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ADP - Q4 2017 Automatic Data Processing Inc Earnings Call

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PRESENTATION

Operator

Good morning. My name is Kevin, and I'll be your conference operator. At this time, I'd like to welcome everyone to ADP's Fourth Quarter Fiscal 2017 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions) Thank you. I will now turn the conference over to Mr. Christian Greyenbuhl, Vice President of Investor Relations. Please go ahead.

Christian Greyenbuhl

Thank you, Kevin, and good morning, everyone. This is Christian Greyenbuhl, 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 fourth quarter fiscal 2017 earnings call and webcast.

Before we begin, you may have noticed in the slide presentation posted on our website that we included the detail of our client funds available for sale portfolios as of June 30, 2017, which shows the embedded book yields of the portfolio by year of maturity. This chart is in the appendix of the presentation and is provided for your information.

During our call today, we will reference certain non-GAAP financial measures, which we believe to be useful to investors. A reconciliation of these non-GAAP financial measures to their comparable GAAP measures is included in the earnings release and in the supplemental slides on our Investor Relations website.

This quarter, you may have also noticed that we included more expansive disclosure regarding our definition of organic revenue, so as to exclude the impacts of foreign currency translation and M&A activity. We believe this best reflects the underlying operating performance of our business, and I encourage you to review our earnings release for additional details.

I'd also like to remind everyone that today's call will contain forward-looking statements that refer to future events and as such, involves 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.

Now let me turn the call over to Carlos.

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

Thank you, Christian, and thank you all for joining our call this morning. We appreciate your interest in ADP. This morning, we reported our fourth quarter and full year fiscal 2017 results with revenue growth up 6%, both for the quarter and the year. Revenue for the year was up 7% on an organic basis, benefiting from a solid 6% client growth and from the continued strong performance of our downmarket, PEO and multinational solutions.

In line with expectations, our new business bookings declined 7% this quarter and 5% for the year. While we are disappointed with this year's overall bookings performance, it's important to look at the underlying dynamics. The clients were concentrated in our mid and upmarkets and the challenges were due in large part to growing over the strong fiscal 2016 sales of solutions that assist our clients in complying with the Affordable Care Act. Despite these challenges, the sales opportunities within the mid and upmarket continue to demonstrate a solid environment with positive growth prospects. We continue to be very pleased with the momentum and performance of our downmarket and the PEO, both of which continue to demonstrate the value of a broad-based portfolio of solutions.

During fiscal 2017, we increased our headcount investments in our sales organization to better position us for growth during fiscal 2018 and beyond. As the tightening labor market creates additional demand for human capital management solutions, we expect these investments to help us further grow through the effects of the regulatory uncertainty that prevailed within the mid and upmarket since the November U.S. election.

Accordingly, as a return to a more normalized growth trend, we expect fiscal 2018 new business bookings to grow 5% to 7%, gradually expanding back to pre-ACA growth levels as we progress through the year. We remain confident in the strength of our distribution capabilities and the competitiveness of our products and in turn, our ability to execute on our pipeline of market opportunities.

Client satisfaction continues to improve but tensure to remain high on our strategic platforms, and we are pleased with our progress in upgrading our clients to our latest cloud-based solutions. This quarter, we are also pleased to see retention improvements across all our market segments with retention improving by 60 basis points and finishing ahead of our expectations.

Our full year retention was down 50 basis points to 90%, which also includes a 20 basis point impact from the loss of the Office of Personnel Management contract in the first quarter of fiscal 2017. Please note that this contract was part of the CHSA business that was subsequently disposed of during the second quarter of fiscal 2017.

I would also like to remind you that the losses contributing to our annual decline in retention remain concentrated on our legacy platforms in the mid and upmarkets. Our excellent retention performance in the downmarket and improving performance in the midmarket reinforces our core belief that our focused and steady upgrade strategy is the right thing to do for our clients as well as for ADP in the long term.

Core to our philosophy and value proposition is our commitment to developing innovative ways to enhance not only our clients, product and service experience but also that of our strategic partners. Last quarter, we mentioned the introduction of ADP Accountant Connect, where we are leveraging the scale of our strong 510,000-plus client base downmarket to create a compelling value -- to create compelling value for our referral partners.

This unique solution provides our accountant channel partners with a unified view of payroll, including reporting intact information for our shared clients. It also enables our accountant partners to deepen their relationships with our shared clients by giving them greater insight into payroll data and helps them plan and manage labor costs more efficiently. Adoption of Accountant Connect has been strong. We now have more than 8,000 accounting firms using the platform, which is making life easier for the accountants and the clients we share.

This is helping to deepen relationships with an important source of referral business while increasing our value proposition for RUN clients. We are incredibly pleased with the adoption of the platform by our accountant partners, and we're also especially pleased that we recently received the Accounting and Tax Technology Innovation Award by CPA Practice Advisor.

ADP's success is rooted in part on our ability to help clients manage through regulatory change. This is especially true from our PEO, ADP TotalSource, which served more than 485,000 average worksite employees this quarter. The value proposition of the PEO gets stronger as the complexities of managing the workforce increase and expectations of employees evolve. Great PEOs are great to adapt to these dynamics and help client navigate these changes. And we believe that our PEO is the clear market leader in both the breadth and depth of service.

In June, Internal Revenue Service named ADP TotalSource one of the first certified professional employer organizations. We're proud to be among the first PEOs to receive this important new designation, which certify that ADP adheres to the highest standards. Becoming a certified PEO further distinguishes ADP and is another example of the lengths to which we are willing to go to ensure our clients know they are working with a trusted partner.

As our clients' needs have grown globally, so have our capabilities and our reach. And today, we are supporting clients in more than 110 countries around the world. Success in the HCM market on a global scale is not easy to achieve given the complexities of doing business in many different countries and the local knowledge and understanding that is required to support clients.

Constellation Research, a strategic advisory firm, recently recognized this by naming ADP GlobalView HCM to the Constellation ShortList for human capital management suites for the second consecutive quarter. Constellation evaluated more than 25 global HCM platforms to determine the top 5 best-of-breed vendors.

