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Jan Siegmund – Chief Financial Officer, Automatic Data Processing, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the ADP Fourth Quarter Fiscal 2014 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I'd now like to introduce your host for today's conference. Elena Charles, Vice President of Investor Relations, please go ahead.

Elena S. Charles, Vice President-Investor Relations

Thank you. I'm here today with Carlos Rodriguez, ADP's President and Chief Executive Officer; and Jan Siegmund, ADP's Chief Financial Officer. Thank you for joining us for our fourth-quarter and full-year fiscal 2014 earnings call and webcast. Carlos will begin today's call with an overview of our key achievements during fiscal 2014 and a discussion about our financial results. He will then provide a high-level update on the status of the spin-off of Dealer Services. Next, Jan will then provide further information regarding the spin-off before taking you through our detailed financial results and our fiscal 2015 forecast. Finally, before we take your questions, Carlos will provide some closing remarks.

I'd like to remind everyone that today's call will contain forward-looking statements that refer to future events and, as such, involve some risk. These are also discussed in our earnings press release and in our periodic filings with the SEC.

With that, I'll now turn the call over to Carlos.

Carlos A. Rodriguez, President, Chief Executive Officer & Director

Thank you, Elena. Fiscal 2014 can best be described as a year of innovation at ADP. From increasing the speed with which we bring new solutions to market to opening ADP's second Innovation Lab, this latest one located in Manhattan where we developed the new technologies that changed the way business is managed at Human Capital, to designing new solutions that focus on both our intuitive user experience and stellar performance. Fiscal 2014 has been a year of innovation at ADP.

ADP is happy to enjoy a market-leading position with our Mobile Solutions App. In fiscal 2014, we more than doubled the number of people using our mobile app, passing the 2.5 million user mark. This growth shows that the way people prefer to manage their personal HR needs closely mirrors how they choose to shop, bank and connect by other mobile devices.

We've exceeded our own expectations for fiscal 2014 client migrations. We've successfully migrated almost 100,000 existing clients in the small and mid-market to our newest cloud-based platforms. This brings the total numbers of businesses that currently benefit from ADP's cloud-based solutions to over 430,000. ADP now has more than 50,000 clients enjoying our HCM platforms Workforce Now and Vantage compared with 40,000 a year ago.

Through the globalization of our solutions, we are making it easier for clients to manage employee populations across borders. For example, our solutions are now offered in countries that are home to virtually all employees who work for multi-national corporations. And as we increased strategic investments and innovations, we simultaneously managed our internal operations to achieve expanded margin in our business units. We did this while continuing to improve our service model to better reflect the needs of our clients.

Our small business clients continue to enjoy ADP's around-the-clock support. Since many small business owners do not have the time during regular business hours to address their Human Capital needs, our move to 24x7 service for small businesses allows them to focus on HR at their convenience. In other business units, we've extended our service hours during the busiest times of the year, which has been well received by our clients. Overall, we want to make sure that when our clients are hard at work, ADP is hard at work with them.

And finally, we sharpened ADP's focus on Human Capital Management through the decision to spin-off our Dealer Services business into an independent, publicly-traded company. Overall, as ADP invests in innovations of tomorrow, our clients are enjoying our leading solutions today. So now let's move on to the fourth quarter and fiscal year results.

ADP reported solid results for the fiscal year. Total revenues grew 8%. Worldwide new business bookings growth in Employer Services and PEO were 5% for the quarter and 7% for the year. These results were just below our expectations. However, as we mentioned in last quarter's call, the fourth quarter was an especially difficult grow-over compared to the prior year. Nonetheless, we are very pleased to have sold over $1.4 billion in new annualized recurring revenues, which will contribute to our revenue growth over the coming months.

New business bookings growth for the fourth quarter was mixed by market segments. In the small and mid-markets, we were very pleased with the double-digit growth ADP experienced, and the PEO results continue to be strong. However, we were disappointed with the results in the high-end of the up-market where we sold fewer deals to companies with more than 10,000 employees, compared with a year ago.

In the low-end of our national account market, meaning companies with 1,000 to 10,000 employees where ADP has historically been successful, new business bookings of both our Workforce Now and Vantage solutions were good. And we are pleased to have added 100 new Vantage clients during fiscal 2014. This is almost twice the number we sold last year.

