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Carlos A. Rodriguez – President and Chief Executive Officer, Automatic Data Processing, Inc.
Jan Siegmund – Corporate Vice President and Chief Financial Officer, Automatic Data Processing, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Victoria, and I will be your conference operator. At this time, I would like to welcome everyone to ADP's second quarter fiscal 2014 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 S. Charles, Vice President, Investor Relations

Thank you, and 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 second quarter fiscal 2014 earnings call and webcast. As a reminder, the quarterly history of revenue and pre-tax earnings for our reportable segments is also available in the Investor Relations portion of our website. Please be aware that we recently launched an updated Investor Relations website, accessible at ADP.com. Current-quarter results, as well as the reportable segment schedules, can be found in the Financials section of the new website and have been updated to include the second quarter of fiscal 2014.

I'd like to remind everyone that 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 in our earnings release and in our periodic filings with the SEC. With that, I'll now turn the call over to Carlos for his opening remarks.

Carlos A. Rodriguez, President and Chief Executive Officer

Thank you, Elena. Good morning, and thank you for joining us. There are a couple of things I'd like to cover today. First, I'll provide you perspective on our strategic initiatives to help you understand the strides we are making to drive our future growth. Second, I'll give you my thoughts on our results for the quarter. Then Jan will take you through the details of the second quarter financial results and guidance for the year. After Jan's commentary, we'll be happy to take your questions.

Before I give you an update on the business, I'd like to take a moment to reflect on calendar year 2013. I have some interesting statistics that remind me of how ADP's solutions make a difference for our clients. For example, our solutions enabled more than 15 million employees and their dependents to enroll in medical benefits here in the U.S. for the 2014 benefits year. In addition, our tax credit services clients realized about $1 billion in tax credits. And of course, in recent weeks, ADP produced more than 50 million year-end tax statements for our clients and employees, W-2s in the U.S. as we know them, and T4s in Canada.

Our ability to help clients succeed is based on our human capital management strategy or HCM, as it's known in the industry. Deeply rooted in our culture and before the term "cloud" was part of anyone's vocabulary, ADP's one-to-many solutions offered clients the benefit of an application hosted in a secure, remote data center. By having cloud-based solutions embedded early on in our innovation culture, ADP is able to say that today more than 360,000 client companies use an ADP cloud-based solution, a number that grows with each new client and migration.

However, what differentiates ADP from pure software and technology offering is our ability to provide fully outsourced service solutions along with comprehensive technology. Our solutions span the full HCM life cycle. From the early recruitment of prospective employees through employee retirement, ADP provides organizations of all sizes, and their human resources professionals, with a proven service model, strong history of compliance management, and insightful expertise from our decades of experience in the industry, an industry that ADP had a large part in creating and shaping. We continue to execute against our HCM strategy, emphasizing innovative cloud-based solutions complementing technology with compliance and service.

As we continue to expand the functionality of our integrated platforms and focus on stellar service, migrating clients to our newest platforms remains an important initiative. I'm pleased to report that migrations to ADP RUN are progressing well. We migrated about 25,000 clients during the quarter and now have about 315,000 clients on this platform. We expect to be complete with all small-business migrations in fiscal 2015. In addition to ADP RUN migrations, we are also executing on our plan to move all our midsized clients to ADP Workforce Now. We currently have more than 45,000 clients on this platform and expect to complete these migrations in fiscal 2015 as well.

These migrations are an important part of our growth strategy, as they allow for upsell opportunities. As you may already know, just about half of the clients we migrate to Workforce Now from a standalone payroll platform sign up for one or more additional solutions, such as time and attendance, HR and benefits administration, or talent. Overall, we are executing well on our migration strategy, and our new platforms provide a more streamlined, integrated experience for our clients, as well as a better service experience.

Another important item to touch on is the level of product integration ADP offers. ADP sits at the intersection of benefits administration, payroll, and time and attendance. Within this intersection, human resources professionals manage regulatory requirements, such as the Affordable Care Act, or ACA, and other compliance issues. Having an integrated solution is essential to helping our clients minimize compliance risk. For instance, we recently introduced additional innovative tools and resources to our ADP RUN platform that allow our small-business clients to comply with ACA. Among them, the new, simple-to-use full-time equivalent calculator is essential in helping employers determine their status under the ACA's shared responsibility provision.

As the regulatory environment becomes even more complex, be it as a result of ACA or other compliance matters, our clients take comfort in knowing that we have helped businesses manage all kinds of change for more than six decades. When you combine our expertise in compliance matters with our service strength and innovative HCM solutions, you get a powerful platform that is second to none.

Before we turn to the quarter's results, you may be interested to know that we held our annual meeting called ReThink in Paris this year. This is a great networking event, where ADP management and multinational clients and prospects have the opportunity to exchange ideas and discuss global HR needs. We are quite pleased with the high level of interest in our multinational service offerings.

And now for the quarter results. ADP reported strong revenue growth of 9%, 8% organic, driven by solid starts of previously sold business. New business bookings growth for the quarter in Employer Services and PEO was 7%. Our momentum of bookings growth increased from the first quarter, but we are still behind our expectations for the first half of the fiscal year. I'm pleased that bookings growth in the U.S. in both the small and mid-market were quite strong, which we believe is a testament to the strength of our RUN and Workforce Now offerings. Additionally, we saw strength in bookings growth from the PEO, in large part because ADP's value proposition in compliance surrounding the Affordable Care Act or ACA is resonating with small employers.

Moving upmarket, as we discussed on our last call, we are rebuilding the pipeline in the U.S., which was drained as a result of the strong fiscal 2013 fourth quarter. Our bookings results in this space were better than in the first quarter but are still behind our expectations in terms of closed contracts. In the multinational space, we closed three GlobalView deals during the quarter, and as you can probably tell from my earlier comments about the success of our meeting in Paris, the pipeline is solid.

However, given where we are in the first half of the year, it will be difficult to make up enough of the shortfall to attain the high end of our 8% to 10% forecast range. As a result, we are now expecting new business bookings growth to finish at approximately 8% for the year, which is the low end of our previous guidance range, despite expectations for a strong second half.

Now switching to the PEO, we continue to see positive momentum in this business. As I mentioned a moment ago, new business bookings were strong, and growth in average worksite employees paid was a strong 12% for the quarter.

Moving on to Dealer Services, the global outlook for the automotive industry continues to be positive. While we still see softness in Continental Europe, U.S. auto sales continue to advance toward pre-recessionary levels. Dealer Services performed well in the quarter as they continue grow their client base through strong competitive win rates while also benefiting from increased transactions in the U.S.

I recently attended the NADA conference in New Orleans with the Dealer Services team. Organized by the National Automobile Dealer Association, it is the largest automotive trade show in North America, with thousands of attendees representing manufacturers, dealers, and suppliers. We showcased a number of our product innovations that were very well received by our clients and prospects.

And with that, I'll turn the call over to Jan for a look at the quarter's financial highlights and the full-year forecast.

Jan Siegmund, Corporate Vice President and Chief Financial Officer

Thank you, Carlos, and good morning, everyone. ADP delivered strong revenue growth of 9% for the quarter. 8% of this growth was organic and included certain non-recurring items that I will discuss in a moment.

Focusing on continuing operations, we achieved 6% pre-tax earnings growth, 7% net earnings growth on a lower effective tax rate, and 8% EPS growth on fewer shares outstanding compared with a year ago. The quarter's results were solid, with each of our business segments performing well. Employer Services grew total revenues 9%, the PEO grew 14%, and Dealer Services grew 7%.