In naming ADP to the ShortList, Constellation recognized us for the depth of our global compliance expertise, noting that behind the GlobalView product, we're local compliance experts on the ground monitoring and interpreting legislative changes that affect the more than 14 million clients we support outside the U.S. This global reach remains a truly differentiating capability for ADP

(technical difficulty)

upgrades are helping to drive improvements in retention. At the same time, we are beginning to see some signs of stabilization in our mid and upmarket new business bookings performance as we lap the difficult fiscal 2016 compares and the fiscal 2017 effects of regulatory uncertainty following the U.S. election.

These dynamics, together with the continued strong performance of our multinational solutions, downmarket offerings and the PEO, give us confidence heading into fiscal 2018.

ADP is built for the long haul. Consistent with our long-term objectives and consistent with conversations we've had with shareholders, we will continue to leverage the strength of our business model and our proven ability to execute by making smart investments that enhance our service capabilities, our sales force and deliver best-in-class cloud solutions. We believe these efforts will continue to drive sustained long-term success for our clients, our associates and our shareholders.

And with that, I'll turn the call over to Jan who will review our fiscal 2017 results in more detail and share our fiscal 2018 outlook.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Thank you very much, Carlos, and good morning, everyone. During the quarter, we took a restructuring charge of about $49 million related to our Service Alignment Initiative, which brings our total related charges for fiscal year 2017 to $90 million, which were in line with our estimates for the year. Certain non-GAAP measures in my commentary to follow exclude the impact of these charges as well as certain other onetime items recognized earlier in the fiscal year and in fiscal year 2016.

As Carlos mentioned, fiscal year 2017 was a challenging year for ADP as we worked to further stabilize retention and build upon the strong new business bookings from fiscal year 2016. As a result, for fiscal year 2017, ADP revenues grew 6% on a reported basis to $12,400,000,000, 7% organic.

Pretax earnings from continuing operations before income taxes grew at 13% on a reported and constant dollar basis. Net earnings grew 16% to $1.7 billion on a reported and constant dollar basis. Adjusted earnings before interest and taxes or adjusted EBIT grew 8%, while 7% on a constant dollar basis to $2.4 billion despite about 1%

(technical difficulty)

percentage points of combined pressure from our second quarter business disposition and our fiscal year 2017

(technical difficulty)

and product services margin increased about 20 basis points for the fiscal year. The main drivers of our margin performance this year include operational efficiencies on lower revenue growth, offset by continued investments into products and service, including dual operations related to our Service Alignment Initiative.

We are pleased with the continued strong performance of our PEO, which grew to serve more than 485,000 average worksite employees during the quarter and posted revenue growth of 13% for the year. You may have noticed the acceleration of our PEO revenue growth in the fourth quarter, which trended at 16%. The PEO benefited this quarter from higher growth and pass-throughs as we began to lap the easier compare in the fourth quarter of fiscal year 2016. PEO margins continued to expand through operational efficiencies, which helped drive approximately 80 basis points of margin expansion in the year, which were slightly below our guidance of about 100 basis points.

Our growth in 0-margin pass-throughs was the main contributor to our stronger-than-expected revenue performance in the fourth quarter and the resulting full year effect means that we experienced the opposite impacting our margin expansion. However, we remain pleased with the -- that the PEO continues to demonstrate solid growth as evidenced by the strong double-digit growth in worksite employees.

Overall, I'm also pleased with our performance for fiscal year 2017 following our midmarket retention difficulties in fiscal year 2016, and a lower-than-expected new business bookings performance in our mid and upmarkets in fiscal year 2017, which together, yielded a slowing in our overall organic revenue growth this year. Despite this top line pressure, we maintained our focus on the long-term strategy and expanded margins while we continue to make these important additional investments.

With that, I will now take you through our expectations for fiscal year 2018. As Carlos mentioned, for fiscal year 2018, we are expecting new business bookings growth of 5% to 7% from the $1.65 billion sold in fiscal year 2017. While we have some improving signs -- have seen some improving signs in the fourth quarter, we expect this growth to accelerate to a more normalized pre-ACA level as we progress throughout the year.

As a result of the above and the impact from our bookings in the latter part of fiscal year 2017, we anticipate total revenue growth of 5% to 6% for fiscal year 2018 and expect to be at the lower end of this range during the first half of the year. This forecast assumes 2% to 3% revenue growth in our Employee Services segment and growth in pays per control of 2.5%. Revenue growth in the PEO is expected to be 11% to 13%. ADP's adjusted EBIT margin is expected to contract 25 to 50 basis points from the 19.8% in fiscal year 2017, and I will now walk you through a few key factors regarding this guidance.

While we expect our revenue growth to be stronger in the second half of fiscal year 2018 with growth at the lower end of the range in the first half, we believe that it remains important for us to maintain our planned strategic investments into innovation, service and sales as we grow through the short-term pressure. Accordingly, we expect to see continued margin pressure in fiscal year 2018 with our margin declines concentrated in the first half of the year. Despite this pressure, we expect to continue to drive further operating efficiencies as we leverage our platform strategy to reduce expenditures on nonstrategic products and leverage the scale of our operations through the productivity improvements.

We are now approximately halfway through our Service Alignment Initiative. And for fiscal year 2018, we anticipate a slight incremental pressure to margins from dual operations as compared to the 20 basis points of pressure that we experienced in fiscal year 2017.

Overall, we believe that making these investments will help solidify our long-term success. On a segment level, we anticipate margin contraction in the Employee Services sector, a segment of 50 to 75 basis points. For the PEO, we expect continued operating efficiencies offset by pressure from our pass-through revenue growth to drive margin expansion of 25 to 50 basis points.

We are expecting growth in client funds interest revenue to increase about $40 million to $50 million in fiscal year 2018. The total impact from the client funds' extended investment strategy is expected to be up about $30 million to $40 million. The details of this forecast can be found in the supplemental slides on our Investor Relations website.

