so we're a little bit further ahead here, 50% plus. And in the mid market segment we -- if you think about roughly 80,000 clients, or so and more than 40,000 clients on Workforce Now, so there are various versions of Workforce Now. So there's more to do in that spectrum. But we're fairly far -- there's good momentum in the space here.

Bryan Keane - ***Deutsche Bank - Analyst***

Okay, thanks for the color.

Operator

Gary Bisbee, Barclays.

Gary Bisbee - ***Barclays Capital - Analyst***

Hi, I'll just add one more. Is there -- can you quantify at all, or give us any sense of the potential level of savings that could occur from no longer having to support the legacy systems? And another way to get it, do you think you'll actually reallocate a lot of that spend towards growth initiatives, or are we likely to see a couple years from now a fairly significant drop off in costs once you've completed the migration?

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

We're never looking for reasons to not allow earnings to flow to the bottom line. But, having said that, we're here to build an enduring Company, this Company's been around more than 60 years, I can name a lot of them off the top of my head who haven't made it that long because they haven't invested. So we intend to continue to invest for the long run both in R&D and in distribution and sales capacity.

So, I think you will see us always balancing all of those things around making sure that we're still competitive, we're still winning in the marketplace, that we have the right sales people and the right products, but at the same time that we're making our shareholders happy and returning to them the returns that they are expecting. So, I think that it's the wrong picture to paint to think that we're going to have some giant fall off of expense on a particular quarter or particular year.

If we ever feel like that's going to happen we would tell you that and we wouldn't try to find ways to spend the money. Having said that, we're very excited about the global HCM market. We have a lot of opportunity in front of us to execute on and to capture, so we are not in a harvesting mode in this Company. We are in a growth mode.

Gary Bisbee - ***Barclays Capital - Analyst***

Okay, and just one other. I've heard, sporadically, comments from you guys about maybe having opportunity over the next few years to use the data that your payroll business creates more sort of like you've done with the national employment report, but maybe in ways that would actually allow you to drive revenue. Any thoughts on that? And how that strategy is looking or where you are with it?

Thank you.

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

It's Jan.

We are excited about the opportunities that business analytics and business intelligence solutions offered to our clients, and we are actually in the process of piloting some of these solutions already, and making them available in key products starting mid summer or fall. So you will see presentations to industry analysts about it, it's a very slick product solution that is coming. This will take a couple of years to fully rollout.

Our clients will have to participate and standardize some of their data to make it really useful, but if you think of the power that the national employment report has brought to predicting and giving insight into the US economy, our strategic vision is that we have a data analytics solution that is as powerful to our clients, offering them benchmarking and deep insight into their own data going forward. This will take a couple of years to fully penetrate but early solutions are going to be available already within this calendar year.

Gary Bisbee - ***Barclays Capital - Analyst***

Thank you.

Operator

Joseph Foresi, Janney Montgomery.

Joseph Foresi - ***Janney Montgomery Scott - Analyst***

I was wondering, have you made any changes in your sales approach in Europe or the sales team?

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

Not that -- no not that are worth, routine normal stuff but I'm not aware, do you know something I don't know or?

Joseph Foresi - ***Janney Montgomery Scott - Analyst***

Well, I am asking, wondering if there's any changes there or any changes in the approach and if you've seen any difference in the pricing model?

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

No, I think our approach is I think to hunker down and execute, and I think they've done a remarkable job under the circumstances. So, I think we're just continuing to try to win wherever we can. And we've actually had some decent success in a couple of countries with some larger deals despite the environment because you do have, every now and then, companies that when they run into trouble they look to outsourcing and they look to changing their cost structure. So that creates some opportunities.

But no I can't think of anything major to report. This is really economic headwind driven, and we're not going to panic and we're not going to do anything dramatic other than continue to drive new product innovation, which we're doing in Europe, as well as in the US. So there's a lot of effort in Europe around our products, the integration of those products, and frankly also a lot of effort in introducing some of what we call our beyond payroll products that we have here in the US like time and attendance, and assistance with other parts of Human Capital Management that we haven't always done in Europe.

Joseph Foresi - ***Janney Montgomery Scott - Analyst***

Okay. And then my second question is just around the pricing model, as technology becomes a more important part of your sell to your client, or as you continue to invest in it, have you made any changes in your go to market pricing model? And do you expect that to potentially occur going forward? And if so, what could you see in that particular area?

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

Yes, we have not really fundamentally changed our pricing structure. We always aim for a recurring revenue stream in our pricing. We, obviously, adapt to market trends where necessary so if anything I would say we are a little bit more consistent in pricing our solutions on the per employee per month basis as we try to simplify some of those approaches. But overall pricing levels have not been really impacted at all and the structure of recurring versus one-time license is also unchanged.

