THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ADP - Q2 2013 Automatic Data Processing Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 05, 2013 / 01:30PM GMT

OVERVIEW:

Co. announced 2Q13 revenue growth of 7% YoverY. Guidance was given for FY13 revenue growth of 5-7% and diluted EPS from continuing operations growth of 5-7% from $2.72 in FY12 (excluding gain on assets in 2Q12).

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Sara Gubins *BofA Merrill Lynch - Analyst*

David Togut *Evercore Partners - Analyst*

Glenn Greene *Oppenheimer & Co. - Analyst*

Bryan Keane *Deutsche Bank - Analyst*

Jason Kupferberg *Jefferies & Company - Analyst*

Joseph Foresi *Janney Montgomery Scott - Analyst*

Ashwin Shirvaikar *Citigroup - Analyst*

Paul Thomas *Goldman Sachs - Analyst*

George Mihalos *Credit Suisse - Analyst*

Gary Bisbee *Barclays Capital - Analyst*

Jeff Silber *BMO Capital Markets - Analyst*

David Grossman *Stifel Nicolaus - Analyst*

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

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

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

Tim Willi *Wells Fargo Securities, LLC - Analyst*

PRESENTATION

Operator

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

(Operator Instructions)

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

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

Thank you. 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 2013 earnings call and webcast. Our slide presentation for today's call and webcast is available for you to print from the Investor Relations homepage of our website at ADP.com. As a reminder the quarterly history of revenue and pretax earnings for our reportable segments has also been posted to the Investor Relations section of our website. These schedules have been updated to include the second quarter of fiscal 2013. The website schedules also include a statement of consolidated earnings for fiscal 2012 and each quarter restated for Discontinued Operations. During today's conference call we will make some forward-looking statements that refer to future events and as such, involve some risks and these are discussed on page 2 of the slide presentation and in our periodic filings with the SEC. With that, I'll now turn the call over to Carlos for his opening remarks.

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

Thank you, Elena. Good morning and thank you for joining us. Before we get started on the earnings discussion for the second quarter I'd like to welcome Jan to the call and to his new role as ADP's Chief Financial Officer. Jan's already had the opportunity to meet with many of you over the last few months and he will continue to do so during the rest of the year.

Now let's turn to the second quarter results. I'll make some opening statements and then I'll turn the call over to Jan who will take you through the highlights of the quarter after which I'll return to provide you with an update on our fiscal 2013 forecast. And before we take your questions, I'll provide a few concluding remarks.

Now let's turn to slide 4. As you read in this morning's Press Release, ADP reported good results for fiscal 2013's second quarter. I'm pleased with ADP's total revenue growth of 7%, 6% organic and adjusted earnings per share growth of 7%. Our business segments performed well during the quarter and overall ADP results were good despite the negative impact from items that we previously communicated to you which you read in this morning's Press Release. I view this quarter revenue growth as quite solid and is the result of our focus and investment in solutions as well as from our good sales execution over the last several quarters. We believe the uncertainty in the United States surrounding the fiscal cliff had a slight positive impact on revenues as payrolls and bonuses were accelerated into December in advance of expected tax increases. However the uncertainty may have also delayed decision-making, negatively impacting new business bookings.

For the second quarter combined worldwide new business bookings for Employer Services and PEO grew 5% but our bookings growth of 9% year-to-date is right in line with our full year forecast for 8% to 10% growth. I'm pleased that we continue to grow our RUN units and now have over 200,000 RUN clients. I'm also happy to report that interest in Vantage is high and our sales pipeline is quite strong. In our Employer Services international organization, bookings of our best of breed solutions across Europe were again somewhat mixed given the economic weakness in some of these markets. Our multi-national solutions continue to do well with strong bookings in GlobalView and Streamline.

Moving on from bookings to our other key business metrics. Client balances continued to grow and the number of employees on our clients' payrolls as measured by same-store pays per control also increased. Client revenue retention increased 80 basis points. If you'll recall the prior year's second quarter included a large loss that impacted the year ago results so the year over year improvement is partially due to an easier comparison. And I'm very happy to report that the quarter's retention still improved when you adjust for the prior year loss.

Moving on to Dealer Services. Dealer had a great quarter. You saw in the release that 2 points of growth came from last year's acquisition. Outside of acquisition, Digital Marketing was the largest driver of growth with increased advertising revenue which as you know can be lumpy from quarter to quarter. In addition, the North American core business benefited from increased transactional revenues which are tied to car sales volumes which have seen a terrific return to growth in calendar year 2012.

Our international business in Dealer also contributed to revenue growth in the quarter on strength in China. As you know, the international market has a heavier weighting for one-time license fee revenues than the domestic market. While Dealer had a great quarter, the revenue growth and margin improvement was driven in large part by these transactional and non-recurring revenues in addition to increased operating scale. With that, I'll turn it over to Jan to provide the financial highlights and a look at this year's forecast for our client funds investment strategy.

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

Thank you, Carlos, and good morning, everyone. I'm excited to participate in my first call after having responsibility to contribute to the strategic development of ADP. I'm especially looking forward to translating our strategy into results. As Carlos said, I've had the chance to meet with many of you and look forward to continuing that dialogue, and I'm also happy to have good results to start off on my first conference call.

Now let's turn to slide 5. As you may recall, in last year's second quarter, ADP recorded a pretax gain on the sale of assets of $66 million, $41 million after-tax and about $0.08 per share. We have treated this gain as a one-time item for comparative purposes so although we have shown on this slide the year over year results both including and excluding this gain, I'm only going to take you through the results excluding the gain. Our revenue growth rate improved compared to the first quarter. For the second quarter total revenues grew 7% with acquisitions contributing approximately 1 point of growth. Pretax margins increased 4% and ADP's pretax margin, I'm sorry pretax earnings increased 4% and ADP's pretax margin declined 60 basis points primarily as a result of continued low interest rates but I'm pleased that pretax margins in the business segments expanded nicely.

We reported a 6% increase in net earnings from continuing operations on lower effective tax rate. You may recall that the first quarter effective tax rate was higher than a year ago, but through the first six months the effective tax rate is 34.2%, right in line with our year-to-date expectations. Diluted earnings per share from continuing operations increased 7% and benefited from fewer shares outstanding compared to last year. We repurchased 5.9 million ADP shares fiscal year to date for a total cost of $341 million. We ended the quarter with cash and marketable securities of $1.5 billion.

Let's turn now to slide 6. As you read in the Earnings Release, there were several items that impacted the year over year comparisons and we have detailed these on slide 6. As anticipated, revenue growth was negatively impacted by 2.5 percentage points by the following. 0.5 point from unfavorable foreign exchange rates, 1 point from lower client fund interest revenues due to lower market interest rates, and 1 point from lost revenue related to last year's second quarter sale of assets and the expiration of certain employment tax credits in our Tax Credit Services business. A couple of these items also negatively impacted pretax earnings and margins.

Collectively, pretax earnings growth was negatively impacted 6 percentage points and ADP pretax margin was negatively impacted 160 basis points by the following. Fiscal 2012 acquisitions did not have a meaningful impact on pretax earnings but negatively impacted ADP pretax margin 20 basis points. The client fund extended investment strategy which is driven primarily by interest on client funds, negatively impacted pretax earnings growth 4% and pretax margins 110 basis points. The impact from last year's sale of assets and the expiration of certain employment tax credits negatively impacted pretax earnings growth by 2% and pretax margin by 30 basis points. These items also negatively impacted diluted earnings per share from continuing operations nearly $0.05 per share or 7 points of growth in the second quarter, so the point I'm making is that the underlying business momentum is solid, tempered by these above-mentioned items.