In Employer Services, I'm happy that overall our revenue growth has been widespread, with the small-business market contributing particularly well. We're quite pleased with this strong revenue growth, but I do want to point out that this growth benefited about a point from certain items where the year-over-year comparables were easier this quarter and become more difficult in the second half of the year. For example, you have heard us talk about the revenues we received from administering certain employee tax credits for our clients here in the U.S. As these tax credit programs expire, they are not always immediately replaced with new programs, which creates lumpiness in quarterly revenue growth. We had one such program that began last year's fiscal third quarter, and now that program has expired.

We are pleased to see continued growth and strength in our same-store pays per control in Employer Services in the U.S., with an increase of 2.9%. However, in Europe, the same-store pays per control declined by 0.7%, as anticipated. Although the economic situation in Europe has stabilized, we have not seen a meaningful improvement. Average client fund balances were strong during the quarter, increasing 9%, driven by growth in standalone tax filing, an increase from new business growth, especially in the small-business services, as well as increased pays per control.

The PEO had a strong quarter, with 14% revenue growth, driven by 12% average worksite employee growth. Second quarter new business bookings were strong in the PEO, and as Carlos mentioned, small and mid-sized [ph] businesses' look (12:39) to be in compliance with the ACA were the primary drivers of this growth.

Moving on to Dealer Services. Revenue growth of 7% benefited from strong transaction revenues and was driven by new businesses installed, improved client retention, and digital advertising revenues. ADP's total pre-tax earnings and margin were impacted by the following: the negative impact from the decline in high-margin client fund interest revenues due to lower interest rates, and there was also a higher level of expenses outside the business segments of about $20 million to $25 million, primarily relating to higher stock compensation expense as a result of the higher share price, as well as certain severance charges recorded in the quarter. Also, as you may have seen in this morning's earnings release, we had an increase of 12% in our systems development and programming expense, which is ahead of our revenue growth. This increase is a result of our continued focus on innovation.

On a positive note, I would like to point out that Employer Services posted strong pre-tax margin expansion year-over-year, primarily driven by increased operating efficiencies. Expenses related to the second quarter new business bookings increased compared to the first quarter, as anticipated from the acceleration in new bookings growth. But I'm pleased that the expenses increased at a slower rate compared with revenue growth.

And before we leave the discussion on the quarter's results, I want to point out that the decline in client interest revenues resulting from lower interest rates continues to be the most significant drag on ADP's results. As anticipated, ADP's revenue growth was muted at about half of a percentage point as the lower yield more than offset the benefit from the 9% growth in balances. Pre-tax margin was negatively impacted 90 basis points, and diluted earnings per share were lower by $0.02, or 3 percentage points for the quarter. Excluding this impact, it is evident that the leverage in ADP's business model is strong and intact.

Now I will give you our full-year forecast, which we have updated to reflect the solid results achieved during the first half of the fiscal year. We're now anticipating revenue growth of about 7% to 8% for total ADP. I want to take a moment and remind you that although ADP's revenue growth was 8% for the first half of the year, we're anticipating some tougher comps in the second half as I mentioned a few moments ago. We anticipate slight pre-tax margin improvement for total ADP from 18.8% last year, which excludes the goodwill impairment charge we recorded in the fourth quarter of fiscal year 2013.

We expect the effective tax rate will be about flat with fiscal year 2013's effective tax rate of 33.9%. I want to point out that although the full-year effective tax rate forecast is unchanged, the year-to-date effective tax rate is 33.3%, which means that the effective tax rate during the second half of the year will be higher. We anticipate 8% to 10% growth in diluted earnings per share compared with $2.89 in fiscal year 2013, which excluded the goodwill impairment charge recorded in the fourth quarter of fiscal year 2013.

As it is our normal practice, no further share buybacks are contemplated in the forecast beyond anticipated dilution related to employee equity comp plans, though it is clearly our intent to continue to return excess cash to our shareholders, depending obviously on market conditions.

And now for the segments. In Employer Services, we continue to forecast revenue growth of about 7%, but we believe we will now attain pre-tax margin expansion of about 100 basis points. Consistent with our prior forecast, we're still anticipating an increase in our pays per control metric in the U.S. of 2 to 3 percentage points.

For PEO Services, we are forecasting 12% to 13% revenue growth, with slight pre-tax margin expansion. We're forecasting about 8% growth in the annual dollar value of ES and PEO worldwide new business bookings from the $1.35 billion sold in fiscal year 2013.

And for Dealer Services, we continue to forecast about 8% revenue growth, with about 100 basis points of pre-tax margin expansion. There's no change to our previous forecast related to the client funds investment strategy, and the detail is available both in the press release and in the supplemental slides on our website.

And before we take your questions, I want to remind you that ADP has continued its shareholder-friendly actions. We repurchased 1.4 million ADP shares in the quarter for a total cost of $109 million. And as you know, in November 2013, the board approved a 10% increase in the cash dividend, our 39th consecutive year of dividend increases. Now I will turn it over to the operator to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator instructions] We will take our first question from the line of David Togut with Evercore.

<Q – David Togut – Evercore Partners (Securities)>: Thank you. Good morning, Carlos, Jan, and Elena.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Good morning.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Good morning.

<Q – David Togut – Evercore Partners (Securities)>: Carlos, you highlighted weakness upmarket in bookings in the December quarter. Can you give us a little bit more detail and perspective around client traction that you're seeing with Vantage HCM?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Sure. I think – I'm not sure that we said that we had weakness. I think that it really was an improvement from the first quarter. So I think we're heading in the right direction from a trend standpoint. But mathematically we still obviously came short of where we had our plan. So I think it's fair to say we had weakness, but I just want to make sure that we clarify that it was much better than the first quarter. And we do have a little bit of visibility now with January results in. And January, I think, was also even more promising from a trend standpoint than the second quarter.

So we're actually feeling better about our comments last quarter that this was really a pipeline issue and that we needed to rebuild the pipeline and that we felt that the second half of the year was going to be better. So, again, I think in my comments I talked about an expectation for a strong second half, which obviously to get us into the 8% to 10% range would be necessary. And I think January gives us some confidence of that, specifically in the upmarket business that we have, which really includes not just national accounts and Vantage, but also includes multinational, benefits administration – there are a number of products that comprise our upmarket business globally. And I think Jan may have some additional information on Vantage in terms of where we stand there.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Yeah, David, we don't really disclose the actual quarterly numbers of units sold, but we saw a significant increase in Vantage sales quarter over quarter. And we're tracking in line with last year and feeling good about the progress we're making with Vantage. Also, as Carlos said, we are – upmarket and particularly in the national accounts space see, in addition to the demand for Vantage, also demand for Workforce Now and the lower end of national accounts. So, overall, the momentum is really increasing in national accounts.

<Q – David Togut – Evercore Partners (Securities)>: That's very encouraging. And just to follow up on a comment you made, Jan, 12% increase in systems development and programming costs year over year in the quarter. What do you have in the innovation pipeline? Is this enhancements to existing products or new products?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Yeah, well, as you know, we have a product strategy that focuses really very much on strategic platforms in ADP, migrating clients from our legacy platform, and focusing our R&D and engineering efforts onto our core platforms. And so it's a mix of highly innovative solutions for the next generation that will really benefit most of our platforms, but in particular, upmarket. Vantage was released just last year, so we'll continue to invest and make it better every quarter with new releases. So it is really making real our promise on innovation.

<Q – David Togut – Evercore Partners (Securities)>: Understood. Thank you very much.

Operator: Your next question comes from the line of David Grossman with Stifel.