In our international business, we continued to see softness in new bookings growth in our in-country solutions in Europe due to continued economic recovery on the continent. However, we are pleased with the growth of our multinational solutions for companies based outside of the U.S. In Latin America, our new bookings growth was strong. As a result of the mixed results in the up-market, our forecast for fiscal 2015 is for about 8% growth. Our long-term goal of 8% to 10% annual new bookings growth remains intact.

Moving on to retention, full-year Employer Services worldwide client revenue retention increased this year to 91.4%. For those of you who have followed us for some time, you are aware that this level is an all-time high. I'm particularly pleased with these results, as I believe they demonstrate the success of our new cloud-based platforms and are evidence that our migration strategy and focus on innovation are resonating in the marketplace. The success of the PEO continue with strong revenue growth reaching 15% for the year, primarily from growth in average worksite employees paid, which was a very strong 15% for the year.

Dealer Services posted solid revenue growth in fiscal 2014, primarily through additions to its client base resulting from positive competitive win rates and higher digital advertising revenues. The global automotive market continues to be strong with U.S. vehicle sales reaching pre-recessionary levels.

Our planned spin-off of the Dealer Services business is progressing well and we are still anticipating completion of the spin-off by October. There will be a pre-spin road show with the Dealer Services management team in the weeks leading off to the final spin-off. We are getting close to the decision on the name of the new company, as well as the branding, and will be ready to share that information with you in mid-August. We remain excited about the planned spin-off of Dealer Services and the focus it will allow both management teams, as we complete the separation of these two businesses.

And with that, I'll turn it over to Jan to give you more details on the spin and walk you through our fiscal 2014 results.

Jan Siegmund, Chief Financial Officer

Thank you, Carlos. As Carlos stated, we are progressing well with the planned spin-off of Dealer Services. An updated Form 10 was filed with the SEC on July 25 and can be found on the ADP Investor Relations website. We expect to file an updated Form 10 with fiscal 2014 results for the new company in early September. In conjunction with the spin-off, we are still expecting that ADP will receive at least $700 million from new Dealer Services entity, which we intend to use to repurchase ADP stocks. With that, let's move on to our fiscal year 2014 results.

Our fiscal year 2014 results include about $15 million of spin-related costs and as indicated last quarter, these costs were excluded from our forecast for the year. We expect to incur an additional $40 million to $50 million of spin-related costs over the first two quarters of fiscal year 2015, which are also excluded from the fiscal year 2015 forecast as these costs will be reported within discontinued operations upon completion of the spin-off. And just a note, my comments exclude the impact of the $15 million of spin-related costs recorded in this year's fourth quarter and the year-over-year comparison I'm discussing are through the fiscal year 2013 financials adjusted to exclude the impairment charge of last year's fourth quarter.

Before I get into the results, I want to call your attention to our cash and marketable securities balance of $4.1 billion at June 30, 2014. This includes $2.2 billion of assets related to outstanding commercial paper and support of our extended investment strategy for the client funds portfolio and is footnoted on our condensed balance sheet. This borrowing was repaid on July 1. I also want to point out that ADP continued its shareholder-friendly actions repurchasing 9 million shares for $679 million and paid cash dividends of over $880 million during fiscal year 2014.

So, now for the results. ADP's revenue grew 8% nearly all organic to $12.2 billion for the year. We achieved 8% growth in both pre-tax and net earnings and 9% earnings per share growth on fewer shares outstanding compared with a year ago. Overall, our results were solid with each of our business segments performing well. Employer Services grew total revenues 8%, nearly all organic. The PEO grew 15% and Dealer Services grew 7%.

In Employer Services, growth in the small and mid-market contributed particularly well. And as Carlos mentioned earlier, Employer Services worldwide client retention improved to 91.4% on top of an already historically high retention rate. We are pleased to see continued strength in our same-store pays per control in Employer Services in the U.S. with an increase of 2.8% per year. In Europe, same-store pays per control declined by 0.5% for the full-year and 0.3% for the fourth quarter. But while the economy across Europe remains a bit soft, it does appear to be stabilizing. Average client fund balances increased a healthy 8% for the fiscal year. Lower state unemployment tax rates were offset by increases from our new business growth especially in the small and mid-size markets, wage growth including bonus payments by our clients as well as pays per control.