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

I think it's also worth mentioning that I think what everyone now views as SaaS, which is clearly a difference in technology and a difference in the delivery of the technology, but the other part that everyone seems to focus on is that it is generally speaking, subscription based. So, it's not the old you buy a license and then you pay maintenance every year. We've been doing that forever.

That is ADP's business model, so we're glad that everyone finally caught on that having a subscription based, whether it's per employee per month or monthly or whatever the other -- whatever approach you want to take is good for us, and it's good for our clients. It's really the best business model, and we're happy that everyone else has finally caught onto that.

Joseph Foresi *- Janney Montgomery Scott - Analyst*

Okay. Thank you.

Operator

Paul Condra, BMO.

Paul Condra *- BMO Capital Markets - Analyst*

Hello, thanks, good morning. I just had a follow-up on the new bookings, historically that number is pretty volatile just from quarter-to-quarter. I know that somebody asked about the tough comp in the fourth quarter and yet your revenue growth is pretty stable. So I'm just kind of curious how you reconcile those two trends?

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

Well again as we've talked about many times, the impact on sales of revenue is delayed in our business model, right. When you look at the size of our revenue base in comparison to the size of our new business sales and when those new businesses turn into revenue, that helps explain some of it. I can tell you that I'm actually quite pleased, I'm not sure if you're looking at our organic growth in Employer Services but it has been improving and accelerating and we're quite pleased with that.

For us to get one percentage point acceleration in our organic revenue growth is really something to celebrate and we are quite happy with that. So, from what we can see our sales are turning into what we call starts and our starts are translating into revenue. With the help also of lower losses we are accelerating our organic revenue growth. And we're quite please with that.

Paul Condra *- BMO Capital Markets - Analyst*

Okay, thanks, that's the only question I had.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - ***JPMorgan Chase & Co. - Analyst***

Great, thanks. Good morning. Good quarter here. I just wanted to ask on Dealer, Carlos you mentioned the license sales, was that just one deal in China? Anyway to sort of size that for us?

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

A big we made this comment more to illustrate--

Tien-Tsin Huang - ***JPMorgan Chase & Co. - Analyst***

Sorry if I missed it.

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

The overall development of Dealer Services International, not to get you onto a wrong track in your forecast. The business model in Dealer Services International traditionally has a little bit of a higher onetime revenue dependence than it has for the rest of ADP, that's why the results can be more volatile. It's really, as Carlos mentioned, the business is relatively small to the overall size of ADP, so I would not recommend that you start modeling specific assumptions around this. More important is I think our comment about our outlook for Dealer Services growth going forward that it is also impacted in particular in Europe by heavy economic headwinds.

Tien-Tsin Huang - ***JPMorgan Chase & Co. - Analyst***

Okay, understood. I just didn't know if that one was especially large, and I guess we can infer it from your Dealer outlook.

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

As a matter of fact it, we have strategic relationships in China that are deep and recurring, so we're expecting continued growth in China due to those relationships with car manufacturers. So, we're quite optimistic actually. In particular, so this is just a deviation that we pointed out to illustrate for this quarter there's really no fundamental change in what you have seen historically in the revenue composition.

Tien-Tsin Huang - ***JPMorgan Chase & Co. - Analyst***

Okay. Yes, I know you've called it out at your investor conference, the relationships with OEMs there. Okay, just quickly my only follow-up is obviously the retention has been climbing higher and higher. I'm curious if there is any color around North America versus rest of world and then same thing across the three units within ES. Anything to call out with retention? Thank you.

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

Sure, I think it's the outcome of 57,000 people focusing on delivering stellar service to our clients. And we really couldn't be happier, when we reach these levels of retention, it really gets harder and harder because there is some natural attrition, as I mentioned before, in the marketplace. So I can tell you that we couldn't be happier.

And frankly it's across, it's really across the board, the retention rates are very good in Europe, ironically because again, some of the stickiness and some of the difficulty of people making changes that's hurting us on the sales side is probably helping us on the retention side. But it's also just people doing a really great job of keeping the clients happy.

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

So, in summary, retention rates are really improving across the segment and it's not worth pointing out specific outliers here.

Tien-Tsin Huang - ***JPMorgan Chase & Co. - Analyst***

Okay, good, thank you.

Operator

Mark Marcon, Robert W. Baird.