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: Thank you. You know, Carlos, I wonder if you could go back to the PEO for a minute. Obviously a good quarter in PEO, and it sounds like with the changes that are going on with the ACA that that service offering is becoming even more relevant. Can you give us any thoughts on whether you think that – how sustainable that may be, given how things may play out. Is it the initial confusion that then runs off, or is this something that you think continues for a multiyear period?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: It's a good question, because we obviously over the last two or three years, as the law has evolved and eventually went – or parts of it were implemented, we were trying to assess both the upsides and the downsides for not just our PEO but other parts of our business. So all I can tell you is it looks right now like it's mostly positive. And based on the January results, which are an outsized proportion of the total sales of the PEO for the year, just because of the way the PEO works with tax restarts and other issues that are probably not worth getting into, a significant portion of our annual sales take place in the actual month of January or start in the month of January, because we count in the PEO our sales and our client start as the same or an equivalent. And, again, we did look at our January results, and they were, I would say, even stronger than the first half. And so it really does feel like that business has quite a lot of momentum, and when we look at the factors that are driving that momentum, they do feel like multiyear – or that they are not just one or two quarters. Now, whether multiyear means five or 10 years, that's a different story, because it's hard to see that far out. But we don't see this momentum letting up in the near future.

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: And if you look at – well, I guess just a quick follow-on to that. So is that pretty much concentrated in the small-business segment, or are you seeing it overflow into other segments, like in the mid-market, for example, as well, even though it may not be tied to the PEO?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Well, I think our sales force is, I think, using the Affordable Care Act and changes in regulation and compliance and so forth as, I think, one of the reasons why we think prospects should be talking to us. And particularly the fact that we have integrated products in Workforce Now and in Vantage, I think, really help with that conversation. The ability to have time and attendance benefits in payroll and HR all in one integrated database is a very, very strong value proposition. So I think it is providing a door-opening opportunity for all segments of ADP, but the PEO, I think, is in a unique position where they're benefiting, I think, in an outsized manner.

I think I should hasten to say that they're also just executing very well. So we have really great sales leadership there and great salespeople. So I don't want to take anything away from them, because when I look back – I just happened to glance, as we were talking about the PEO, at our historical results in PEO in terms of sales, and this is really the fourth year of very good sales results. So I think we're benefiting somewhat from the wind at our back from ACA, but we've got to give credit where credit is due. They've done just a fabulous job execution-wise.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: And, David, just a quick reminder, the size of employees that we serve in the PEO ranges really from 10 to 250 employees. So it really spans a little bit different than our historic segments. So it does cover small as well as mid-sized clients in there.

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: Okay. Thanks for that. And then just quickly on the bookings, and a characteristic of those bookings relative to your revenue growth. Obviously you're coming in a little bit stronger on the revenue growth – and, sorry, I got dropped from the call, so perhaps this was covered. But is there something – because of the relative strength of the small-business segment and perhaps the mid-market, does that impact the conversion of the bookings to revenue in a different way than maybe what you've seen historically because of that relative strength, or are we pretty much on kind of a trajectory that we typically are on in terms of the conversion of bookings to revenue?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I'll let Jan give the scientific answer, but I think the short answer is, yes, it helps. But a shortfall in our upmarket business in bookings, I think, doesn't affect us as much in the short term as obviously a shortfall in our low end of our business because of just how fast those clients start. So I think we've done some modeling, and I think maybe Jan can talk about it a little bit in terms of the potential impact of the shortfall in the high end, but I think you're correct that it tends to be a more muted impact in the short run and tends to be spread out more over time.

And, again, you should also keep in mind that our business is quite diversified, so we have the midmarket business, we have a low-end business, and we have an upmarket business. We have international, we have global, we have dealers. So this shortfall in sales in the upmarket does not have a significant impact on our revenue growth, either in any of the ensuing quarters, or, frankly, even in the long term, as long as we recover as we expect in the second half.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: I think I have little to add. I think I just want to moderate that we have, of course, upped our revenue guidance for the year, and you saw the strength in our revenues in the quarter. Some of it came due to [ph] the (27:57) help of expiring tax credit programs, but then you saw we had strong balance growth, we had strong pays per control growth, we had solid retention in the quarter. So all those factors together really helped to drive the organic revenue growth in ES and the strength in the downmarket where the conversion is a little bit faster to revenue than in the upmarket obviously helps. But, as Carlos said, the misses on the upmarket are not impacting our revenue forecast in a meaningful way.

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: Very good. Thank you.

Operator: Your next question comes from the line of George Mihalos with Credit Suisse.

<Q – Ryan Davis – Credit Suisse Securities (USA) LLC (Broker)>: Hey, guys, this is Ryan Davis filling in for George. I want to start with the new bookings growth and kind of the new guidance. Could you give us maybe the puts and takes of what you were seeing when you gave the original guidance on the 8% to 10% and kind of what differs now? I guess the first quarter came in a little lower, so it was a little further to overcome.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Well, let me start by saying that we give guidance based on our plan. So we put together a budget or what we call an operating plan, obviously well before the fiscal year started, that contemplated sales in that range. And then we had just what I would call a blowout finish in the fourth quarter that happened after we put those operating plans together. And clearly we could have adjusted our guidance and our plans, but we felt that given the momentum we had in that fourth quarter that we would go forward with the original plan that we had. I did mention in the fourth quarter conference call that, based on our experience, or my experience personally, even though we weren't trying to change our guidance, that that fourth quarter strong finish presented some challenges for us in the first quarter, just because of the way our incentive system works and just based on mathematics, just because of how large ADP's sales results are in terms of the laws of large numbers.

And so I think the 8% to 10% guidance was, I think, what we thought we could do, and that was our objective, and we weren't really to come off of it. And then the first quarter, as you know, was 1% growth, and the math for us on making a comeback from 1% growth is not easy, again, just because of the laws of large numbers. But, again, we thought because of what we had in our pipeline and the fact that we thought that our challenge was really more execution-related in the high end of our business, that we had a shot at still making somewhere in the middle of that range, which is what our intention would be when we give 8% to 10%. And I think now we've moderated that to 8%, and it could be a little bit higher than 8%, frankly, or it could be a little lower than 8%. But I think – prudence, I think, called for mathematically taking a hard look at the numbers and being transparent and saying, it's harder. It's harder to get to 10% now, and it's harder to get to 9%, but we feel very comfortable getting to 8%.

<Q – Ryan Davis – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Thank you; that's helpful. And just one more. And sorry to follow up – I don't want to hit on the bad things. But could you just give a little commentary around the retention in the quarter? It was down year over year.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Happy to do that, although I wouldn't call it a bad thing. And, again, I recognize that the numbers are the numbers, but our retention rates are still at historically high levels. Again, we have the benefit of having seen our January results, and for those of you who follow us closely, you know that January is a very important month for us in new bookings, but it's also very important for us in terms of retention. Obviously, many clients who decide to take their business in house or look for another alternative do so December 31, and so those losses would show up in our results at year-end as well as in January. And so now we have the benefit of both that December and January period, and I will tell you that coming out of January, we feel very good about our retention, which, again, when I look at it over the last four years, is, I believe – I don't have the number in front of me, but it's 20 or 30 basis points up or down each year, still at record levels.

And so although we, from an operating plan standpoint, try to put additional pressure on the organization to drive that up a little more – and I think we can because our client migrations in some respects might help us longer term in our retention rates – but the fact of the matter is that they are very, very good right now. And we're very happy with our retention rates. And I think having looked now at the January results, I would say that the quarterly comparison is the same story that we've been sharing with you for many years, which is we have fluctuations because we have a few large losses here and there and then it affects the quarter and then the next quarter we have, I think, a recovery. So we see nothing in either the quarter or in the January results to lead us to believe that there's any issues with our service or with our retention rates.

<Q – Ryan Davis – Credit Suisse Securities (USA) LLC (Broker)>: Perfect. Thank you so much, guys.