The PEO delivered higher than anticipated results for the year with 15% revenue growth driven by 15% average worksite employee growth and strong revenue retention. Dealer Services revenue growth of 7% was driven by new clients and applications installed as well as increased digital advertising revenues, but it was lower than our expectation because of continued weakness across continental Europe and some softness in one of our transaction-based businesses.

Dealer Services margin expansion of 130 basis points for the full-year benefited from certain non-recurring items in both the third quarter and fourth quarter. As anticipated, ADP's pre-tax – total pre-tax earnings were negatively impacted in fiscal year 2014 by the decline in client interest revenues resulting from low interest rates. The impact of lower interest rates reduced ADP's revenue growth by almost half of a percentage point and pre-tax earnings growth by 3 percentage points, as the lower yields more than offset the benefits received from the 8% growth in balances.

Pre-tax margin was negatively impacted 80 basis points and diluted earnings per share were lower by almost $0.08 or 3 percentage points for the year. Excluding the impact of the client funds investment strategy and recognizing the healthy margin expansion our business segments achieved for the fiscal year, largely driven by operating efficiencies, it is evident that they have leveraged in ADP's business model and you will see this as we move on to our discussion of next year's outlook.

So, let me take you through our fiscal year 2015 forecast starting with total company guidance. Remember that the forecast includes the Dealer Services business, but excludes any spin-related costs. We anticipate total revenue growth of 7% to 8%. Pre-tax margin for total ADP is anticipated to improve by 75 basis points to 100 basis points from 18.8% last year, which excluded spin-related costs of approximately $15 million recorded in the fourth quarter of fiscal year 2014. We expect a higher effective tax rate of 34.6% compared with the 33.7% in fiscal year 2014. Diluted earnings per share are expected to grow 11% to 13% compared with $3.14 in fiscal year 2014, which excludes spin-related costs recorded in the fourth quarter of fiscal year 2014.

As it is part of our usual practice, the forecast does not contemplate for the share buybacks 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. In addition, this forecast does not contemplate any share repurchases from the $700 million or more ADP will receive from the new Dealer Services business at the time of the spin. Consistent with the tax free nature of the spin, we are required to repurchase ADP shares with this cash within 12 months of the spin. However, our intent is to do so over the nine months remaining in fiscal year 2015 after the completion of the spin, which would result in slight earnings per share accretion for the full year.

We believe the ranges we have given you for revenue and earnings per share growth have contemplated both the opportunities and the challenges ADP is facing in fiscal year 2015. Typical items that could be impactful to earnings would include the success of our sales force in bringing new products to market and our ability to implement those products; possible changes to the regulatory environment, particularly any changes relative to the ACA; as well as our ability to sustain our client retention level. Consider, for example, at the high end of our revenue and earnings forecast ranges, we have anticipated the renewal of certain high-margin WOTC tax credit revenues in the second half of the fiscal year. Additionally, the interest rate environment will impact our new purchase rates and foreign exchange rates could move either up or down.

And while we don't provide quarterly guidance, I want you to be aware of certain items impacting the first two quarters for the fiscal year. As you may recall, we stepped up our investment in R&D during the second half of fiscal year 2014. Investments we have made include such innovations as data analytics, user experience, enhancements to our strategic platforms and improvements in our time-to-market capabilities.

I also would like to remind you that new bookings growth in last year's first quarter was 1% and, as a result, we anticipate higher selling expenses in the first quarter compared with a year ago. We expect that the year-over-year pressure from these items will result in additional expense of about $30 million in each of the first two quarters of fiscal year 2015. Therefore, you should assume that ADP margin improvement and profitability is weighted more towards the second half of the fiscal year.

And now before I take you through the details of our forecast for the client fund investment strategy, there are few things I would like to point out. First, the objective of our investment strategy remains safety, liquidity and diversification. At June 30, about 82% of our fixed income portfolio was invested in AAA- and AA-rated securities. We continue to base the interest assumptions in our forecast on the Fed Funds future contracts and forward yield curve for the three-and-a-half-year and five-year U.S. government agencies, as we do not believe it is possible to accurately predict future interest rates, the shape of the yield curve or new bond issuance behavior of corporations and other issuers.