Let's move on to slide 7 and talk about the business segment results. As I stated we're pleased with the performance of our business segments. Employer Services grew total revenues 7%. The PEO grew 13% driven by 10% growth in the number of our average work site employees and Dealer Services grew 11%. On an organic basis Employer Services grew 6%, PEO was all organic 13% and Dealer Services grew 9%. Combined worldwide new business bookings for Employer Services and PEO grew 5% and Carlos took you through those items a few moments ago.

Focusing on Employer Services. Of the items we called out that impacted total Company results in the quarter, the forgone revenues related to last year's second quarter sale of assets and the expiration of certain tax credits negatively impacted our Employer Services segment revenue growth by nearly 1 percentage point. Growth from our strategic platform RUN, retirement services and insurance services were the primary drivers of our healthy growth in the small business market place. In the mid market, revenues from our platform Workforce Now are increasing and so are HR services and comprehensive services revenues. And at the high end of the market, we are pleased with our Vantage new bookings but the contribution of revenue growth is still small at this point, as you know it is a new offering for us. Particularly noteworthy are the attach rates for Vantage. Benefits solutions, time and labor management are approximately 80% each and multi-product sales for Vantage, and the attach rate for Talent which is a new ADP solution is already approaching 70%.

Revenue growth in the quarter for multinational solutions was also solid. Same-store pays per control in Employer Services in the US increased 2.6%. However, as Carlos mentioned, same-store pays per control in Europe declined during the quarter but they were in line with our expectations. We are pleased that client revenue retention increased by 80 basis points in the quarter and it also increased when you exclude that large client loss from prior year in the same quarter. Client balances increased by 9% in the quarter. We see continuing growth in balances driven by solid new client growth, especially in small business services, wage growth, and increased pays per control, but also additionally we saw an increase in bonus payrolls processed in December and we believe that the decision for many of our clients to accelerate processing in December versus January was driven by the uncertainty surrounding the US fiscal cliff and some anticipated changes in the tax policy.

Let's now turn to slide 8 and I'll take you through the forecast for the client fund investment strategy in support of the overall ADP forecast that Carlos will take you through in a few moments. Before I get into the details of the forecast I'll point out that the primary objectives of our investment strategy remain safety, liquidity and diversification. At December 31, approximately 84% of our fixed income portfolio was invested into either AAA or AA rated securities. We continue to base the interest assumptions in our forecast on the Fed Funds futures contracts as well as the forward yield curves for the 3.5 and the 5 year US government agencies. We do not believe it is possible to accurately predict the future interest rates and the shape of the yield curve or the new bond issuance behavior of corporations. I'll also remind you that up to 15% to 20% of the investments are subject to reinvestment risk each year.

Focusing for now on the slide, you'll see a summary of the anticipated pretax earnings impact of the extended investment strategy for the client funds investment portfolio for fiscal 2013. We continue to anticipate average client fund balances for fiscal year 2013 in the range of $18.8 billion to $19.1 billion which represents 5% to 7% balance growth. We anticipate a yield in the client funds portfolio of about 2.2%, down about 60 basis points from fiscal year 2012. Resulting in an anticipated year over year decline in client funds interest of about $75 million, which is at the high end of our previously forecasted decline. As you can see at the lower right of the chart in terms of the total pretax impact of the extended investment strategy, we anticipate a decline of $85 million to $90 million for fiscal year 2013 which reflects the $5 million deterioration in the client interest forecast.

Taking you back to our analyst conference, at the end of May last year, and using the 5% balance growth scenario, we expected a $70 million to $80 million decline in fiscal year 2013. Since the end of May, the 3.5 and 5 year agency forward curves have declined about 30 basis points on average. Combining the impact of the current lower expected rates with our balance growth expectations of 5% to 7% we now anticipate a year over year decline of $85 million to $90 million. Looking forward to fiscal year 2013, we still expect fiscal 2013 to be at the bottom of the cycle in terms of the size of our year over year decline.

I'll now turn it back to Carlos. He will take you through the remainder of the forecast for fiscal year 2013.

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

Thank you, Jan. We're now on slide 9. Our forecasts are going to exclude Discontinued Operations. For total ADP, we continue to anticipate total revenue growth of 5% to 7%. We anticipate a decline in the total ADP pretax margin of 30 to 40 basis points from 19.2% in fiscal 2012 which excludes the gain on the sale of assets in last year's second quarter. This compares with our previously forecasted decline of 30 basis points impacted in part from the increased pressure from lower client funds interest revenue that Jan just took you through.

We expect the effective tax rate will be about 30 basis points below fiscal 2012's effective tax rate of 34.5%. We also continue to anticipate 5% to 7% growth in diluted earnings per share from continuing operations compared with $2.72 in fiscal 2012 which again excludes the gain on the sale of assets in the second quarter of fiscal 2012. As is our normal practice, no further share buybacks are contemplated in the forecast beyond anticipated dilution related to employee equity comp plans, but it is clearly our intent to continue to return excess cash to our shareholders depending obviously on market conditions. And while we don't provide quarterly guidance I do want to give you some insight into the year over year comparisons for the remainder of fiscal 2013.

Now let's turn to slide 10. We've prepared a table to provide a clear view of the year over year comparison showing the impact of the first six months and what we anticipate for the third and fourth quarters. We anticipate that foreign exchange rates will negatively impact revenues up to 1 percentage point for the year but with minimal impact for the remainder of the Fiscal Year. As a reminder, movement in FX rates is not as impactful to pretax earnings. In addition, as Jan took you through the forecast related to our client fund strategy, the interest revenue piece of this strategy is expected to decline about $75 million year over year.

The negative impact from an expected lower average yield on the portfolio due to lower new purchase rates is expected to be a full percentage point of drag on ADP's revenues for the full year and in both the third and the fourth quarters mitigated to a small degree by the anticipated growth in balances. Including the corporate extended interest income and interest expense related to the strategy we expect a decline of $85 million to $90 million in pretax earnings. This translates to a drag of about 110 basis points on ADP's pretax margin for the year. The negative impact by quarter is anticipated to be about 100 basis points in the third quarter and about 120 basis points in the fourth quarter.

Now taking it down to EPS, the $85 million to $90 million anticipated decline in pretax earnings equates to a drag of about $0.12 in earnings per share. We anticipate a decline of about $0.03 per share in both the third and the fourth quarter. Fiscal 2012 acquisitions are forecasted to be earnings neutral in terms of dollars but we continue to anticipate pressure on pretax margins in fiscal 2013. For the year, we expect about 20 basis points of negative impact from acquisitions with 20 basis points negative impact in the third quarter and no impact in the fourth quarter as we fully lap the prior year acquisitions. Finally on this schedule the sale of assets during the second quarter of fiscal 2012 and the end of certain employee tax credits within our Tax Credit Services business are expected to pressure revenue and earnings comparison in fiscal 2013. And as you can see from this slide all of the impact has already occurred.