As a reminder, this year's tax rate included an incremental $0.04 per share software development related tax benefit and a $0.07 per share benefit related to the adoption of a new stock-based compensation accounting guidance. Because these 2 items are not expected to recur, we estimate our adjusted effective tax rate for fiscal year 2018 to be 33.0%. As such, adjusted diluted earnings per share is expected to grow 2% to 4% compared with the $3.70 in fiscal year 2017.

So with that, I will turn the call back over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from the line of David Togut with Evercore ISI.

David Mark Togut - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Could you talk a bit about customer buying intentions? What is the sales force seeing downmarket, midmarket and upmarket in terms of sales cycles and demand patterns as you look out to FY '18?

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

I think as we said in the -- in our comments, the midmarket, the PEO, multinational have all been quite strong. And really, especially, in a downmarket, as we've mentioned, there's been really no impact from this grow-over issue with ACA. So we've, I think, had what I would consider to be the best results in several years in those -- in that space, in the downmarket. In the midmarket, obviously, we had a very significant grow-over given the strong sales for ACA products in '16. But as we've kind of checked in with the sales force throughout the year and frankly continue to make investments to keep their heads in the game, we've maintained our turnover at almost exactly the same rate it was in the prior year, which is, I think, a very encouraging sign because obviously, it is a very tight labor market. And so my worry was that given our performance, we might lose some of our sales force. But I think it's a sign of, I think, optimism on the part of the sales force that there is really no issue with the economy or with our products or competitively or with pricing that it's really just unfortunately a mathematical issue that got aggravated by some of this uncertainty that came out of Washington, which really stopped people from buying not only -- or slowed the sales of ACA to a much lower level than we had planned, but I think just created some kind of short-term uncertainty after November. I think in the upmarket, we did, I think, feel -- after November that there was some elongation in terms of decision-making, which is a little more logical because you have relatively sophisticated buyers there. And I think some were probably waiting to see what would happen with the regulatory environment given that there were -- there was talk of repealing ACA and repealing a number of other regulations within weeks. As we all know, that hasn't happened. And so I think gradually, things feel like they've gotten a little bit better and things have loosened up a bit. But as we know from what's going on in Washington yesterday and today, I think in that space in particular, I think there's still, I think some probably some wait and see on the part the buyers, at least in our experience with our products.

David Mark Togut - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Understood. And then just a quick follow-up on the Service Alignment Initiative. What is the incremental spending on that in FY '18, basically the delta between the adjusted and the diluted EPS guidance?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

So our non-GAAP charges for the year, I think, is expected to be $30 million to $35 million. And it's really a very small margin impact incremental to the 20 basis points that we had in '17. So I think a few basis points more but more or less between 20 and 25, if I give you a range. I think I would expect pressure, so the incremental is very little.

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

Yes. I think if you stick to like looking at quarter-on-quarter our adjusted results, then there's -- you shouldn't even worry about it for next year because the dual ops incremental expenses, there's minimal. So there's really nothing to worry about. Both -- by the way, those -- that will be 2 years of -- so we had a step up of -- and it was a 20 basis point impact of dual ops this year. Next year, it's about the same level of expense and then it should fall off, obviously, in the following year. But the restructuring cost themselves for the Strategic Alignment Initiative are non-GAAP. And so you shouldn't have to, I think, worry too much about trying to figure out the analysis there because it should not be -- it should not enter into the picture. Other than, obviously, we're incredibly excited about what is going to be the outcome of the Strategic Alignment Initiative down the road.

David Mark Togut - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Have you seen an impact from it yet?

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

Well, I think that it's obviously very early. We're about halfway through in terms of the hiring plans. So I would say that -- I think we joke around that I think this is the easy part. So putting buildings up and hiring people, we definitely accomplished it, and we're right on track in terms of -- and on schedule in terms of our objectives. We feel like we've done some great people. We've got great engagement. Obviously, they're in the process of being trained. So I think all systems -- so far, we haven't seen anything to indicate that our expectations that we had of the project are going to be anything other than what we expected. So we're very excited that we've been able to kind of stay on track. But I think it's a little early to really declare victory. But we're very optimistic as this obviously is going to create a much enhanced experience for our clients given that we're putting teams in large locations that are what we call intact and they're able to deliver service across multiple modules rather than just in silos. Not to mention, obviously, the consolidation effect of having large groups of associates, which we've seen already in 2 locations that we've had for several years. El Paso and Augusta creates very, very high engagement, better MPS cores, better client experience and better associate experience as well. So we're very excited. It's obviously a big investment and fortunately, it's on track as of now.

Operator

The next question comes from Tien-tsin Huang with JPMorgan.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just looking at the slides here. I was hoping maybe on just the -- to help unpack the margin investments you're making in ES again, just -- is there a way to maybe break it up to think how much of the margin investment is in, say, sales investments and product whatnot versus investments in retention? Or if there's any investments in pricing, for example? Is there a way to simplify it that way?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes, it's -- let me start at the enterprise level to give you a little insight about the margin dynamics that we are experiencing compared to -- between '18 and '17, and then I can give you some pointers on the segment level. So the pass-throughs are the most important factor that are very transparent really. And if you decompose the margins for '17, you will identify that our overall EBIT margin expansion was about 30 basis points, but we faced about 120 basis points of pressure on our overall margins just from the fast growth of our pass-throughs. And so that's the starting point of our business dynamic between the 2 segments. And so to offset that, we had basically about operational scale and contributions to margins of approximately 100 to 120 basis points, if you like. And that's kind of the dynamic. Sales was flat to margins this year. And so operational scale is basically contributing about net 30 basis points to our margin expansion, offset by the pressure from the pass-throughs. And next year, we kind of anticipate a similar momentum relative to the pass-through development. So we're starting already with more than 100 basis points of pressure. And what you now will see, well, slightly down and largely, what will happen is this lowering of the revenue growth will make the operational scale a little bit harder to achieve because we kind of set our cost base to grow, so to speak, into a growing revenue base and right-sized for our service levels throughout the fiscal year. So we have a little bit of a higher cost base in the first half of the year where you basically see operations basically being flat to margin contribution and then the second half to kind of return to a more normalized level. So net-net, the margin pressure from the pass-throughs is only partially offset by the operational scale to the operations. And sales throughout here, for all intents and purposes, is kind of more or less flattish contribution to margins this year. I hope that's helpful.