Operator: Your next question comes from the line of Gary Bisbee with RBC Capital Markets:

<Q – Gary Bisbee – RBC Capital Markets LLC>: Hi, guys. Good morning. I just wanted to ask quickly about – you mentioned some severance in the quarter. How much exactly was that? And where are you reducing heads? Anywhere in particular, or was it pretty minor?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Gary, I mentioned it only because it happened in the quarter to be a little bit higher than normal. We had very low restructuring charges in the first quarter. So the difference popped up a little bit higher. And it's really broad based and just regular business operations. So it just aggregated in this quarter to a little bit higher, so it made it the second highest item. Nothing to worry about. And really nothing to point out and isolate in dollars.

<Q – Gary Bisbee – RBC Capital Markets LLC>: Okay. I was wondering if you were going to say due to the migrations, you need fewer people supporting the legacy systems or something, but I guess that's still the future savings.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Not quite yet.

<Q – Gary Bisbee – RBC Capital Markets LLC>: Okay.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: I understand there's anticipation for the operational efficiencies due to migrations that Carlos and I share the excitement for you. But, as you know, the migrations require a big deal of resources, actually, to be invested [ph] themselves (34:41) in the migrations and then also require the training of our associates on the new platforms, and that takes a little bit of time for them to gain full productivity. So that's kind of the fundamental reason why the efficiencies will trickle down a little bit later.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: And I think just to make sure that I level-set and that people [ph] understand this is (35:00) our business model, from that perspective, ADP's business is, as you know, quite stable and predictable in terms of our recurring revenues. And so there's no question we expect to become more productive and more efficient over time as a result of migrations, but also a result of other initiatives that we have around productivity. That's been shared very widely internally with our associates and our leadership.

Having said that, we hire approximately 4,000 to 5,000 new associates each year because of our size, just because of retirements and turnover. And, by the way, we have a very low turnover rate. But that's a lot of people. So this process of us becoming more productive and more efficient will happen in an organized fashion, and you are unlikely to see a multihundred million dollar restructuring charge, which is not what this is. This is relatively small. But, again, just because of who we are, we give you all the details. In the grand scheme of things, this is a relatively small number. It just happens to affect the quarter and the results, and we thought you should know that the number was in there.

But, historically, some of our restructuring charges have been – and I'm not saying that this one is, but as an example, if we do anything in Europe, even a restructuring that involves 5 to 10 people can add up to $10 million to $12 million. It's not the case in this example, but I just want to put perspective around when you do the math around the size of this restructuring charge, this is not hundreds or thousands of people, and it's not a major shift. And I just want to level set that you are unlikely – we will manage our way into productivity and efficiency without large-scale disruption to our associates.

<Q – Gary Bisbee – RBC Capital Markets LLC>: Fair enough. And then just one other quick one. I haven't gotten an update in a while on the trend towards profitability with the GlobalView product, and just maybe a little more color on – you talk every once in a while to the contracts you've signed, but how many people have actually been – are up and running on the product, and is that really the key to achieving that profitability [indiscernible] (37:13) unchanged? Any update there? Thank you.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: I appreciate that. I'll take this question. I appreciate it. As you know, our multinational offerings are a key part of our global growth strategy. And just for level-setting, when this discussion [ph] a number of years (37:31) started, we focused on GlobalView, but today we're really selling a combined solution between GlobalView and a product that is called Streamline, and almost all GlobalView deals now include also components of Streamline. So we internally really focus on our multinational solutions. And, of course, they are profitable and continue to gain margin and growing very nicely. As a matter of fact, they are accretive to our revenue growth and our earnings growth overall at ADP. So it's a very nice business that we really like and – and to do so.

But in order to satisfy the academic question, background about is GlobalView profitability, yes, we're pursuing the plan. We indicated, I think last year, that we would achieve profitability, which we did, and of course we continue to do it in the second half. And we continue to improve upon that business. We had more sales, as Carlos has reported, on GlobalView, so the product is doing fine, and we're very satisfied with it. But, again, it is important to think – better to think about our multinational offerings, and that's now more than $300 million business for us and is growing very nicely.

<Q – Gary Bisbee – RBC Capital Markets LLC>: Thank you.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: About a million employees are processing on GlobalView right now.

Operator: Your next question comes from the line of Bryan Keane with Deutsche Bank.

<Q – Ashish Sabadra – Deutsche Bank Securities, Inc.>: Hi, this is Ashish calling on behalf of Bryan. Good morning, guys. Looks like you had a pretty solid quarter for small and medium business bookings. And, as you said, coming out of the selling season, that was pretty strong as well. Now, the small business formation overall, that has been pretty weak. So obviously you're gaining share. So I was wondering if you could just provide some details on the competitive dynamics. Like, are you gaining share from regional or national players, or is it mostly in-house moving over? I was just wondering if you could give some more color around that. And as well as talk about pricing and discounting, how that has trended during the selling season. Thanks.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: So we haven't heard anything different about pricing or discounting. I think obviously we keep track, very close track, of all of those dynamics, and I'm not aware of any changes in the market in terms of pricing or discounting.

In terms of the success in that business, I think, again, like the PEO, I think the first order of business is to give credit to the management team and to the organizations that have been working multiple years on making sure they have the right products, the right leadership, the right service, because you do have to execute in this business and I'm sure in any other business, and there are executing quite well. I think that our success there, I think, is broad based. Again, we do look on an annual basis and then in our strategic planning process at shifts in the marketplace in terms of in-house versus regional versus national competitors. And then we track obviously monthly and then quarterly where sales are coming from and where losses are going to. And I wish there was something exciting to report or something that jumps out, but it's just broad-based success, I think, across the board. And so it's not any particular category or size range. It's just across the board, and I think it's related to very strong products and very strong execution, both in sales, implementation, and in service.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: [indiscernible] (41:08) answer your question regarding the discounting level. I did actually, prior to this call, review anticipating your question and looked at across our business, and we have not seen any significant change in trends relative to discounting level. As a reminder, approximately 1% of our revenue growth is driven by price increases.

<Q – Ashish Sabadra – Deutsche Bank Securities, Inc.>: Okay. That's good to know. And one much more broader question about the industry trend. We've seen some increase in chatter around the private exchanges, large employers contemplating moving to private healthcare exchanges. I was just wondering if you have seen similar trends and if you can comment on what that means. Would it have any impact on PEO or any other business, any impact on ADP?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Well, there really would be no impact on the PEO, at least not for the next – I believe it's three or four years, because the exchanges are really not right now open to small companies. They're really, I think, really for large companies. And so the – I'm sorry, the – I think that's correct. I don't know if it's the public or the private exchanges, but my information is that this is really and the exchanges are really not an issue for the PEO until I believe it's 2017. And then, as we get closer to that, we would obviously keep you informed in terms of whether we think they're going to be an issue or not, because when we first started this process three years ago, I think it just doesn't help to – the lesson learned is that we have to get a little closer, based on what you've seen around all changes that the government has made to the original laws and regulations, I think it's just better for us to wait until we get closer to have that discussion. So I think no impact on the PEO.

The only, I think, impact that I think we need to talk about and think about is in our benefits administration business, which again, in relative terms, it's an important business, as all of our businesses are important, but it's relatively small in the overall scheme of ADP's total revenues. But that business, we are hearing prospects and clients asking us about private exchanges. And so we are looking at alternatives, including partnerships and other options, building our own private exchange. So there's a lot of ways you could go in terms of creating a solution, some of which are easier to implement, for example a partnership, and others, whether it's an acquisition or doing something organically, are probably a little bit harder to do.