As a reminder for the full year, we anticipate nearly 0.5 percentage point negative impact on revenue growth and a negative impact on pretax margin of about 20 basis points and a $0.04 year over year decline in earnings per share for the sale of assets and the end of the certain tax credits. I also want to point out that the acceleration of bonus payments into December as a result of the fiscal cliff which Jan mentioned earlier is expected to result in lower float related to bonuses in our third fiscal quarter. Additionally, we anticipate a shift of about $10 million in revenues from fiscal 2013 third quarter to the fourth fiscal quarter. These revenues relate to employment tax credits that were retroactively extended as part of the January 2, US fiscal cliff Tax Bill; however, the filing for these tax credits was delayed until late in the third fiscal quarter. So the take away here is that we expect some pressures in year over year earnings and pretax margin comps for our third quarter but we are reaffirming our full year guidance which includes an easier comparison in the fourth quarter.

Now let's turn to slide 11 for the segment update. The impacts from the expected drag from fiscal 2012 acquisitions as well as the negative year over year comparisons from the fiscal 2012 second quarter sale of assets and expiration of certain employment tax credits are reflected in these segment forecasts. For Employer Services, we are forecasting revenue growth of 6% to 7% with pretax margin expansion of at least 50 basis points. We anticipate an increase in our pays per control metric in the US of 2% to 3%. We're forecasting 12% to 13% revenue growth for PEO Services with slight pretax margin expansion. We're forecasting 8% to 10% growth in annual dollar value of ES and PEO worldwide new business bookings from the over $1.2 billion sold in fiscal 2012. And for Dealer Services we are forecasting 8% to 9% revenue growth with over 100 basis points of pretax margin expansion.

Now turning to slide 12 I'd like to leave you with some closing remarks before we open it up to your questions. Overall I'm very pleased with the second quarter results. Our key business metrics are positive though I'm still somewhat cautious given the uncertain global economy. Combined Employer Services and PEO Services business bookings and productivity are both good and Dealer Services is performing well and gaining market share. As anticipated, market interest rates continue to be very low, unfortunately. I believe that ADP is well positioned to leverage the opportunities of the large global HCM marketplace and we're keenly focused on our four strategic pillars for growth which include cloud-based HCM solutions, market leading HRBPO solutions, leveraging our global presence, and growing and deepening our key adjacencies. We're focused on delivering stellar service to our clients and creating an environment that fosters innovation.

ADP remains committed to shareholder friendly actions and returning excess cash to shareholders through dividends and share repurchases. As you know, the Board approved a 10% increase in the annual cash dividend for calendar year 2013, our 38th consecutive year of dividend increases. I'm pleased that ADP continues to be rated AAA by both Standard & Poor's and Moody's reflecting strength of our business model and of our balance sheet. To sum it up, I believe we're doing all the right things to grow the business and to enhance long term shareholder value. Before I turn the call back over to the operator, I just want to let you know that in an effort to adopt best practices and to use your time wisely, we're going to leverage multimedia technology for our spring analyst event. As a result, we will not be hosting an in person event this year. We'll update you in the coming weeks as we solidify our plans.

And with that I'll turn the call over to the operator to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Sara Gubins, Bank of America Merrill Lynch.

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

Hi, thank you, good morning. First question regarding healthcare reform. Could you broadly talk about the expected impact, and specifically, I'm wondering if PEOs can continue to provide small businesses with lower healthcare costs in an environment where there are the state run healthcare exchanges?

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

So I actually spent some time a few months ago with the folks from our PEO in exactly the question on healthcare reform and the impact on the PEO, and we're feeling pretty good about our ability to continue to deliver value to clients through our PEO even in the face of healthcare reform. The profile of our clients tends to be slightly higher average wage and more white collar which will probably have less impact and the client average size of our PEO tends to be also slightly larger than the typical PEO. I believe the average client size is somewhere in the 30 employee range or 40 employee range and that's the average. So we tend to not have a lot of clients in our PEO that are under 10.

Generally speaking where there would be the most potential for migration is clients that are very small and clients that have lower average wage in terms of their client base. But as you can imagine we don't know for sure what the full impact will be of healthcare reform and the behavior of buyers and small clients or large clients. But I walked away from that meeting feeling pretty good that our value proposition was still quite strong and that we were going to be able to hold up and in fact be able to provide value to our clients during healthcare reform, because there are going to be a lot of compliance requirements and a lot of changes as a result of healthcare reform that I think small businesses will also need help with. But I think it's something that we are watching carefully. Our sales so far have been relatively stable in terms of on the PEO side. Our retention rates actually are quite strong on a year-to-date basis, so I think right now, I think it's just we're keeping an eye on it and we'll continue to I think report back on a regular basis if we see anything different.

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

Carlos, if I could add, on mid and up market solutions, you will know that ADP has a strong market position and benefit administration services for our mid and up market clients. And we do see a healthy interest of those clients into our solutions leveraging ADP strength and the compliance and overall understanding of the healthcare reform. So we think there could be a positive impact on mid and up market business due to the healthcare reform and pending buying positions.

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

We're quite excited. I'm glad Jan jumped in on the second half of your question because we are in the mid and upper end of the market quite excited about our opportunity to help our clients with healthcare reform. We think this is as you can imagine a daunting task for employers to be able to comply with all of the change and regulation so obviously in the upper end and the mid market we have a lot of solutions that help in a coordinated fashion with compliance.

We have time and attendance solutions that will help measure whether an employee is full time or part time which is one of the determinants of eligibility for healthcare. We will be able to help clients with eligibility management in terms of sending out notices to employees, notifying them they are eligible which will be another requirement of healthcare reform. So there are a number of changes coming down the road that I think we're going to be able to help our clients with. So I think our benefits administration business is quite excited about the opportunity over the next year or two.

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

Thank you, and just on a separate note, the pace of acquisitions has slowed a bit recently. Would you expect it to pick up? Are there particular areas that you're focused on expanding? Thank you.

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

I think that our stance on acquisitions really hasn't changed, so we have some parts of our business that are lumpy. I would say acquisitions is the part of our business where you have the most lumpiness because we don't really force ourselves to make acquisitions in any particular time frame. We make them when I think they make sense and when the valuations are right and when there's a fit, so we continue to be actively looking. We've actually looked at quite a number of things, we've had a lot of discussions over the last three to six months but we are where we are and we would love to be able to find things that fit well into our product portfolio and help us with our growth plans but we're also quite disciplined, which I think we always have been. But no change in our approach to acquisitions.

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

Thank you.

Operator

David Togut, Evercore Partners.

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

Thank you, good morning, Carlos and Jan. Could you quantify new Employer Services and PEO global bookings growth by small majors and nationals? And in connection with that can you update us on the timeline for general release for Vantage HCM?

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

In terms of the -- we don't give specific percentages by each segment, but I can give you just tone, and tone wise as I think we tried to give you in our opening remarks, I think we did feel some of the uncertainty about the fiscal cliff and the tax policy and people delaying decisions. Although as you can imagine, it's very hard to quantify and assign any kind of percentage to it, but the reason we think that is that we were on a pace of delivering double digit sales growth for several quarters and we slowed a little bit into the fourth. Now part of that -- I'm sorry into this quarter, part of that is the fact that last year's second quarter was already quite strong at 14% growth, but some of it was probably some of this uncertainty in the marketplace. So I think the results, the sales results were frankly consistent across-the-board with the one exception being national accounts where we have still quite robust sales results. And again, there, this may be a rationalization, but momentum in the national account sales process, once it gets going, it tends to carry through and we have definitely seen a pickup in momentum there in the last two or three quarters. And I think deals just continue to get done despite some of this uncertainty but it does appear that in other parts of the business that there was some delay in decision-making and that the sales results were fairly pretty much in line with the overall results that we reported which is 5% growth for the quarter. I'm sorry what was the second part, David?