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

And I think the last thing you mentioned, which we should also, I think, address is, is it related to pricing, and the answer is it's not. We, for the last several years, have been trying to gradually bring down our "price increase," And we've done that again this year, but it's $5 million to $10 million. It's not a big deal on the "overall gross and net price increase" that we passed through to our clients. So -- but there's no change in pricing in terms of new business or the competitive environment or anything to that effect. I think it's really related to the factors that we're seeing that Jan was talking about in terms of some of the revenue growth issues. The good news for us is that the scale really starts to pick up again for us in the second half. So if you look at the way this issue has worked with the grow-over, part of the confusion might be related to the fact that our fiscal year is in the middle of -- obviously, in the middle of the year, and the impacts are really calendar year impacts. So if you go back and you look at quarterly numbers, you'll see that we had 2 strong quarters the first half of this fiscal year. And then now we just had 2 relatively weak quarters because of the grow-over issue. So we will have another 2 weak quarters because of the grow-over issue at the beginning of fiscal '18. And then our plans are that our sales return to near pre-ACA levels in the second half as well as our revenue growth begins to, once again, gradually accelerate. Now of course, that means that we have to hit our plans in retention and new business bookings. But that's the way the math -- the math does work. Everything we've been telling you, I think, is accurate about the impacts of the grow-over of this ACA issue, which were significant. We've mentioned that the business itself is about $175 million in revenue, which means that we sold about $175 million. And so that affected our new business bookings, which is what's causing the grow-over for new business bookings. And likewise, the $175 million of revenue, even though it didn't come all in 1 year, a lot of it did come in, in January of '16, which means that from a revenue standpoint, you also have, call it 1 point or so of incremental growth that you picked up from ACA. And then, obviously now, from a comparison standpoint, you lose 1 point. And that's right about how the math works because on an organic basis, we're at about 7% growth for this year. And we were about 8% last year. And so our hope is that once we get past the next couple of quarters that we get back here to business as usual.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Yes, that's all great. That's really helpful. So just a quick follow-on, given everything you guys just said there. So as we move into the second half, and I appreciate you guys are spending through the cycle for the long term, is it fair to say then that you'd be through the transition and will -- you should get closer maybe going into fiscal '19 to your longer-term targets on top line and margin expansion? Is there anything else that could derail you from doing that?

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

That's exactly the plan. And obviously, recessions or conflicts with Korea, the -- but that's exactly what the plan is. And I think that the second half of this fiscal year starts to pave a path for us to be there based on our -- obviously, we don't guide and we don't give you quarterly guidance. But we have that in front of us here, we're looking at it. That is exactly the picture we're seeing.

Operator

Our next question comes from Rick Eskelsen with Wells Fargo.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

I just wanted to follow-up on Tien-tsin's question and hone in on the sales impact. I believe you said it was sort of flattish on the margins. But can you talk about what impact the declining new business bookings had on the incentive compensation? Was that offset by new sales hiring? And how are you building that into the plan for next year as you assume it goes back to growth?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes. Delighted to give you a little bit more background. As Carlos mentioned in his comments throughout this more difficult year on new business bookings in 2017, we continued to make, in particular, new sales higher. So our quota carrier count increased, actually, this fiscal year by 8%, which is about twice the rate of what we would typically -- Christian tells me it's 9%. So it's higher than our typical rate. As you know, we're trying to grow our sales -- new business bookings by approximately half through quota carrier growth and half through productivity and new product additions. And so this year, we overinvested, if you like, in headcount. And so part of the lack of spend on commissions for product sales were offset by: a, incremental incentives to our sales force to retain our existing sales force and investments into new sales people that are now hired and gaining productivity. And part of the lift that we're seeing on sales productivity next year is driven by these new quota carriers becoming more productive and making a contribution. So when you think about sales cost as part of our overall margin development throughout the year, it looks like that we have -- that it's about flat. It's about flat to margins, for all intents and purposes, for a position that we know. In comparison, we had a little bit more margin pressure for sales in '17 in the second half versus the first half because the first half in '17 started kind of good. So you see this balancing out basically in '18, where it is, for all intents and purposes, throughout the year, more or less flat, slightly improving towards the back end of the year.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

That's very helpful. Just following up also. Earlier, you talked several times about the strength in international and multinational. Maybe if you can go into a little more of the dynamics on what you're seeing there?

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

I think our strength in particular, and we think we've talked about this for several years, is really our multinational solutions really do appear to be highly differentiated. And again, multinationals is both very, very large companies with very large populations of employees. But we also have multinational solutions for a company that maybe headquartered somewhere in Europe and has 20 employees in 4 countries in Europe. So we really go all the way from very, very large Fortune -- or World Fortune 100 companies all the way to what I would call local multinationals, if you will, or regional multinationals. And so it's a highly differentiated product. We've had good sales growth over multiple years. Double-digit revenue growth, generating great margins because now we've got scale, and the business is, I would just call it, humming along.

Our international business, I think, has gotten better on what I'll call a relative basis because it's been a difficult backdrop in Europe, which is our largest international business. We also have a business in APAC, in Latin America, but our largest concentration other than Canada in North America is in Europe. And so that European business on a relative basis, slight improvement in the underlying pays per control. It looks like GDP is starting to pick up a little bit there. Sales, a little bit better this year than we have for the last several years. But I wouldn't say that, that business is at the same performance level as the multinational business. We hope it will be at some point in the near future. But the international business has a good solid performance and really good margin performance as well where that business 10, 15 years ago, my predecessor, we struggled for years to really get that business to perform as well as the rest of the ADP from a margin and "retention" standpoint. And I think we're kind of there now. So we've got good leadership and I think the business is performing very well. Very happy with our international and multinational business.