But we are hearing, I think, from some of our larger clients, specifically the ones that have a lot of hourly employees who are highly sensitive to employee benefit costs, we're hearing a lot of questions about private exchanges. Having said that, a lot of clients are not even bringing it up, because they are very comfortable with the benefit plans that they have and the approach that they're taking with their current healthcare carriers and their current healthcare plans. So I think we all read the papers. I think you tend to see restaurant chains and there are certain industries that are very sensitive to employee benefit costs that are very interested in private exchanges. And we, I think, are currently looking at how to fulfill that need for our benefits administration business.

<Q – Ashish Sabadra – Deutsche Bank Securities, Inc.>: Okay. Thanks for the color.

Operator: Your next question comes from the line of Jim MacDonald with First Analysis.

<Q – Jim MacDonald – First Analysis Securities Corp.>: Hey, good morning, guys. Going back to the PEO, could you tease out for me the strength there between converting some of your existing customers and selling new customers? And as a follow-up, in advance, were either of those particularly impacted by ACA uncertainties or trying to escape the impact of the ACA?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: That's a great question because I think it's a really good example of, I think, the improvements we've had over the last several years, starting, five, six, seven years ago when we started focusing on this kind of One ADP strategy. One of the important, I think, benefits that we thought we could get is more synergy from cross selling, among other synergies in our businesses. And certainly this last quarter showed – and I think the last several quarters and even for two or three years – an improving trend in terms of the amount of business that the PEO is getting from some of the sister divisions within ADP. Specifically, I want to point out that our mid-market business and major accounts, which, as you know, goes all the way from 50 up to 999 [employees]. So in the low end of that major accounts business, there's been a really nice improvement in the amount of leads being given over to the PEO that have been converted into PEO clients. I'm very, very happy to see that, and I think that goes back to a lot of hard work over multiple years of aligning incentives and people working together to make that happen.

Other than that, I'm not sure that we have a lot to report, because I think in our low end of the business we've always had a very good exchange of leads between our SBS business and the PEO. I think where there's been a noticeable improvement is in the mid-market and in major accounts, and we're very pleased with it.

<Q – Jim MacDonald – First Analysis Securities Corp.>: And just on my second part of the question, were new customers kind of frozen by some of the ACA implementation issues or were existing customers impacted, thinking about some of those implementation issues of – ?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think it's a great question, and I think the way I would say it is that we've always believed, whether it was in Y2K or ACA or other major compliance issues, that you get more at-bats. There's just a lot more activity because people are looking for help and they're looking for solutions, and we have a more than 5,000 person direct sales force, and it is a huge advantage in terms of being able to take advantage of these disruptions, if you will, to the average small business, mid-sized business, or large business. And so we've spent the last two or three years gearing up our sales force to be able to talk about ACA, and the day has arrived where there are a lot of people who have a lot of questions, and we're there to answer those questions and, at the same time, hopefully sell them solutions to help them address those questions.

So I think that's what's happening in some parts of our business, that we're just getting a lot more – there's a lot more activity and a lot more at-bats, and we're converting some of that, obviously, into new bookings and eventually into revenue. So I think it just provides a nice opportunity for us and for our direct sales force to go out and help our clients solve or address the uncertainties that they're facing.

<Q – Jim MacDonald – First Analysis Securities Corp.>: Thanks very much.

Operator: Your next question comes from the line of Paul Thomas with Goldman Sachs.

<Q – Paul Thomas – Goldman Sachs & Co.>: Good morning, guys. Thanks for taking my question. It sounds like pays per control is still lagging in Europe. Is there any expectation that'll improve in the back half of fiscal 2014?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Paul, I've studied the pays per control metrics in detail for each of the European countries, and I wish I could report that I see real – an improvement. It's a rounding error or a slight improvement, and you see a couple of countries slightly improving – of course, Germany and France would be those. But, overall, Europe is kind of flattish on the pays per control. Just as a point of clarification, that does not translate in declining revenue growth. Europe is still growing for us as a revenue contributor and, of course, nicely expanding also its margin. So while we see the economic environment impacting, sales are difficult in some countries, but overall, we continue to grow our revenues based on new business that we do, good retention rates, and a little bit mitigated by this pays per control weakness.

<Q – Paul Thomas – Goldman Sachs & Co.>: Okay, just one more from my end. Could you talk about the increase in margin expectations for Employer Services, how much of the improvement was lower sales compensation versus specific actions you took in the quarter?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: It's not specific actions I would describe. I think this – you see some of the organic revenue growth acceleration is helping us on the margins. We have good control on our operating expenses, so we have FTE of – employee growth is slower than revenue growth. So we're kind of carefully executing on a program of driving productivity in the business unit in an organic way that Carlos just described. And so there could be a little bit of improvement on the margin due to the sales expense, but it's a mix. It's – sales get more productive as we have achieved higher sales productivity and a little bit of slightly lower sales growth, but that's probably not even fully factored into our forecast. So it's kind of really mostly these operational efficiencies that we mentioned to you.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think just to be specific on the – because we mentioned in the first quarter that we benefited from lower sales costs and that that helped us a little bit in the margin. That is not the case in the second quarter, because even though we do have good sales productivity still, as you know, our sales results were 7% increase in the second quarter, versus a first quarter growth rate of 1%. And some portion of our sales costs is variable, obviously, related to commission expense. And so, on a sequential basis, the second quarter compared to the first quarter, we did not have the kind of, I guess, wind at our back. In fact, sequentially our sales costs not only increased in absolute terms, but increased in relative terms as a percent of revenue. So I just wanted to make sure that that was clear.

We are – continue to invest in sales. We continue to add head count. And obviously we're also expecting, I think, some level of productivity. So I think the numbers that we shared with you in terms of the mix of head count versus productivity, I think still stand for the year and for our forecast. And this benefit that we had in the first quarter, which was an unfortunate benefit, because of the low growth rate, we did not experience in the second quarter.

<Q – Paul Thomas – Goldman Sachs & Co.>: All right. Thanks for the color, guys.

Operator: Your next question comes from the line of [ph] Smitty (52:05) with Morgan Stanley.

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: Hi, good morning. This is Danyal Hussain calling in for [ph] Smitty (52:08). I just wanted to touch back on PEO. So as you guys raise growth expectations, is that a function of growing popularity of the PEO model as a whole, or is this something that's more TotalSource specific?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: If you look at the market, and you have now a number of competitors public or going public, you see that ADP has the strongest organic growth number. And for a number of years, really, our business model, really since its inception 13 years ago, 15 years ago, we have grown exclusively through organic growth. So the ADP sales model and our success in distribution and executing well is the main source of our success, and I think organic growth rates in our competitors are more muted, certainly a standout for ADP's model.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think that I would just add, again, since I came from that business, that the popularity of the PEO ebbs and flows for a variety of reasons, but ADP's PEO continues steadily along. I think it's four times the size it was when ADP first started in the business through a couple of acquisitions, and it's almost doubled just in the last four years. So it's really quite an impressive performance by that team, but it is fair to say that that industry or that category does ebb and flow for a variety of reasons depending on external factors around insurance markets. So it's a business – it's an industry where you have to be cautious in terms of your expectations. We happen to be the beneficiaries of having a captive sales force that provides leads to our PEO sales organization. We have good leadership. We have good technology. So we, I think, are in a very good position.

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: Okay. And then on international, recognize Europe is still slow. Can you maybe talk about revenue growth in international as a whole, and maybe how it's different in your multinational clients versus the local international? Thanks.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think our international business still has quite respectable growth, frankly because we have really great retention rates there. And so even though, as Jan said, sales are difficult or have been difficult in the first half – and I hasten to add that last year we had actually pretty good sales. Even in a very bad environment, we had good sales. But when you add all those ingredients together, the very strong retention rate, what's really a minor decrease in pays per control because it's just not – doesn't drive that much in terms of revenue drag, and then just the size of the sales nut, if you will, or the total sales in relation to how much we lose because of retention being so strong, I think leaves us with a very decent organic growth rate in international. And then we, on top of that, benefited a little bit from the acquisition that we made in South America, to expand our presence in Latin America. That's giving us a little bit of a lift in our international business. But our organic growth rate there is still quite strong.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Actually, in a interesting way, the organic growth rates between U.S. and international are about the same. And the weakness or softer revenue growth in Europe is offset by strength in Latin America and strength in our multinational business.