David Togut *- Evercore Partners - Analyst*

The second part was updated timeline for general availability of Vantage HCM, and whether you had any granularity on Vantage HCM bookings in the quarter.

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

I think that the general release for Vantage is scheduled for September and I think right now, we have 40 deals sold, so signed contracts. I believe we have just under 10 that are actually live and we expect to have a little over 20 live by the end of our fiscal year, so it's still great progress, great momentum, a lot of excitement but very small impact to revenues for a business our size.

David Togut *- Evercore Partners - Analyst*

Thank you very much.

Operator

Glenn Greene, Oppenheimer.

Glenn Greene *- Oppenheimer & Co. - Analyst*

Thank you, good morning. I was wondering if perhaps, similar to David's question on sales, a little bit of the commentary on pricing environment that you're seeing by sub segment and I'm kind of particularly interested in the rate of discounting that you're sort of -- that your sales force is sort of being afforded within this environment, has anything really changed?

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

I wish I had more color for you, but I'm not aware of anything changing. We haven't changed our policies and we have, I think like most companies, we have policies around how much discounting is allowed at particular levels so a field sales person has X percentage of discounting authority and then the manager has a little bit more. And I think those policies have been pretty consistent for a long time and honestly we're not seeing, I can't think of any major changes or anything that we're seeing in the environment from a pricing standpoint in really any of our segments unless Jan?

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

No, we have price increase in our revenue base consistent with prior years, so really no change dramatically in the pricing.

Glenn Greene *- Oppenheimer & Co. - Analyst*

Okay, so that would imply that competitively that the competitive environment, whether it's your major national competitors or other sort of SaaS providers, it's all pretty much status quo?

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

Yes, if you think about our client growth that we have across the enterprise, we continue to see the same solid trends that we have reported in prior quarters and prior years, so we really continue to chug along to grow faster than overall enterprise numbers in the US grow, so we are confident that we're gaining share really in most of our segments.

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

And I think that the fact that we're gaining share is I think a sign not only that I think we're competitive from a price standpoint but it's not just about price. It's also about obviously value and service, so I think that we feel like we have the right combination when you look at our sales results and our growth.

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

Okay, great, thank you.

Operator

John T. Williams, UBS. And Mr. Williams your line is open. Bryan Keane, Deutsche Bank.

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

Hi. Just wanted to ask about on the sales, I know there were some delays in decisions, and I know we're now in the key selling season, so just curious to know if that has continued in January or have you seen finally some decisions being made?

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

Let me first start off by saying that we, to be clear, I think the evidence we have of any kind of delays in decision-making are anecdotal and distinctive. It's also important just to remind you once again that we had a very strong second quarter last fiscal year, 14% sales growth but having said that, we do think that there was a little bit of an impact. I think that, I really don't know there was really any more that we could add in terms of the picture in terms of the sales. We're hoping obviously that things will continue to be along the lines of what our year-to-date results are which are, right now, 9% which is still within the range of 8% to 10% guidance so we're still happy with our sales results but the second quarter is what it is. It's 5% growth.

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

Okay, and have you seen anything to note early in the sales season, maybe what you guys are doing or what competitors are doing or just anything happening? I know this is a critical period here, this first few months of the year.

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

I was trying to avoid your question but we do have our January results and we obviously don't report by month, but I can tell you that our January sales results were in line with our full year forecast, so somewhere in that 8% to 10% range.

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

Okay, no that's helpful. And just wanted to get a little bit of color on Europe. Obviously still a lot of concern there in the market so can you just talk about how Europe looks and the outlook in the European business for you guys?

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

Europe, I think I would describe it best as not helping in terms of our growth rate but could be a lot worse, so I have to say that I'm pleased with both Dealer Services and Employer Services international performance in Europe in view of the backdrop and in view of what we've just gone through. Our pays per control growth for example, is slightly negative, just around 1% negative, and that in our world from what we know historically of what can happen in the US and to the business overall is a relatively modest decline. Some of that is related to in an interesting way, the positive of the inflexibility of the labor markets in Europe which I think helps us on the way down. But obviously what we would like to see is a robust economy there where employment starts to pick up again. But our sales results have been I would call them flattish which I think in this environment is something to I think be happy about. Our retention rates are actually quite strong which is -- actually makes sense and we've seen this before in the US and in Europe when things get difficult, people tend to hunker down so there's not a lot of change so it makes the sales a little bit harder but it tends to help retention a bit, which is what we're seeing there. So retention is strong, sales are kind of flattish, revenue growth is low single digits. I think all to be expected and frankly better than what I would have thought if you asked me a year ago what would happen.

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

If I add one component to this is as Carlos mentioned we had strong national account sales momentum in the quarter. And that extended actually into our multi-national solution, so our GlobalView and Streamline solutions were among the fastest growers for the quarter. And that of course has impact for our European operations because they benefit from some of those multi-national deals that we record in the multi-national. So continued success in the up market with our GlobalView and Streamline solutions, that was a good quarter for the product set.

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

Okay, great. Thanks for the color.

Operator

Jason Kupferberg, Jefferies.

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

Good morning. So just wanted to ask a question on the margins. I know there have been a lot of moving parts in the margin equation for the past year or so and you guys did a really nice job of disclosing a lot of that. As you start to think about fiscal '14 and recognizing that we could see another year-over-year decline in float income albeit not as steep as the decline we're experiencing this year, do you think we're going to see material expansion in overall ADP pre-tax margins next year?

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

Well I think the best way to characterize our situation is that the way you described it which is we expect a little bit less pressure and I think we went through that in the analyst meeting, so I think you have that information. So we do expect a little bit less pressure in '14 from interest rate drag but we still expect some drag, so that will help a little bit. And we see pretty good margin expansion at the segment level as we just reported for the second quarter, so I think it's safe to say that we're feeling pretty good about where we are in terms of our ability to deliver margin despite all of these moving parts.

But as you can appreciate, we haven't given our guidance for '14 yet and we're really not in a position yet in terms of our operating plan process to really get down to that level of detail. I think that we feel better than we felt a year ago because the easing on the interest rate pressure does help a little bit but it's not, we're not going back to positive in '14 so I just want to make sure that that expectation is out there.

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

Right, right. And so I mean if we go back to slide 8 in today's deck where you guys highlighted the $85 million to $90 million drag, from the float income and you guys pointed out that that number had changed a bit since the May analyst meeting when I think it had been $70 million to $80 million if I'm not mistaken, in lock step with that have the fiscal '14 assumptions, working assumptions back in May, have those also changed?

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

They've changed a little bit but I think they're pretty consistent. I mean again, I think we probably, we feel better about waiting, look at what's happened to interest rates. I think the 10 year went down to and obviously the yield curve moves somewhat with the 10 year, but I think it bottomed at under 1.5% and then it went above 2%. So this is unfortunately also a situation where I'm not sure there's a huge amount of value in us giving you a number today because in three months it's going to be a different number.

I think what I would help focus you on is in our core business. I know it's important for you to get this number right on the client interest pressure, but what I want to have people focus on is what's happening in the core business, what's happening with our core margins, what's happening with new business bookings which is all quite positive. And this interest rate picture, not to be cavalier about it but it will take care of itself, and hopefully it has begun the process of taking care of itself as we've now seen at least a slight turn in rates in the right direction from our perspective.

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

No, that's all helpful and fair. Just a quick follow-up on the bookings. Given where you are year-to-date, on the back of this Q2 number, are you any less confident in the full year target? The only reason I ask is I know you've got a very difficult comparison in Q4 I believe 20% which is even a bit harder than what you just went through, so just wanted to test your confidence level there based on what you're seeing in the pipeline because clearly it seems like you've got some pretty good traction with some of your newer products.