Richard Mottishaw Eskelsen - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

And international is about 20% of the total. How big is the multinational piece?

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

Multinational, sorry, I think in total is about $500 million, Jan? Is that...

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

It's a 5 -- a little bit more than $500 million, approaching $600 million actually. And Carlos' description is correct. That's very good and strong, solid double-digit growth for many years. And Europe, a little bit lower, more mature business, but both components really showing nice margin expansion business characteristics.

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

And then what we call international, so multinational is $500 million. For rounding purposes, call international $1 billion, and then Canada, another $400 million. So that's how you get to approximately 20%.

Operator

Our next question comes from Lisa Ellis with Bernstein.

Lisa Dejong Ellis - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Can you give an update on the migrations? Are you still on track to finish the midmarket migration to Workforce Now by the end of the year? And where are you sort of seeing clients interest or demand in shifting to Vantage in the upmarket?

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

We are on track on the migrations. I think we did about a couple of thousand this quarter, probably 2,500 to 3,000 the previous quarter to that. So we're kind of in the same general ballpark, which just as a reminder, is much lower than it was at its peak when we were in the middle of ACA because we were -- we had a lot of accelerated migrations in order to get clients on the right platform to be able to do ACA compliance for them. And with the benefit of hindsight, that was an issue for us that caused some of our retention challenges. But fortunately, that's all behind us now.

And now we're back to what we were doing all along for several years, which is migrating clients at the right pace, with the right attention and the right, what we call now, white glove service. We have, I think, it's 5,000 to 6,000 clients left in the midmarket. I'm checking for...

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Approximately, yes.

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

About 5,000 to 6,000 clients left. And so you can see that at the pace that we're on now, we have a shot of getting it done by year-end. We might have, whatever, 500 clients, 1,000 clients left at year-end. That doesn't obviously concern me because we would have done, I think, 60,000 clients so if we have to -- and again, the way our business works is everything has to stop in the middle of November because of year-end, and everything starts again in February. In other words, the company has become focused on getting through the year-end process. So it could be that we have 500 to 1,000. But it's obviously helping us on a number of fronts because our retention on our strategic platform is much higher than our legacy platform. So as the number of clients get smaller and smaller, we get a mathematical lift, if you will, just because of the mix issue. So I think it's -- I would say that it's probably not something that would be an enormous amount of focus for all of you going forward. But it is an incredible accomplishment because I was talking to the person who runs R&D for that organization about 1 week ago, and he named all the platforms that we had 10 years ago when he first went to that business. And we're down to one platform here. And we're close -- we're almost across the finish line. So the power that, that business is going to have now, the focus -- and to focus on the competition and to focus on execution and NPS scores and retention is going to be, I think, equal to what we've done in the downmarket on RUN, and that gets me excited.

Lisa Dejong Ellis - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Sure. And just a quick follow-up. Can you articulate what macroeconomic outlook is embedded in FY '18 guidance? And kind of what's the latest temperature check on U.S. macro environment?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

The -- as you can see and kind of read from our pays per control metrics and deduct from our money -- from our client fund interest rate forecast, which are the most explicit components in our forecast, we anticipate that the economy is going to continue on a steady path that we have seen over the last 12 months. So -- which, I think, is probably the best bet that we have today. The labor market is in full employment and we have seen -- and we are shifting our focus on delivering ACM solutions to our clients that help our clients to attract and retain their employees in a better way. So there's a slight shift in focus as you have full employment. The fight for talent and recruiting becomes more important and we're prepared to offer great solutions for this. And on the interest rate environment, obviously, the forward curves predict rate increases and other rate increase towards the end of year by the Fed. And rates are creeping up over time for a modest contribution on their client fund balances. So I think it's a steady state in a slight rate increasing environment going forward that we have baked into our plan.

Operator

Our next question comes from David Grossman from Stifel Financial.

David Michael Grossman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

I just wanted to ask a quick question about the competitive environment. And just some rough math. If we assume that, basically, 2/3 of your ES business is mid and upmarket and those (inaudible) in the aggregate shrink at about 5% annually, is it correct to assume that business as usual, if you will, for ADP creates about $300 million of opportunity, if you will, for your competitors each year? And then second, are there any other internal statistics that you can share with us that would give us some insight into how you've been faring competitively, let's say over the last 12 to 18 months?

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

Sure. I think your math is probably pretty close, directionally close. And that's been, obviously, why we keep focusing so hard on our service experience and our retention rates because, obviously, every $10 million that we keep is $10 million less for the competition. So that's why you hear us being so keenly focused on retention over the last several quarters. In terms of competitive information, we said before that we really don't have any one competitor who takes more than 10% of our business, if you will. So there's really not, and as been consistent for a long, long time, so just a lot of -- there is a lot of competition. So we have a lot of competitors who operate in multiple segments. The competitors in the downmarket are different from the midmarket. The midmarket are different from the upmarket. Some of them bleed across some of those segments. But in general, we have competitors that tend to be more focused on a particular part of the market than us, which are broadly focused. I think that gives us some advantages which we leverage in terms of products and service capability, et cetera. But at the end of the day, we are very large and we obviously are the target for a lot of competition. In terms of specifics, we do look very deeply on a quarterly basis at win/losses, both head-to-head in sales and also in the book. In other words, clients that we lose to a particular competitor and clients we take away from a particular competitor, in addition to looking at the head-to-head competition from a sales standpoint. And again this quarter, unfortunately it's the same story as other quarters, which is there is no discernible pattern other than there were a couple of competitors in particular that we were able to reverse the tide on, which I'm incredibly proud of because, as you point out, we have -- some of our -- there's a few of our competitors that aren't even at the size that you mentioned, the $300 million. And obviously, we are several billion. So whenever you can take the net balance of trade and improve it, it's a big accomplishment. It shows competitive strength in the products. And it shows execution ability in the sales force as well as on the implementation and on the service side. So some glimmers of hope in this last couple of quarters that when we put our minds to it, we can push back. And I think that having clients all in one platform, having ACA behind us, there's a number of factors that I think give me confidence that, that focus will be even more heightened on a go-forward basis, and that we'll be able to hopefully make that $300 million, $250 million or $200 million and hopefully slow down some of our competitors.