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

Good morning, I have two questions. The first one has to do with opportunities, as you continue to emphasize a broader suite of solutions and the future functionality, and single sign-on capabilities, and the unification of the database improves in Workforce Now. Can you talk on the major side, what the opportunity is in terms of continuing to increase the attach rates? How should we think about your current base in terms of number of modules that are currently being utilized relative to where you think that could go over the next three to five years? And then I have a follow-up with regards to Vantage?

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

Yes, if you think about the Workforce Now platform, I think it's fair that we have about half of our clients that are on that platform who have a payroll solution and the other half chooses a variety of bundles. And then as we go forward obviously we work hard to convert our clients into a deeper relationship. We mentioned in prior calls that these attach (technical difficulty) optimistic, so as you see that we still have a significant number of clients and our accounts (technical difficulty), the platform, that trend should continue as we have a couple of (technical difficulty) develop from a momentum case on your revenues (technical difficulty) momentum we see is reflective of the uptick in (technical difficulty).

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

I appreciate that color, Jan, my general sense is a lot of investors don't have a full appreciation for the full number of modules that you have. And I was wondering if you could kind of size on a typical basis, let's take a 500 employee company, typical domestic, what you're, if you're just servicing payroll what --

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

I know where you're going. I think I can give you one additional point of information. If a client and major account acquires the full bundle versus the single bundle and Carlos is going to get upset with me, don't get too excited about it, but it's about three times the revenue opportunity that we realized times (technical difficulty)

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

Great, that's what I was looking for. And then with regards to Vantage, it's got full G&A, I know you're still working on optimizing it to a greater degree. How are you thinking about quotas as we look out to '14 and '15 for Vantage in terms of your national sales force? And, who would be the -- where do you think you would have the most success in terms of converting somebody over to Vantage, other than just converting your own, but getting somebody who has a competitive takeaway?

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

The Vantage rollout and plans for '14 are still in the process of making, so it would be a little bit too early for me to give you a number framework, but we have commented in the past about the client composition that we have realized with our -- I think in total we have sold mid- 50 type Vantage deals. The average client is about 1,000 to 1,500 pays larger than our average pays in national accounts, so it's very early, that can vary, but kind of in the same sweet spot, approximately 4,500, 4,300 employees. And you saw the attach rates.

We have been winning, really, these deals across a number of competitors, a number of technology firms, and ERP focused vendors, and we have won against more traditional vendors and legacy systems. All these clients, not all, the very vast majority of these clients are new names to ADP. We have really not started converting clients onto this platform, so these are new names. And one of the satisfactions we get out of the product rollout is its ability to win, really, in a wide variety of situations and in a wide variety of industry segments. So, it is playing towards the sweet spot of ADP that we have traditionally in national accounts competed with.

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

Thank you, appreciate the color.

Operator

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - ***Citigroup - Analyst***

Thanks. I just wanted to ask, first priorities for cash. Because both buyback and M&A activity seems to have tapered off a little bit. I know M&A can be lumpy, but could you talk about that?

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

I think that our priorities are really not changed, so I think your comment about lumpiness is probably the only factor and I think you saw my -- our comment about share buybacks, that we do look at market conditions. So there's maybe a little bit of that in the share buybacks. But, really no change in our strategy and our approach, in terms of how we deploy cash. You saw that we increased our dividend 10%. You see that we do continue to buy shares back, and we are still interested in M&A and we're actively looking.

Ashwin Shirvaikar - ***Citigroup - Analyst***

Okay, and separate question. So, as I look at sort of the next 12 months versus the last 12 months, how do sources of margin leverage change for you guys? I'm trying to figure out if the lower drag from the yield side gives you double benefit so to speak, or might it be more of an offset? It's more of a conceptual question, I know you'll be giving guidance in three months.

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

Unfortunately, Jan is correct, that we're literally in the middle of our planning process, and I think it just doesn't make sense for us to start giving you any kind of -- because we don't have the information yet, so I think until we roll it all up, and rack up the -- all of the factors we really shouldn't comment. So I think we're just going to have to wait for three months.

Ashwin Shirvaikar - ***Citigroup - Analyst***

Okay, fair enough. Thank you.

Operator

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

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

I want to thank everybody for joining us today. As you can tell we're very pleased with our third-quarter results. The business is performing well. We believe we're gaining market share. Given the last comments I want to reiterate that we still continue to be committed to shareholder friendly actions along dividends and share repurchases.

But more importantly we're focused on growing the Business and driving our new business sales and our revenue growth on a forward basis. We look forward to speaking with you the next quarter and we thank you again for joining us today.

Operator

This does conclude today's conference call. You may now disconnect.