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

I think if we weren't confident we would have changed our guidance, I think is the right thing to say. I'm very confident, but as you know, in our business we can pretty much for the next six months we have a very good view of what's going to happen with revenue, because we're a recurring revenue business, but new business bookings are something that is not quite as easy from a science standpoint to pin down. But we're feeling pretty confident and we don't really see any change.

When we did some I guess checking if you will and some asking, we didn't hear anything other than the anecdotal stories about a very, very difficult year-end process of trying to get people to make decisions in the face of this whole fiscal cliff and the uncertainty on the taxes and so forth. There might be something else going on that we just haven't been able to put our finger on but we haven't been able to find anything and hence we had tremendous momentum before that. We had good sales productivity and I don't see any reason for us to back off of our confidence in our forecast for the full year.

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

Okay, thank you for the color.

Operator

Joseph Foresi, Janney Montgomery.

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

Hi. Just wanted to -- my first question is just maybe can we get a summation of sort of how the end of the year, calendar year played out and the first quarter. It's fair to say that there were decision delays and then you saw a pickup in January? And then any color you can give on sort of that continuation in momentum, was that some pent-up demand or was that just sort of people easing into the year or is the economy getting slightly better?

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

Well the only thing that I mentioned was bookings so I don't really have any other data that I can share from January in terms of just the economy and other parts of our business. But January is our largest new bookings month and so getting through January in a healthy way with good results is very, very important for both new bookings and for client retention. We still have five months but if January is the biggest month in both new bookings and also client retention, then obviously as you go further into the year our confidence level grows higher and higher about our forecast. So that's really why you heard the comments the way that I made them, but it's not because I don't have any other specific information or data about January.

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

Okay, and just maybe a follow-up, on the technology front how do you feel you're competing at the larger account base and maybe you could talk about any shifts in market share that you're seeing across-the-board.

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

I'll let Jan also add his two cents worth since he was involved in a lot of the product discussions in his prior role but it feels like we have made really substantial improvements from a usability and kind of from a pure technology standpoint so I think we have a greater focus on the product itself in addition to what we have always had a lot of focus on, which is the service. This is something that really started probably two or three years ago. We have examples of it in all of our different segments, in small business with RUN, in mid market with Workforce Now and in the high end with Vantage, so I'm quite pleased with our progress. But I think if we look at ourselves in the mirror, we have to say that we still have to continue to move quickly and be more agile because that's what's happening in the world around us.

So you'll see for example, not a dramatic increase but a slight uptick in our spending on R&D and development when our Q comes out and that's no coincidence because we do feel like we need to invest more on the product and on the technology side. But I think the best way to characterize it is I think we've made enormous progress and I'm very proud of what we've been able to deliver in really all of our major segments over the last two or three years, but the heat is still on in the kitchen because I'm pushing hard to not let up and to really kind of turn the speed up even higher on a product development side. I don't know if Jan?

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

I think Carlos, you put Vantage, our up market product, is performing according to our expectations for the year, so we are satisfied with the win/loss rates that we have in competitive situations for that product set, as well as with the overall volume that we have bookings as of year-to-date and the team is optimistic for the year. We could have, we have a similar story as you have followed for a long time of course for RUN and Workforce Now, really very big revenue carriers in ADP which are important for us, and we can see, we continue to see the competitive strength of those products in those markets.

In addition to the focus on R&D and our strategic platforms, I think aided that success is our continued focus on migrating our clients onto those latest platforms and that probably contributes as much to our competitiveness by having our clients on the latest platforms. And particularly in our major accounts segment we are making very good progress according to or compared to our expectations with our migrations also. So overall, more competitive product for more clients of ours would be my assessment.

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

An excellent point, the migrations issue when you look at us versus our competition, we're feeling pretty good about our technology and our products but we do have some work to do on our installed base. Some of our newer competitors don't have I think the luxury because I think it's a luxury, because we have huge cash flows and great client retention from our installed base, but it is something that we have to contend with that some of our competitors don't have to contend with.

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

Thank you.

Operator

Ashwin Shirvaikar, Citi.

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

Hi, thanks. I guess I wanted to start with the point you made about the four strategic pillars of growth, cloud-based HCM, HRBPO, leverage and global presence. Would seem to me that these are at least in the initial phases have to be sort of lower margin-type of endeavors. Could you comment on the margin cash flow impact of these if you could?

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

Sure, well I think that for starters, using Vantage as an example, which I think fits into the category of our strategic pillars, the attach rates on Vantage for additional products is quite strong, so we're seeing in addition to traditional ADP would be strong in selling just payroll and then we would try to add-on other things like benefits administration, time and labor management and HR. What we're seeing now is with this kind of HCM cloud-based solution we're actually selling all of them together quite often, so our attach rates for benefits administration I believe are around, and for time and labor management are 80%, and our new Talent solutions I think are attaching at around 70%. So those are meaningful increases in some cases around twice the attach rate that we had before when we had our legacy platforms that were really standalone where there was integration but they were not unified and it wasn't one single database and they were not in every case tightly connected.

So we believe that being able to sell those products together, being able to service those products together and delivering that kind of value proposition I think will be an enhancer to margin and an enhancer to growth, not a detractor. And that same strategy I think is something that is a strategy that we're following in major accounts with our Workforce Now platform where we also have benefits administration, time and labor management and talent solutions as part of a broad HCM package. And even in our small business market in RUN, we've added HR solutions lighter, obviously simpler, HR solutions for our clients that I think help increase the average value of an E-business sale, so our strategy is not to go after lower margin businesses. We in fact think that the strategy overall will help us from a margin standpoint going forward.

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

With respect to the margins of our cloud based platforms that are already well penetrated in major accounts as well as in SBS, you see them in our today's margin and compared to our existing platforms they are high margin businesses for the strategic platforms. So I don't think it is a good assumption to systematically anticipate lower margin for our cloud based solutions.

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

The only place where I think it would be fair to assume margin pressure is the more successful some of these products are, the more sales cost pressure we have but again, I think all of my predecessors have said this is a problem that I welcome. We would welcome having such robust results from a new business bookings standpoint that we run into a margin challenge as a result of sales costs. It's not happening now. I hope it happens at some point in the future but GlobalView would be an example where I think the underlying margins are showing great improvement. The business is healthy but we've had very large sales expense in the past three or four years just because of the rapid growth of that business. But you're beginning to see it now actually turn. I believe it's going to be breakeven around the fourth quarter of this year, so you just have to look at the margins like we do and separate out the sales and new business costs from the underlying core margins and the core margins we think are quite positive.

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

Okay, a couple of numbers questions that I seemed to have missed. Cash flow expectations for the year and impact of one-time licenses that you mentioned within Dealer?

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

The one-time license in Dealer I think was not a huge number. We're just trying to give you color around creating expectations going forward. But as an example, the revenues and that was mainly in the international part of dealer services, our core revenue there grew I think it was around 3% while our license revenues grew 6% to 7%, or somewhere in that range. So they were just slightly higher but in the magnitude in terms of the impact on ADP, the overall ADP results, I would not change anything or modify anything in your models, I was just trying to give you some color there were a lot of things that helped dealer. They had a fantastic quarter, even if you exclude some of these one-times but they got some help from some of these one-time licensing fees and some transactional volume increases. In terms of our cash flow for the year --

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

Yes, so we expect cash flow to be just growing in line with the business approximately between $1.5 billion to $1.6 billion. In the first quarter you saw a few one-time items flowing through that you should reconcile out of this, so $1.5 billion to $1.6 billion for the year is probably a good estimate.