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: Got it. Thanks.

Operator: Your next question comes from the line of Kartik Mehta with Northcoast Research.

<Q – Kartik Mehta – Northcoast Research Partners LLC>: Carlos, you've talked a lot about Workforce Now and RUN, and it seems as though you're getting some benefits as clients are migrating, or at least that's what it looks like because your margins are improving in ES. But is there a way for you to size what the eventual benefit will be once you get all your clients migrated? Because I know you've also said there's some additional costs right now because you do have two platforms.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: So I think that it's a good question, and I think at the risk of having you get out in front of us from a margin standpoint, in the future, I think it's more important for you to understand in the short run kind of what is happening. And, in the short run, I think Jan said it best, that our margin improvement in Employer Services is not related to client migrations. Our client migrations activities are putting pressure on our margins. We are investing very, very heavily both in our – in all three of our segments, in the low end, our midmarket, and our high end, because it's a strategic imperative for us to get our clients on our new platforms.

I was looking at some statistics over the quarter where the number of clients that are left on our nonstrategic platform on midmarket have declined fairly significantly, and simultaneously our retention rate has improved quite a bit. So it just feels like the right thing to do to continue to spend at whatever level we need to spend in order to accelerate those client migrations. And, by the way, that will not always be the case. We had one example in our time and attendance business where we shut down a platform, and so it was not an organized, orderly transition, and that had a negative impact on retention. So those – it's really a mixed story.

That's a long way of saying that you should not interpret our margin improvement as coming from already benefits of our client migrations. The benefits of our client migrations are yet to occur.

<Q – Kartik Mehta – Northcoast Research Partners LLC>: And then just as a follow-up – and maybe there isn't a relationship, but we're seeing more clients migrate to these new platforms, more clients interested in mobile applications. As a result, on the small-business side, have you seen a change at all in how your customers are buying your services? As in, are more customers today than two years ago using the Internet? So – and, in relation, do you need to change maybe the way you sell your product?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: It's absolutely changed. And, again, visually – I'll give you one and then I'll give you a factual. Visual is our sales force are out doing demos with iPads now. Two years ago, they weren't doing that. Our old EasyPay platform, I don't believe we had a demo, forget about doing it on an iPad. It was just not – it wasn't even a possibility. So the factual numbers are that four or five years ago, the majority of our clients were on what we call either call-in or fax. So they would basically send us their information. They would call us in and tell us, this is how many hours for this person and this is how many hours for that person. This is in small business, is what I'm describing.

That now with new sales in RUN has completely flipped over, where more than 70% of our new sales are basically web-based sales, where they're not calling in their payroll. They're not having any interaction – other than service interactions if they have questions or if they have issues with their payroll. Obviously that's what we are about, is a full-service outsourcing solution. So we do take questions and phone calls or chats or emails. But the fact of the matter is, there's been a tremendous change in the last three years in how we sell our business and how our clients receive the service that we provide, or receive the technology, specifically in RUN, which I think was your question.

<Q – Kartik Mehta – Northcoast Research Partners LLC>: Yes, thank you very much.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: And if I add on the distribution side, in the downmarket, we sell through our sales force, but we have also channel relationships in the bank and the accounting channel. And a good deal of our business is now also generated through [indiscernible] (59:52) marketing and web-based leads. The actual sale, I think, is still going mostly through either our inside sales force or our field salespeople, but the lead generation through these channels all have changed and have continued to grow.

<Q – Kartik Mehta – Northcoast Research Partners LLC>: So should that translate to lower selling costs as we move forward?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Well, it has. So I think our SBS sales force is one of the, I think, one of the highlights in terms of our sales productivity improvement over the last several years. And so I believe we have gotten, I think, some benefit from what you are describing.

<Q – Kartik Mehta – Northcoast Research Partners LLC>: Thank you very much. I appreciate it.

Operator: Your next question comes from the line of Jason Kupferberg with Jefferies.

<Q – Ryan Cary – Jefferies LLC>: Hi, this is Ryan Cary calling in for Jason. Just a quick one. Are you expecting acquisitions to contribute any material amount to near-term revenue growth? I know you mentioned the past couple quarters a LatAm acquisition. But I just wasn't sure how big that's going to be, and maybe you'd give us some sort of idea on when we should see some benefit.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: We continue to be out there looking at stuff, and we've recently looked at some things. And, I mean, I think our normal practice, as you know, is we can't comment. So we can't really say specifically what we're looking at or what we're not looking at, but we are – contrary to popular belief, because I probably have developed a reputation – we are open, we have capital, and we are open to acquisitions if they fit our long-term strategy. And our long-term strategy has been laid out very clearly. And so we're not looking to just cobble things together and add additional platforms that are not going to be integrated into our strategic platforms. But if we find things that either fit or can be fitted in relatively quickly, that accelerate our sales growth and hence our revenue growth, we will use our capital to get that done.

<Q – Ryan Cary – Jefferies LLC>: Okay. And forgive me if you already mentioned this; I might have just missed it. Did you announce the expectation for the increase in the sales force head count for the year. Is that still at about 4%?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Yes, and I think we are right now running – 3%? 3%.

<Q – Ryan Cary – Jefferies LLC>: Great. Thank you so much.

Operator: Your next question comes from the line of Sara Gubins with Bank of America.

<Q – Sara Gubins – Bank of America Merrill Lynch>: Thanks. Good morning. HR analytics is a hot area right now, and I wanted to get your take on how you're positioned in it and what you think perhaps your differentiating points are, and areas that you might want to focus on to add more?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: That's a good question, because actually when Jan was answering the question about the 12% increase in our R&D expense, one of the things that I can mention about that is that analytics specifically is one of the categories where we are – I think Jan mentioned some exciting things that we're working on to enhance our current platforms, but also to provide kind of new solutions to our clients to help them more with their business needs. I think analytics is an area where we've been investing quite a lot of time and money, specifically what we've been calling our Innovation Labs, our ADP Innovation Labs – which, by the way, we've opened an office in Chelsea, New York, and we're really attracting some incredible talent. And so part of what those folks are doing is working on those types of solutions and specifically some of the business intelligence and analytics solutions that we think are kind of the next step in helping businesses really manage their human capital assets better. And so we've seen some previews. So Jan and I, I think, have seen some examples of the things we're working on, and we're quite excited about what hopefully is to come here in the near future.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Actually, we released in the second quarter, and we talked in our last call, I think, about our HR analytics tool. It's now in pilot with a number of clients. We have shown it at several industry fairs, received tremendous amount of feedback. And the fundamental differentiator is, of course, not only the functionality and the thought process that we engineered into the product, but it can rely and base its insight on an unparalleled amount of data, with 600,000 clients at our fingertips and information that is really deep and, with a broad history of it, will allow clients really just better understand of how to run their HR business and put ADP in a position to be truly a strategic partner for our clients. So it is really an opportunity that we're looking forward to fully leverage. And if you follow success of our national employment report, we anticipate a similar type of credibility and power in our HR analytics product.