David Michael Grossman - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

All right, great. It's very helpful. And just one other question. And I know you don't like to give or you don't give quarterly guidance. But given the margin and revenue headwinds that we talked about that you're going to have in the first half are somewhat uncharacteristic, can you give us any incremental insight into how we should think about the quarterly EPS cadence for the year versus historical patterns?

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

Yes. We would like to try to help there. So -- and I'll be careful and I'll let Jan do the closing here. Because of the way our business works, it's a recurring revenue business and events tend to take place at calendar year-end like they did with ACA. So the first 2 quarters of this fiscal year should not look that different from the first 2 quarters of this fiscal year from a revenue growth standpoint. If our sales forecast and our retention forecast hold true, by the second half of this fiscal year, it will be gradual improvement on the revenue growth. Likewise when you look at margins. Now clearly, as Jan said, we've been "adjusting" our expense base to a lower revenue. We just didn't want to do it too quickly because we're trying to focus on retention as well. And we mentioned that we're making investments in sales, but there should be some gradual relief of pressure on the margin in the first half of this fiscal year compared to the second half of last fiscal year. But even more "relief" and improvement in the second half. And I would call it significant improvement and relief in the second half. And again that's all mathematical and it all works that way. And I think that's probably, I've said probably more than I should say. And I'll let Jan...

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

No. I think a few more pointers. I think the risky part in building the quarterly model is to go and compare to the quarters 1 to 1, first quarter versus first quarter, because of this grow-over issue that we had in the first half of fiscal year 2017. So we grew our earnings in fiscal year -- first half of the fiscal year between 20% and 26% because of this revenue boost that we received. So I think the sequential analysis is more meaningful because the cost base that we have in our business in the fourth quarter is likely to be smoothly continuing on until you make a revenue assumption. And then it's going to be very steadily improving with kind of acceleration towards the end of the year. That will be kind of my -- like I said, I look at this, it really develops very smoothly. And then maybe one point is important. I tried to isolate it in my remarks. But part of the earnings pressure, of course, is that the tax rate is jumping up back to 33%. And I kind of want to remind everybody that the $0.07 benefit that we had for the accounting of the equity-based employee compensation is not contemplated in the 33%. But likely we're going to have option exercises. It's very hard to forecast those benefits. So we had $0.07 last year. And that's about 2% of earnings growth, roughly. So you can make your own assumptions on the tax rate also. So the 33% is the number that is our forecast excluding that. And that would be -- we anticipate some benefit, but it's very hard because share price and employee behavior will dictate it. But you may be more bold in the forecast.

Operator

Our next question comes from James Berkley with Barclays.

James Robert Berkley - *Barclays PLC, Research Division - Research Analyst*

And it's nice to see bookings turning around in fiscal '18. And could you just touch on the percentage of new bookings coming from the PEO side versus the Employer Services side historically? And how that compares to what you're seeing now? Or providing the bookings growth rate for each as well if possible?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Well, as like the mechanics of revenue growth indicate to you, obviously, that sales growth is driving those revenue growth numbers. So we have strong growth, that strong double-digit revenue growth in the PEO. We have strong double-digit revenue growth in multinationals. Those businesses we have great performance in the SBS space. Those business obviously have disproportionate growth in our new business bookings. And so reverse engineering tells you if we're anticipating kind of about the same type of revenue growth in the PEO, that the growth of our new business bookings goes in parallel. So we have provided those are the faster-growing business also on the new business bookings side.

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

And I think in terms of the relative size of the PEO bookings, I don't know. We don't really give that guidance, but I don't think there's anything wrong with giving you a range of the sales dollars for TotalSource are somewhere around, call it, 20% to 25% -- 20-ish percent, if you will, of the total bookings, somewhere in that range, maybe a little higher than that? And again, with really -- with good growth, obviously, that's driving the top line revenue growth.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

I'd just like to remind everybody, the new business bookings for our PEO business at the 20% to 25%, 22%, whatever, does exclude the pass-throughs. So you have to make them comparable. So that's why we don't really like to give out these details because it's going to be more confusing than not, but...

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

Yes. I shouldn't have done that because Jan is right. If you took the sales at the gross level, including the pass-throughs, they would be probably almost as much as our total bookings because other PEOs probably may report their sales or the new business bookings that way. But obviously, we, for the sake of comparability and to make sure that it looks like other ADP businesses, we do exclude the pass-throughs in the way we count it.

James Robert Berkley - *Barclays PLC, Research Division - Research Analyst*

Okay, great. That's helpful. And then just a quick follow-up. And if you could just discuss what you think is driving the record-high retention you're seeing in the downmarket and provide any additional comments in how the midmarket is tracking. And where you think that could go after what -- the work you've done in the downmarket and given what you're doing in the midmarket now?

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

So I'll add that we had record retention in a couple of other places as well. So the PEO had record retention. The SBS business, the downmarket had record retention. We had a couple of other places that had record retention as well. And I think that in most of those cases, the only thing I can put my finger on is execution because they are good businesses and there's a good backdrop. But with the benefit of hindsight that's kind of always been true, and I think what the one variable seems to be execution. So if we really deliver great products and great service, the clients stay in all of the segments. So the retention in SBS, for example, now, in the downmarket is 3 to 4 percentage points, not basis points, higher than it was 5 or 6 years ago and higher than -- and that much higher than we thought we would ever be able to achieve. And again, I think it's getting all the clients on one platform. So you make all your investments and put all your focus and all your R&D on one platform. You heard what we're doing with things like Accountant Connect. It's very hard to do those things when you have 3 or 4 platforms. So having everyone on one platform, going after kind of the friction and the things that create that service experience and just good execution, all those things, I think, you put them together and it's really created a really great story for us that, obviously, is translating not only to great retention, but great retention in these businesses leads to really great margin performance and really good revenue growth.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

And maybe I'll add, the midmarket experience, we have seen improvement in retention in fiscal year '17 in the midmarket. And it was paralleled by a very significant improvement in our service levels and a meaningful improvement in our client satisfaction scores. So we feel encouraged about the development in the midmarket.