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

Okay, that's good execution. Thanks.

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

Thanks.

Operator

Paul Thomas, Goldman Sachs.

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

Hi guys, thanks for taking the question. I guess not to beat up on the bookings too much but was the pace in December any different compared with October and November, did it sort of slow through the quarter and now January is kind of back to normal or any color on the pace through the quarter would help.

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

I'm ashamed to say that I don't know that I have, and maybe Jan?

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

December was a little bit slower. We saw a little bit slowing towards the end of the quarter here. I think that's a fair question and which leads us also to this assessment of the impact of the fiscal cliff and the delayed buying position.

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

I learned my lesson. From now on I'll also have all of the monthly growth rates.

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

Appreciate that, and I guess one more on Europe. You mentioned pays per control in Europe being down 1% in the quarter. How are you thinking about that in the second half of the year? Do you think it's going to stay in that range or is there any improvement anticipated? Thanks.

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

To clarify the 1% is really the month of December. It wasn't that much different the other two months of the quarter but my number we look at pays per control as a point to point number, so we typically don't look at it as a quarterly number. We look at it as of a particular month. It's just one of those internal metrics we use, but it has, I guess to give you a history, it went negative during the financial crisis that hit the entire globe, and then it actually started trending back to flat, and got to flat and then started turning slightly negative again about six to nine months ago, and is now at about negative 1%. And it was almost like a gradual decline to 1%, so you can imagine it was around zero, six to nine months ago and now it's a negative 1%.

If you look at past patterns, if the crisis truly has now been, this most recent crisis has been averted, it's likely although it's dangerous to forecast pays per control, it's likely that it won't go much deeper in the negative range and it will begin again to slowly either flatten out or start gradually turning back close to zero at some point. The labor markets in Europe tend to move much slower. It's very difficult to let people go and hence you don't have a precipitous drop in pays per control, but likewise people are very hesitant to hire for that very reason because they know that it's difficult to let people go so the pickup in employment also tends to move very gradually, so the bottom line is you shouldn't expect any major changes in that number in the next two quarters.

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

Thanks, very helpful guys.

Operator

George Mihalos, Credit Suisse.

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

Hi guys. You mentioned very healthy attach rates on your Vantage and Workforce Now products. Can you give us a sense as to how much higher the revenue contribution is from a Vantage sale or a Workforce Now sale compared to your legacy solutions in the past?

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

As a matter of fact I happened to get some information on that topic last week because we were having some discussions with the national account sales force and we wanted to kind of do a comparison of what we were getting in terms of not just total revenue but even on a per employee basis in terms of on a per pay basis what we were charging for the various components before versus now. Because one of the things we didn't want to do is the overall revenue dollars be higher for a client but be getting smaller per employee numbers for each individual product, i.e. benefits, payroll, HR, time and labor management et cetera. So the numbers that I saw gave me a lot of comfort that that was not in fact happening, that we were in fact getting pricing on a per product basis that was as good as we were getting in the past. But now we're getting more total revenue because we're having a higher attach rate. So to put it in perspective, it could be anywhere in the 30% to 40% range in terms of additional revenue for a client that four or five years ago was sold only payroll versus today, they buy benefits and PLM in addition to their payroll.

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

Okay. Just last question for me. Just sort of the conversion of the installed base to some of the new SaaS-based products, can you give us a sense where that stands in the majors and national segments? Thank you.

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

Yes, we are migrating our clients in major accounts which are on our legacy platforms in a very systematic manner to the Workforce Now platform. And we're meeting our plan or slightly ahead of our plan and hoping that will complete that endeavor end of '14, beginning of '15 is kind of the overall migration plan. So we're making good progress actually slightly faster than we expected it. Did I answer your question?

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

Yes, sorry, thank you.

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

Thank you.

Operator

Gary Bisbee, Barclays Capital.

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

Hi guys, good morning. I guess two questions. In the sales of the new platforms RUN, Workforce Now, Vantage, how much of the volume or units that you've talked about is upgrade of existing customers versus sales to new customers?

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

Yes, as we report our new bookings number, they are either -- that report is only incremental revenue opportunity for ADP, so when we migrate a client from an old platform to a new platform and there's no revenue impact we would not record this as new bookings in our numbers. So you'll see our new bookings number as a really pure number of additions to our recurring revenue base. That's how the system is designed, and we do see, as Carlos reports, that actually clients that migrate from a legacy platform in major accounts up to the Workforce Now platform, that in a good number of 30% to 40% of the times the clients actually expand the products that they buy with us because the new platforms offers this. And we would book the additional revenue as sales but not the existing revenue, so what you see is really all incremental to ADP, and no migration revenue is included in our net new bookings.

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

That's a great point in terms of from a financial reporting standpoint that you're getting a pure number that's affecting our revenue growth, not just simply rebooking something that we already had because we're migrating the client. But having said that, to give you a little bit of color in the Vantage situation, I believe only two of the clients that we've sold of the 40, maybe 3 or 4, but it's a relatively small number are actually existing ADP clients, those are new logos so part of that is exciting to me because it's market share and it's wins in the marketplace. But frankly, we also need to build a lot of capacity given how successful we are seeing the platform in the marketplace now, we are very busily trying to build capacity to be able to also migrate clients. Because if the clients that are out of the marketplace want this, our existing clients also want it. And so for the time being it's a really positive story because it's new market share and it's new logos but we have to move these clients over to this platform, we have to build that capacity.

The same is true in major accounts where there we have a bit more momentum in the sense that we have a very I think effective in large plan for migrations of clients on to Workforce Now and they are moving along at a quite rapid pace in doing that. And that's also a great process because as Jan mentioned it not only creates a strong relationship with our clients because it's a better product, but it also presents a cross selling opportunity from some of our additional products.

By the way, sorry not to leave out RUN. We have a very aggressive program to -- we now have 200,000, so more than half of our SBS, small business clients are now in RUN. This is the time now to step on the accelerator and that's what we're doing so our team in small business has put together a very I think good and aggressive plan for migrating our EasyPay clients over to our new RUN platform. It will still take several years to do it, but I think it's a new day for ADP on these migrations. And I feel I think the momentum that people are really I think taking it quite seriously and we're really putting I think our money where our mouth is and making sure that we make these transitions happen.

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

Great, thanks and then the follow-up question, you cited Digital Marketing as an area of strength in the Dealer business, I guess I haven't really got an update on that since you did the big acquisition a couple years ago, but could you just give us a sense growth versus the core DMS product, how the margins are looking on that? How successful you've been with the story you told a couple years ago about really focusing on up sell and cross sell this into the huge installed base, just how is that going overall? Thank you.

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

Well I'll start with, only because I happened to look at it last night, but the margin question, so we are making progress on the margin so very happy the Digital Marketing Group contributing not only positive margin, but improving positive margin as well, so very happy about that. I think it was actually more than double in terms of the margin percent, although still well below our core DMS margins, the margin more than doubled -- the pre-tax margin more than doubled versus the prior year so very happy about that. In terms of growth, the business is growing faster than our core DMS, but I don't think we really want to get into specifics in terms of by how much or what the exact percentages are, but I think it's living up to I think our expectations from a growth standpoint and I think the margins now are starting to get better. It's creating a stronger relationship with our clients, with our Dealer clients, so I think so far, we're very pleased with what's happening.