<Q – Sara Gubins – Bank of America Merrill Lynch>: Thank you. And then as a follow-up, the focus on Vantage or the strategy so far has been more to sell to new clients as opposed to migrations, and I'm wondering if there's some point in the future when, perhaps, you'd consider turning more to trying to convert the existing client base.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: We migrated also a client in Vantage, but as – you're right, as we scale and build our implementation organization and optimize the implementation processes of Vantage, we're focused on leveraging that capacity for market share. It's a competitive market. We like our product, and that's the focus. I think what you see us more is open Vantage up to a variety of bundles from standalone payroll Vantage to a full suite of Vantage as we build it out. But medium run, you should expect us to convert clients on to the Vantage platform. So it is just a matter of timing, and Vantage will be following a similar path over time as Workforce Now did.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Yeah, and I think just to emphasize – I think Jan mentioned this, I think, actually earlier in the call in answer to a question, that we continue to invest in Vantage. So I just want to kind of reiterate that, that the days are over of us kind of building a platform and then spending the next five or 10 years – and it's not because that was the wrong thing to do. It's because times have changed. And so you should hear that we are making continuing significant investments in our upmarket products, including Vantage, not just around analytics, but around usability, around the product itself, feature functionality, and so we are making significant investments in Vantage and in the upmarket products as we speak.

<Q – Sara Gubins – Bank of America Merrill Lynch>: Thank you.

Operator: Your next question comes from the line of Tien-tsin with JPMorgan.

<Q – Tien-tsin Huang – JPMorgan Securities LLC>: Hey, great. Thanks. Just a couple follow-up questions to past questions. Just first on the upper end of the market and replenishing the pipeline. Just curious how the visibility and predictability of the new sales look now versus – whatever, a quarter ago or a year ago. I caught some of the three deals you talked about, but just in general, the replenishing of the pipeline is what I was curious about.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think the place where we feel the most positive about the pipeline is at the MNC business, but it also happens to be the most lumpy of our businesses. So I personally went on a sales call for a multinational client that was a $15 million annual – annual – deal.

<Q – Tien-tsin Huang – JPMorgan Securities LLC>: Right.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: And so we feel pretty good that we're going to get that deal. But whether we get it in February or we get it in March, I think, is in the grand scheme of things not the only important thing, and hence you have to be careful. So I think historically our multinational business and GlobalView specifically have been our most volatile and most lumpy business, but right now it feels pretty good. This meeting in Paris, like, we had the who's who of the Global 100. I mean, I'm not going to mention names, obviously, but these are all names that are household names, and these were prospects. Some clients, but many, many prospects as well. And I think we even closed one right there at the meeting. So we're feeling pretty good about that pipeline.

I think in our upmarket core national accounts business – by that I mean payroll, HR, kind of the core business – I think that pipeline also feels pretty good. And our January results, frankly, were good from a growth standpoint. And there's a couple other categories in national accounts, frankly, that are not performing as well, and I mentioned some of the other categories that make up our upmarket. But in that core business, we're actually feeling pretty good, too, about what's happening with the pipeline and also the conversion of that pipeline into contracts.

<Q – Tien-tsin Huang – JPMorgan Securities LLC>: Understood. So the upper, upper end is really just a timing issue. You feel good about the pipeline.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: [ph] Yep. (1:09:09)

<Q – Tien-tsin Huang – JPMorgan Securities LLC>: Okay. Just on the – I know retention was asked about, and I know we're nitpicking here about whether it was less than 50 bips, but any areas stand out in terms of surprising attrition? And I'm focused on major and national specifically.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: No. If you look at our losses – the second quarter loss on an absolute dollar value was not that meaningful to us. So it's a lower loss quarter. And we did see – and it's not focused on one business unit. We had really a number of business units coming a little bit down also. [ph] It may play, if you look a quarter – a year over back, (1:09:46) we had a very strong retention quarter, so it – I wouldn't overread, again, the 30 bips or so into anything here.

<Q – Tien-tsin Huang – JPMorgan Securities LLC>: Okay. Thank you.

Operator: Your next question comes from the line of Mark Marcon with Robert W Baird.

<Q – Mark Marcon – Robert W. Baird & Co. Equity Capital Markets>: Good morning. Thanks for taking my question. With regards to the sales target for the year of 8% growth, given what the performance was in the first half, you do have some tough comps coming up in the second half, particularly fourth quarter of 2013. How comfortable are you with the 8% target? I mean, I know it's your best estimate, but -

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Yeah, no, I think it's a very fair question. I'll just use history to help me. So last year I think we entered into the fourth quarter – and I'm not sure this necessarily helps me or hurts me – because as you said, in some ways the strong fourth quarter creates a tougher comparison. But last year we entered the fourth quarter with 9% growth, and we ended up with 11%.

<Q – Mark Marcon – Robert W. Baird & Co. Equity Capital Markets>: Right.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: And so we do have the ability to execute in our sales force. And that's what we're going to do. And so I think we obviously are very – we are constantly scrubbing our forecast, looking at our pipelines. And, again, there are a few large deals that could go one way or the other, but we have five months to get those done and get the contracts signed. So, again, our best information is that we feel pretty good about the 8% and, being the optimist, I always hope it could be 9%. And could it be also a little bit short of 8%? Yes, but I'm focused more on the 9% than I am on missing the 8%. So I think we're pretty comfortable. When we see the January results and we see the size of the January results and how much quota has been expended through the end of January, I think that our level of confidence is good.

<Q – Mark Marcon – Robert W. Baird & Co. Equity Capital Markets>: Great. It also sounds like the pipeline on the upper end has been rebuilt since the changes that you put in place. Is that a correct read?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think that's a correct read, but you're maybe reading too much into it. And so changes that are made in a large-account, mature sales force do not necessarily translate into results in one or two quarters. So I think what you're seeing is just regular – the cycle working its way through, which is the pipeline was drained in the fourth quarter, and it's being rebuilt. So I don't think it's fair to attribute it to any specific actions we took, although we did take actions, and we think those actions will, over the course of multiple years, make us stronger and better in national accounts. I don't think that we can take credit for the short-term results.

<Q – Mark Marcon – Robert W. Baird & Co. Equity Capital Markets>: Okay. And on the ES -

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Can I add one more comment to it while we're focusing a lot on the upmarket? It should not be underestimated that we have reported strength in our mid and small market segments and the PEO separately. And, as you might imagine, that's going to also add comfort to our full-year forecast. And that consistency has been strong for both quarters throughout this fiscal year. So I think it would be also important to look at the entirety of our new business bookings volume and not focus on just a segment in the marketplace.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: And I think it's important, again, even though we don't disclose business by business, back to the diversification of our business, none of the categories that we are talking about or mentioned are disproportionately large. They're all large. And they all make up the – $1.4 billion, is it? – that we are forecasting for our sales for the year. And so, again, fortunately, we have the benefit of being in many categories and being global. And I think Jan is right that we clearly would like to have better results in the upper end in the first half of the year. But, as you saw, we delivered 7% even in the face of what I would call historically unprecedented headwinds from an execution standpoint.

<Q – Mark Marcon – Robert W. Baird & Co. Equity Capital Markets>: Fully appreciate the strength in both majors and SBS and was taking for granted that that was going to continue to be strong. With regards to the nice performance with regards to the margins on the ES side, you mentioned that you're actually spending as you're making the conversions going through. What would be the biggest single contribution to the really strong margin performance that we're seeing on an incremental basis, particularly when we strip out the interest impact?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Well, I think at the business segment level – because, again, we have this quirky issue with the way interest is calculated at the ADP level. It drags our revenue growth, so you don't see the operating leverage as clearly. But when you look in the segments, I think Jan said it well, which is really operating leverage. So it's really growing our expenses slower than our revenues. And, again, just because of the nature of our business model, this is not – we don't have a business model where we go and cut $100 million in expense and then two or three years later we have to put back $200 million. The trick for us is to grow our expenses at half the rate of our revenue growth or slower. That means that our expenses are still growing, but they're growing at a slower rate. So that still allows us to invest in things. It allows us to focus on migrations, but it does create scarcity of resources because we have to decide where to put those resources. But we're not cutting costs; we're reducing the growth rate of costs and achieving operating scale and operating efficiency, which is a very organized and very methodical and very good way to run a business.