Operator

Our next question comes from Jim Schneider with Goldman Sachs.

James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

Maybe could you talk a little bit about the bookings outlook in your visibility as you see it throughout the year? I mean, I guess it kind of implies in the back half, you could probably be back to solid, maybe even double-digit bookings growth in the March and June quarters. Can you maybe talk about the visibility you have on that and whether that's the correct assumption about the numbers there?

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

So the visibility that we have is related to the number of sales people that we have and their productivity, what we call annual sales productivity. So we have a lot of data, many years of data around that. And we know that our productivity jumped dramatically when we had ACA sales, and obviously, came back down when we didn't have that tailwind. But we have ways of getting at the numbers. Having said that, we've said multiple times whether it's retention or new business bookings, the amount of visibility we have to that is less than things like revenue next quarter because it's a completely different issue in terms of the recurring revenue nature of the business mix of revenues and the margins. So it's somewhat predictable. So new business bookings and retention have less visibility. But we have ways of getting at the -- at what we think are the right targets, which I think as you mentioned, are much better obviously in the second half. Again, all things being equal, if the economy cooperates and we continue to execute well and the math holds up historically for ADP, we should be able to get to those numbers. And obviously, it doesn't happen in a vacuum. You got to have great products. You got to keep sales force turnover down. Those are the kind of the controllables that we focus on that I think we're doing, frankly, exceptional job on right now.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

I think one point of information is, remember in the first quarter of 2017, we did still have some ACA sales, this was prior to election, and we had a pretty good performance, actually, relative to our expectations in the first quarter. So we still have -- we have no material sales assumptions for the Affordable Care Act this fiscal year, but we still have a little bit of grow-over challenge in the first quarter. So that's going to be a little bit more difficult but (inaudible) then Carlos' words hold of course the truth.

James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

And maybe just a clarification. In terms of the capital allocation strategy, is there any buyback assumption embedded in your fiscal '18 guidance? I know there was one explicitly called out in fiscal '17 guidance. I wonder if one was for '18, if any.

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

As you're a very correct observer, Jim. So as an exception in fiscal year 2017, we guided for incremental share buybacks because we wanted to make it clear that our intent was to return the proceeds of our debt offering in 2016, which has been completed. So we're now returning to our normal practice, which is we are anticipating to offset equity-based dilution for our employee compensation, which is about $400 million or so. And then we should expect a long-term backed -- we're aiming to be back at our long-term model that we have shared, and I think the long-term model includes, not that we guide to it, but the long-term model anticipates the return of excess cash to our shareholders of approximately 1 -- resulting into approximately 1% of share count reduction. That would be our long-term model, and pending on market conditions, obviously.

Operator

Our next question comes from Gary Bisbee with RBC Capital Markets.

Jay Hanna - *RBC Capital Markets, LLC, Research Division - Associate*

This is actually Jay Hanna on for Gary today. Just a quick question with regard to bookings guidance. You're guiding for 5% to 7% in fiscal '18. And that's coming off a reduction of 5% last year. So that really only implies flattish to 2% over 2 years. And on a 4-year CAGR, if I'm doing the math right, that implies about 6%, which should remove for most of the ACA-related noise. And this just falls a bit below the 8% to 10% long-term model you've given. So I was just wondering if you had any comments with regard to that? And maybe we should think about it through a different lens now?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

I think the -- it depends on how you calculate your averages and where you have your starting point. Clearly, our sales guidance for '18 signals our optimism into our success of our sales force and the competitiveness of our products. And clearly, we're anticipating to grow out of that grow-over challenge that we had. And the way I think our guidance works is what we are kind of returning over the year back to our long-term expectations. And as Carlos confirmed in his initial remarks and in the questions, we are sticking to our long-term expectation model that we have set in our Investor Days a couple of years ago.

Jay Hanna - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And then just another quick follow-up. Are you including in guidance any uptick in sales commissions related to the return to growth in bookings for the year?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes. Our operating model and operating plan fully contemplates the sales cost related to new business bookings. We had a dynamic twofold, as I tried to explain, in '17 accelerated investments into headcount staffing, which kind of elevated our sales costs and distribution costs a little bit and incremental sales incentives to get us through a difficult year. And next year, we have a distribution cost planned for a more normalized headcount growth of approximately 4%. And obviously, we're matching commission expense to our expected sales results.

Operator

Our next question comes from Danyal Hussain of Morgan Stanley.

Danyal Hussain - *Morgan Stanley, Research Division - Equity Analyst*

Just a quick follow-up on bookings. The fourth quarter came in a bit better than your expectations. Could you -- would you attribute more of that to client behavior inflecting more positively or just your investment in sales? And then likewise for fiscal 2018, could you talk maybe about your -- the degree of conservatism in your outlook, just in the context of what happened last year?

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

I think it's really too early to read anything into the fourth quarter sales results because we, as Jan just said, we put incentives to try to get people over the finish line. We, frankly, also implored the sales force to "not give up" because we don't want to send the wrong signal to the market or to our competitors. And so there's a lot of moving parts here that I think may have contributed. But it's better than the alternative. So we're happy that we had the finish that we had. But I don't think that there's really anything you can scientifically read into it other than maybe underneath the surface there's some better environment in terms of the -- because some of the uncertainty, I mean, at some point people have to get back to business as usual despite what's going on in Washington with regulation and with ACA and so forth. So maybe there's a little bit of that. But we can't -- I can't put my finger on it. I wish I could, but our optimism and to your point about why are we optimistic, it relates back to my previous comments around ADP's historical ability to execute in sales related to having the right headcount, having the right products, the right sales support, the right incentives and the right execution. I think with the right economic backdrop, I think, should give me, and it does, a high level of confidence and optimism.