The only caution which I think we mentioned in our comments is that that business because it is a Digital Marketing business tends to have volatility in terms of advertising revenue. So if a car maker is launching a new car, there could be a very large contract that may be only for a few months or a quarter that generates a lot of revenues that are not necessarily recurring. So that's something that we will continue to try to give you more color about so that you have the proper ability to plan or to change your models in the future. But this quarter was unusually positive on the revenue side because of some of that lumpiness, but generally speaking I think we're happy with the business.

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

Thank you.

Operator

Jeff Silber, BMO Capital Markets.

Jeff Silber - ***BMO Capital Markets - Analyst***

Thanks, I know it's late, I've got a couple quick questions though. You mentioned the impact of the fiscal cliff, some of the benefits. I'm wondering from a cost perspective since it was a delay in finalizing exact rates for tax purposes, et cetera, are there any extra SG&A costs that might have been pushed over from the fiscal second quarter into the current quarter?

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

No. There's no impact on the late implementation. Actually compliments to our teams out in the field and the development, within hours after the release of the IRS instructions on the new rates we were processing the payrolls on the new rates. We have it quite down now to really anticipate late action by the legislative branch of the country, so it went very well, and I think our clients benefited from a very quick implementation of this so there should be no impact on the cost side from that.

Jeff Silber - ***BMO Capital Markets - Analyst***

All right, that's great.

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

I think the performance of our organization again was I think the last quarter when we were having this call we had just gotten through the hurricane and I talked about how impressive the performance was of our organization and also of our associates all over the world in that case that helped us get through that. This was not necessarily on the same scale but certainly really impressive performance by our organization to have all of these changes done within 48 hours of them being published. So our clients all had the correct tax tables and the correct withholdings and the correct payroll tax withheld. It just really it's a testament to what ADP can deliver in an outsourced solution versus when you are doing it on your own or using software, whether it's cloud based or not.

Jeff Silber - ***BMO Capital Markets - Analyst***

All right, great, and then just as a follow-up, you mentioned the positive of accelerating some bonuses and payroll in December. Did you quantify that for us?

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

We didn't.

Jeff Silber - ***BMO Capital Markets - Analyst***

Is it possible to do that?

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

No. I think it was like the bookings discussion where we have some anecdotal evidence because we are look at specific clients that last year paid their bonuses in January and this year paid them in December. But we didn't go, we have 600,000 clients and so our ability, we didn't find a way and we don't think we have a way of going client by client and seeing which ones paid last year in January versus this year in December. We just took a sample particularly the very large ones and we know that some of them paid in December, so that's why we gave you that kind of sense but we do have some sense of January balances, and I will tell you that January was still good, and so the shift was, we clearly saw better results in December than we expected but there wasn't a huge pullback from January from what we can see now.

Jeff Silber - ***BMO Capital Markets - Analyst***

Okay, great.

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

I'll add one comment to this is the new tax laws of course changed the rates for some of our high earning employees so there's an impact on the balances going forward that is small, but particularly the time between January and December is hence a little bit muddled. New rates coming in and pull forward of some of the payroll processing so it's really probably not wise to give you precise numbers on it, more a direction.

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

It was all part of the picture that the third, I think it puts a little bit of pressure, again, it's probably a relatively small number, but we have a few other things that are still pressuring the third versus the fourth. We feel a lot better about the fourth than I guess the third is part of why we're giving you some of this color.

Jeff Silber - ***BMO Capital Markets - Analyst***

I appreciate that. Thanks so much.

Operator

David Grossman, Stifel Nicolaus.

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

Hi. Actually my questions have been answered, thank you very much.

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

Thank you.

Operator

Rod Bourgeois, Bernstein.

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

Hi guys. Just a question about the competitive landscape out there. Can you just give us an update on the competitive impact of emerging software as a service players and in particular, can you give us some thoughts on how players like Workday are affecting you in the payroll business compared to the broader Human Capital Management business? In other words it seems your win rate in payroll against large enterprise SaaS players, your win rate is probably still quite high but I'd also value any specificity you can provide on that. And then how that win rate is looking in the broader HR services market outside of payroll. Thanks.

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

Great question. Let me just start of by saying that we are a SaaS player too and I say that every quarter and I say that every meeting and people tend to forget it. Vantage is a SaaS-based, cloud based, fully integrated, fully unified, HCM solution, so having said that, I think you're still right that it's not just about the cloud. It's about functionality and it's about usability. And I think you have done your homework very well where I think no matter how you deliver the product itself, whether it's on the cloud or not on the cloud, we are still quite successful in the payroll side, and I'm talking now for this question the upper end of our market. So we're very successful, still in the payroll space, in part because we always have been and our solutions are cloud based, no different than any other provider would have a cloud based payroll solution.

I think when you get the broader HCM and HR, when you talk about Workday, I think what we've seen so far is an ability to win against Workday, certainly in payroll and HR, but much harder than the HR side, so we would acknowledge we have work to do on the HR side in terms of our competitiveness against specifically Workday, and so they have a great solution that is getting really great traction in the marketplace. As an important reminder though, we do have a lot of clients who will purchase Workday's HR platform, and utilize our payroll platform, so we have the ability to work with and integrate with Workday as we do with Oracle, SAP, and others as well. And so we do have ambitions of being an HCM player so we are competitors to some extent with Workday but we also cooperate and can be the payroll provider if a prospect or someone in the marketplace chooses Workday as their HR provider.

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

Great and in the HR side where you say Workday is much more competitive, I'm assuming even in that area of the world, the market is somewhat bifurcated. In other words Workday seems very strong on talent management. My guess is you guys are probably strong on benefits administration and time and attendance type stuff. Are you seeing a differential in your ability to win when it's focused on benefits admin versus talent management? Is that a way to think about it?

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

Let me just say we'll have to play back the tape but I don't think I said they're much more competitive but I'll have to go back. I say I think that they're effective and effectiveness means a lot of things. It means momentum, it means marketing, it means a lot of different things. But I think that they are particularly strong in the usability of their products. This is again going by what I would call anecdotal evidence in terms of what I'm hearing in the marketplace. So I'm just acknowledging where I see their strengths. But just to be clear, I think we are very competitive against them, and we are winning in some cases in the marketplace against them as well. So I think that our competitive position is quite good, I think against them, but it doesn't have to always be a competitive situation because we can cooperate and we can work with Workday in situations where a client wants to have a Workday HR solution and wants to have ADP for payroll. And as a reminder that is also true for Oracle, SAP, and other enterprise resource providers and I'm sorry you had a second part of your question?

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

Well I understand your point. You're not saying they're more competitive than you. What you're saying is they are more competitive in the HR services market than they are in the payroll market. You clearly have a better--

---

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

I think that's fair. I remember your question now, so in terms of I don't think it's the case that they have better talent solutions than we do. Again I'm going by anecdotal evidence here, but we have a pretty strong talent portfolio or solution as part of Vantage. I think you heard we have a 70% attach rate to it so we feel pretty good about our ability to compete in talent with our products with Workday and with others as well. I think the particular strength of Workday is in HR, and it's in the usability of the product itself, but there is a lot more beneath the surface to a product and a solution. We believe that service is an important component. We believe that feature functionality is also important, so I think there are other places where we can differentiate ourselves and still be successful. I think we're proving that in the marketplace.

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

Got it. Thank you, Carlos.

Operator

Tien-Tsin Huang, JPMorgan.