<Q – Mark Marcon – Robert W. Baird & Co. Equity Capital Markets>: Great. And then last question: Since last time I saw you, rates have changed. How should we think about when we hit the inflection point as it relates to the float income, assuming that rates stabilize around these levels?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: We've just reconfirmed our guidance about the net impact of the client fund strategy, and that guidance stays intact. So the forward rates move a little bit up and down, and I think we are sticking with Carlos' first quarter comment that in FY 2015 we should see it even or slightly up on the interest rate. We're going to give more visibility to all of that for you, traditionally in the third quarter; we're planning to do so also this year.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: But, again, I think – I don't know if we mentioned the balances growth, so we had – and again, trying to focus on both the positives and the negatives. So our balance growth was quite good, and I think some of it is a reflection of a decent economic backdrop. Some of that is also related to growth in units and starting new business, et cetera, but the overall balance growth is quite good and helps offset some of the negatives in terms of some of the interest rate drag. But I think as Jan was alluding to, as we get to 2015, 2016, and beyond, when interest rates become – if they become a positive, this balance growth combined with a better interest rate environment is something that we look forward to.

<Q – Mark Marcon – Robert W. Baird & Co. Equity Capital Markets>: Great. Thank you.

Operator: And you have two more questions in queue. Your next question comes from Joseph Foresi with Janney Montgomery.

<Q – Joe Foresi – Janney Montgomery Scott LLC>: Hi. We talked at an Analyst Day that you had, obviously in the distant future – or, I'm sorry, in the distant past – and you mentioned that as you continue to move to more of a technology platform, that the structure of the company may start to look a little bit different. I was wondering, is there any association here between some of the restructuring and what the new-look ADP would look like, now that it's more technology focused? And maybe you can just give us an update on where we stand with that.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Based on your comment about the distant past, it sounds like you miss us and you want to have another Analyst Day.

<Q – Joe Foresi – Janney Montgomery Scott LLC>: Yeah, sure, why not?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think on your comment – I'll let Jan maybe make a comment also, but I think we are – the restructuring discussion, again, just to reemphasize, is not related to any broad, strategic issue. It was housekeeping, if you will, in terms of the size of it. Having said that, over the last couple years – and I think it'll continue into the next few years – we are trying to invest more in R&D, and you see it creeping up. And creeping is the typical ADP way of doing things. It's not a dramatic change. But rather than R&D becoming a lower and lower percent of revenue, it's actually now reversed and has actually grown as a percent of revenue – only slightly, but it's grown as a percent of revenue. And even if it grows at the same rate of revenue, that would be, in my estimation, an investment, because in other places we're gaining operating efficiency.

So there's no question that we're investing more in our R&D, and that that changes the face of ADP, if you will. The opening of this office in Chelsea, New York, is a fairly significant change for us in terms of our way of doing things, in terms of the types of people we're trying to attract and the place that we're doing business. And there's a few other examples of that as well, so there is change under way, but I think it would not be right to read into some of these numbers, or try to find it in the numbers, because we have, on an annualized basis, $12 billion in revenue and approximately $10 billion in expense. And the way we look at things is we got a lot in that $10 billion that we can move around to really focus on our strategic priorities and imperatives without creating any big problems for you guys, for us, or for our shareholders, and that's what we're doing.

<Q – Joe Foresi – Janney Montgomery Scott LLC>: Got it. Okay. And then with the move to technology, I guess maybe my focus or where I wanted to ask my question was on the smaller business side. With the focus on technology there, are you seeing any change in any of the price points for any of your products, if you could talk about the small business or the medium to large. I'm just wondering if there's any kind of structural change in pricing.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think Jan was correct in pointing out that we have different channels that we use that actually allow us to compete in different places from a price standpoint. So, for example, the banking channel would be slightly different from our traditional channel, and we have a few places but there's really nothing to report. Over the last two or three years, there's been no major shift in any of those channels, or any of those price points. We do keep our eye on it, because for the last 15 years, we've been told that the technology by itself is going to replace ADP, frankly, in every one of our segments. And all we see is the opposite, because with the Affordable Care Act or more complexity in compliance, or the trend towards outsourcing, whatever the factors are, they drive people towards our solutions, which are to have technology paired with compliance and service.

And now with analytics and other tools, we're elevating our purpose to really helping our clients make their businesses successful. And I think when you package all that together, I think we're pretty confident that we have a highly differentiated business model that continues to win and continues to win at the prices that we've been able to charge historically. So we have nothing to report other than, I think, the fact that things are all on track or in the same place from a pricing standpoint in all of our segments.

<Q – Joe Foresi – Janney Montgomery Scott LLC>: Okay. And then just lastly from me, how do you feel – have you seen any change on the competitive environment at the small-business level? And maybe you could just talk about how you feel like you've progressed on the technology front. Thanks.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: In a small-business level, again, you know some of our national competitors. You might not know that we have hundreds of regional, local competitors everywhere. And so, again, my hat's off to the field sales organization, to the field service organization, to the people would run these businesses on the low end, because it's hand-to-hand combat, and it's a fight every day. So they're just out executing the competition in a lot of ways and a lot of respects, and some of it's product, and some of it's technology, and some of it is just good people and good execution and good focus. And so, again, I wish I had a more exciting story, but I think it's just great people executing very well.

<Q – Joe Foresi – Janney Montgomery Scott LLC>: Okay. Thank you.

Operator: And your final question comes from the line of Glenn Greene with Oppenheimer.

<Q – Glenn Greene – Oppenheimer & Co., Inc. (Broker)>: Thank you. Good morning, and thanks for squeezing me in. Just one quick question. Just sort of looking at your new sort of sales growth expectation, the 8%, and I think you alluded to last year was 11%. And then sort of just coupling that with client retention was, say, flat to maybe modestly down year to date. Is it a reasonable inference to expect your revenue growth in 2015 to decelerate relative to the 2014 growth rate? Because I've always thought about sales growth and retention being the key factors driving your revenue growth.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: They are the key factors to driving revenue growth, and I will just tell you that, again, the retention rate is one quarter, and it's not our expectation for retention for the full year. And our retention results in January would give me a good degree of confidence that we can achieve our annual objective for retention. I'd caveat that by saying that things could change – we have an economic calamity, some sort of issue – but based on our year-to-date January results, we don't expect retention to be a drag on revenue growth in 2015.

The difference between 8% sales growth and 9% sales growth also is not a material impact on our revenue growth in 2015. So I think it's hard to – the math is the math. It has an impact. And you can do the math yourself, in terms of what 1% translates into of sales growth. And I believe it's somewhere around $13 million, $10 million or $13 million of revenue growth. But I would not call that a significant impact to ADP's revenue growth, because we can all do the math ourselves. I don't know that that has a material impact on our growth rate in 2015.

<Q – Glenn Greene – Oppenheimer & Co., Inc. (Broker)>: Okay, makes a lot of sense. 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 A. Rodriguez, President and Chief Executive Officer

Thank you very much for joining us today. As you probably could tell from our tone, we're once again very pleased with our results for the quarter and appreciate the contributions from all our associates and our leaders globally. We continue to be, I think, committed to our shareholder-friendly actions around returning cash to our shareholders through dividends and share buybacks, and I think you are seeing that in our actions. And we obviously, as you can tell, also remain very focused on delivering against the HCM strategy that we have laid out. So I thank you again for joining us, and we look forward to talking to you again next quarter.

Operator: And thank you for your participation. This concludes today's conference. You may now disconnect.