Danyal Hussain - *Morgan Stanley, Research Division - Equity Analyst*

Got it. And then your biggest competitor called out elevated pricing. Competition in the midmarket, did you see any of that? Or is it just not material?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

Yes, we haven't -- good question. So we monitor 2 components of our pricing. Number one is our discount versus book pricing in new sales, and we are monitoring our pricing levels and concessions in the base, and both are good indicators of the pricing competition. And we have not seen any material change in both indicators. So we view the pricing environment as unchanged. It is dynamic though. There are ups and downs each quarter in different regions pending on the competitive action that we take and our competitors take. But if you take the aggregate and you look at the lines, we cannot advise a specific trend to increase pricing pressure or the opposite to that matter. So we feel good about the pricing environment.

Operator

Our next question comes from Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD and Senior Equity Analyst*

I'm just curious. Shifting gears back down to what's going on in Washington, D.C., have you heard anything on the discussion in terms of tax reform that either might help or hurt your business?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

I think other than the realization that we have a high effective tax rate and that we view us of a net beneficiary of any corporate tax reform in all scenarios, we have no further comment. Because I think you can better assess the likelihood of success in the tax reform to it.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD and Senior Equity Analyst*

So besides that, I guess, I was more curious in terms of from a client impact or a product impact.

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

Again, we haven't heard anything in terms of any -- that would change, for example, the way taxes are collected in this country or would affect our flow. I'm trying to -- I'm not sure exactly -- maybe if you have something you think or you know that we don't know, we're happy to hear about it or address it. But we're not aware of anything other than they're trying to reduce the corporate tax rate. And obviously, there are some, I guess, preferences and benefits that are going to be taken away in order to do that. But those generally apply to like the energy sector, the manufacturing sector and other. That's why we have a high effective tax rate. So there -- in theory, there are going to be winners and losers. People with a very low effective tax rate are going to probably get an increase in their effective tax rate. And the people who have a high effective tax rate are going to see a decrease because the statutory corporate tax rate is going to -- not going to, they're saying they're going to take it down. So whether it's 25% or 20% or 30%, that can only help us. And we don't have any significant tax preferences that we take advantage of that would go the other way. From a client standpoint, we do have a tax credit business. It's not -- it's relatively small. We haven't heard any talk about -- those are targeted job credit type taxes that are -- tax breaks that are very popular. So we haven't heard any talk about that, those being repealed. But I think I would say it's very likely that if there's any tax reform, that it would be very positive for ADP. It could be significantly positive but obviously, as Jan said, we have no sense on the likelihood of that.

Jeffrey Marc Silber - *BMO Capital Markets Equity Research - MD and Senior Equity Analyst*

It was more of the credit-relating aspect that I was referring to.

Operator

Our last question comes from Karkik Mehta with Northcoast Research.

Kartik Mehta - *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

I know you've talked about pricing and not seeing pricing pressure. But I was wondering on the downmarket, your ability to achieve price increases. Have you seen any change in the marketplace that would -- that changes this dynamic from, let's say, 1 year ago?

Jan Siegmund - *Automatic Data Processing, Inc. - CFO and Corporate VP*

The downmarket has been actually performing beautifully and the competitive strength that the product has, has translated in a very good price realization.

Kartik Mehta - *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

And then just the last question, Carlos. I know you talked about competition and you have not seen much difference in competition. But if you could just look at the marketplace as a whole. Have you seen anything different in the last 12 months, that being competition you anticipated that only stayed on the high end coming down to the midmarket, or a competition that was just at the midmarket coming down to the low end, or competitors leaving the marketplace. Anything that's changed in your opinion in the last 12 months?

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

Just to clarify. And I don't want to be misquoted as saying not seeing much change in the competition, because we have lot of competition. And it feels like we have more of it than we had 3 years or 5 years ago or 10 years ago. That's probably happens to every CEO, they always think that they have more competition than the previous person. So we have an enormous amount of respect for the market and for the competition because there's a lot of it. And we know that we have to earn our place everyday in the marketplace by having competitive products and great service. And whenever we slip or trip, they take advantage; and whenever they slip or trip, we take advantage. So it's very important for us to stay on top of it. But if you're asking about 12 months specifically, there are definitely competitors who have gone -- who have kind of come down segments or gone up segments. But I think to -- based on my experience at ADP, nothing different from what's been happening for decades, where a competitor decides that they're in the downmarket, that they can go up into the midmarket and they try it, and then maybe 3 years later, they go back or sometimes they stay. Likewise, we've had -- we've always had enterprise size competitors that are in the upmarket who decide to come downmarket a little bit into the midmarket. Sometimes they stay, sometimes they go away. So I don't think I've seen anything worth, I guess, reporting. But plenty of that type of stuff that you just mentioned. But I think it's normal competitive actions by competitors.

Operator

This concludes the Q&A portion for today. I am pleased to hand the program over to Carlos Rodriguez for closing remarks.

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

We appreciate your time today. As you can see, I think the strategic initiatives that we've laid out over the last several years, I think, are beginning to deliver on some of the objectives we have around not just shareholder value but also around delivering world-class solutions to our clients. I'm very proud. It's year-end, so I think I should say that I'm very proud of the hard work and dedication of our associates who obviously have been able to help us deliver these results, including the improvements in the service experience and improvements in retention this quarter. Obviously, we continue to be excited about the prospects ahead of us. We definitely have challenges in '18 with the softer bookings performance. And as you can tell, we're incredibly bullish and confident still. Otherwise, we wouldn't be making the kinds of investments that we're making, so we believe that these investments, along with our ability to execute, I think really give us the right formula for sustained continued success for many years to come. So thanks again for your interest in ADP, and thank you for joining us on the call today.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.