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

Hi. Thanks I know it's getting late. Two quick ones. Retention, that was better than we expected. How much of that is how should I say healthier clients versus less competitiveness versus some of the new products and the halo effect you might have around the new products?

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

So I think for the quarter, we mentioned in our prepared remarks that the 80% improvement was partially aided by an easier grow over compared to the prior year's quarter where we had a large client loss that we reported also separately. I think the range is probably 60% of the improvement was aided by this one client, a grow over thing, and if you take that out, you would still see about 20 basis points improvement for the year, for this quarter, and I caution you to read too much in the 20% improvement, it's solid. We have solid client service and we see really no specific trends in changes in retention that would be worth reporting, and also the second quarter is not a very large loss quarter for us so the volume tends to be a little bit lower. So my comment would be we're continuing on the steady path of delivering the service and ever so much inching our retention up a little bit is probably a fair description.

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

I think inching a very good description because when you look at our retention rates over the last three years, it's been between 91% and 91.2%, so you're talking about a 20 basis point swing. And all of that is in what I call in record territory, so our retention 91.1% I believe or 91%, somewhere in that range was the highest we had been until two or three years ago when we got to 91.2%, and then we went to 91%, now we're probably around 91.2% again. So substantial improvements from '08 and '09 and prior years, but we're at levels now that I think we're certainly not giving up because we believe that there's still opportunity but it is in tens of basis points, not in full percentage points from a guidance standpoint. That's something you should think about.

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

Understood, yes even the 20X, the easy comp, and we were looking for something smaller than that. So that's why I was surprised, but obviously good for you. My follow-up is just on the expiration of the tax holiday. Forgive me for being obtuse here, I didn't quite understand exactly the moving pieces there. Simplistically I thought the expiration of the holiday related to the fiscal cliff net should be an increase in balances but it sounds like it's a lot more complex than that. So sort of simplistically, what's sort of the take away related to that expiration?

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

I do think you're exactly right. Obviously we do collect more taxes but federal taxes have short withholding times, and also on the margin, the interest we earned for incremental balances is really very low so the bottom line impact of the balance increase is really not material for our purposes of discussion.

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

Okay.

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

And I think the complexity was really the fact that the timing, because we did have a little bit of a pull forward because people were anticipating these change. That's why we gave you that color, but generally speaking, the payroll tax holiday expiration should increase our balances, it's just not a meaningful number in the grand scheme of things, in terms of --

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

Got it, okay, I didn't understand.

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

If interest rates were at 6%, it might be a different story.

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

Understood, thank you.

Operator

Mark Marcon, Robert W. Baird.

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

Good morning. In terms of the Vantage wins that you were discussing earlier, can you discuss where they were coming from, what types of alternatives were they using prior to coming on to Vantage because it sounds like most of your efforts have been focused on new clients as opposed to converting existing clients.

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

THOMSON REUTERS

As we introduced the Vantage, we made that decision to focus on our competitiveness in new client wins so that is a choice of ours. And we have seen a wide range of wins in the clients that we booked from a couple of 10,000 large clients to our standard national accounts clients of we're averaging now approximately 4,000 employee size clients. We see them in a variety of industries so the part of our optimism, although the numbers are still small, is that we see an ability to win in a variety of industry segments as well as sizes, as well as different competitors. So when we look at this now the numbers become very small, but we have wins against all of the competitors you would be thinking of, we have wins in a variety of industries that are important to us strategically, and we are able to win very large clients and smaller type clients, so the balance is kind of part of the positive assessment.

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

Great, and then with regard to some of those wins against a variety of competitors, are some of those competitors in the what investors would think of as being in the SaaS space?

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

Yes, they are.

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

Great, and then with regards to the improvement, and I know it's just a tiny improvement in -- probably in the least important quarter but was some of that improvement in terms of retention also exclusive of that grow over effect, was that also in nationals?

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

The improvement in retention was really frankly across-the-board. Nationals did have, you have a very good memory so nationals had some lumpy losses because it's a national account business in the fourth quarter and the first quarter and we did see a big comeback. So nationals helped a lot but frankly, major accounts is a big part of our business and if it's not doing well it's hard to have a good retention rate. So major accounts was also solid, SBS also improved, I think we were happy across-the-board.

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

Great, and then an organizational question. Jan, you really helped to build out the portfolio, you know, within HR and Employer Services in terms of the product suite. Who is taking your spot, and how is that going, and what are the key areas of emphasis now in terms of what are the still the blank spots to fill in?

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

Before he answers, I always have to say he's irreplaceable but I'll let him--

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

I was saying it's really not for me to answer, my boss should answer but I'll give you an idea. With our focus on product and innovation that really Carlos with his strategic emphasis brought to focus for the Company, I think we have a great set up. Now really improved to where it was before under my leadership and that is our CRO Mike Copone now has full product responsibility including the product management and product feature design as well as the R&D effort around it. So we have really a seasoned executive who is driving that success to the fullest. And then Carlos is in the process of filling my more strategic oriented position and that process is underway.

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

Great, thank you.

Operator

Tim Willi, Wells Fargo.

Tim Willi - ***Wells Fargo Securities, LLC - Analyst***

Thank you, good morning. Two questions, hopefully just quick to answer. First is on the Dealer business. I didn't catch all of the answers from the question several back but do you feel like it's sort of the core DMS business, where there are I guess basically three primary vendors in the United States, do you feel like you're gaining market share in that specific product against those competitors?

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

Yes, we are.

Tim Willi - ***Wells Fargo Securities, LLC - Analyst***

Okay, and then the second question I had is, just thinking about all of the conversion discussion around the new products like Vantage, Workforce, et cetera. Conceptually is there a scenario a couple years out that once you have completed these conversions and moved everybody on to one platform that there is a discussion about margins benefiting from the completion of that process, whether that's the '14, '15, even '16. Is there something there to think about as you complete that process?

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

That would be my plan, yes. I think that it's very important for people to have I think good information about just how much work there is to be done. There is a positive in the sense that as we make these changes in many cases, our strategic platforms, in fact I think in all cases our strategic platforms are versionless. So because one could argue that you will always have legacy platforms that you have to convert. But the world is fundamentally different in terms of the cost and the frictional cost, if you will, both to the client and to us of moving clients to new platforms. And so I do think that the reason I'm so anxious about this transition and this movement that I think Jan said it well, to me it's a strategic issue because I think in two, three, four years, however long it takes us, we will be in a very different position competitively, margin wise, new business wise, we're just going to be a much stronger, much better Company. We're well on our way already because we have the new products and our migrations already are well under way because we've got a lot of momentum, but when we're done, it's going to be a much stronger Company and I think in a better situation for us. And we're going to try to deliver examples of that over the next year or two in pockets so that we can show to ourselves, to our own associates, and also to the external world the power of simplicity and the power of having most of our clients on strategic platforms.

Tim Willi - ***Wells Fargo Securities, LLC - Analyst***

Great. Thank you very much.

Operator

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

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

I just want to thank you again for joining us today. As you can tell from our tone we're very pleased with our second quarter results. It's nice to see some of the underlying margin improvements at the segment level and I think continued robust growth on the revenue line as well. Our business continues to perform well. As we mentioned in a couple of places we're continuing to grow market share, we continue to be committed to our shareholders, as you saw from our dividend increase, we continue to buy share repurchases when it makes sense. We continue to do everything we can to enhance shareholder value which we believe is primarily driven by just growing our business, so growth is our focus. We look forward to speaking with you again next quarter and we thank you again for joining us today. Thanks.

Operator

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