I'll also remind you that our strategy usually results in about 15% to 20% of the reinvestment of the investments maturing each year and, therefore, subject to investment risk each year. We anticipate that the maturities of fiscal year 2015 will be in line with this range. We anticipate average client fund balances for fiscal year 2015 in the range of $21.8 billion to $22.2 billion, which represents 5% to 7% growth. About 1 percentage point of this growth is expected to come from outside of the U.S., evidence that our global money movement operation is gaining traction.

We anticipate a yield on the client funds portfolio of 1.7% to 1.8%, which represents a decrease of up to 10 basis points from the fiscal year 2014. We anticipate that client fund interest, as well as the total impact of pre-tax earnings from the extended investment strategy, will be up to $5 million to $15 million compared with fiscal 2014. And although we are forecasting a positive impact to pre-tax earnings from the client fund investment strategy, we are still expecting a slight drag of 10 basis points to 15 basis points on ADP's pre-tax margins due to the highly profitable nature of these revenues, which are forecasted to grow at a slower rate than overall revenues.

If this fiscal year 2014 forecast for the client funds investment strategy is realized, it will be the first time since 2008 that ADP will experience a positive impact to both revenues and earnings. However, the benefit is not expected to occur until the second half of the fiscal year.

Now, the guidance for our business segments. For Employer Services, we are forecasting revenue growth of about 6% to 7% with pre-tax margin expansion of about 100 basis points. We anticipate an increase in our pays per control metric in the U.S. of 2% to 3%. For PEO Services, we are forecasting 13% to 15% revenue growth with up to 50 basis points in pre-tax margin expansion. We are forecasting about 8% growth in the annual dollar value of ES and PEO worldwide new business bookings from the over $1.4 billion sold in fiscal year 2014. And for Dealer Services, we are forecasting 7% to 8% revenue growth with about 50 basis points of pre-tax margin expansion.

And now I will return the call back over to Carlos for his closing remarks.

Carlos A. Rodriguez, President, Chief Executive Officer & Director

Thank you, Jan. As I discussed earlier in the call, with the announcement of the spin-off of Dealer Services, we have sharpened our focus on HCM. As such, we have slightly modified our strategic growth pillars to demonstrate this refined focus.

In fiscal 2015, we expect to grow our business by focusing on these three pillars. First, we intend to grow our integrated suite of cloud-based HCM, benefits, and payroll solutions to serve the U.S. market through further penetration of our strategic platforms RUN, Workforce Now and Vantage, as well as new HCM offerings. Further offerings, including products related to compliance with the Affordable Care Act and other innovative solutions are expected to be released in fiscal 2015. We look forward to continuing our migration efforts in the mid- and up-markets.

Our second pillar is to invest to grow and scale our HR Business Process Outsourcing, or BPO solutions, by leveraging our platforms and processes. The PEO and our BPO offerings in the small- and the mid-market are performing well. And finally, our third pillar is to leverage our global presence to offer clients HCM, benefits, and payroll solutions where they do business. As I mentioned earlier in the call, ADP solutions are now offered in countries that are home to virtually all employees who work for multinational corporations. We believe our multinational solutions bring global power to the marketplace and will be part of our future success.

All three of our strategic pillars are based on ADP's history of stellar client service, ability to navigate regulatory compliance, rich data sets and passion for providing innovative solutions to the market. Our accomplishments in fiscal 2014 reflect the commitment we've made to maintain our position as the leading global provider of Human Capital Management, as we step into fiscal 2015 and beyond. I believe ADP is focused on the right things to grow the business and enhance long-term shareholder value. We remain committed to shareholder-friendly actions and returned over $1.5 billion in excess cash to shareholders through dividends and share buybacks during fiscal year 2015.

And before we take your questions, I wanted to let you know that Elena has decided to join the new Dealer Services company that will be formed at the conclusion of the spin-off. Elena has provided more than a decade of strong leadership and insight as the head of Investor Relations at ADP. I wanted to publicly thank Elena for her years of service and wish her nothing but the best as she joins the new company. Starting today, please direct your questions and requests to Sara Grilliot. Many of you already know her and have worked with her.

And now I'd like to turn the call back over to the operator to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from David Togut of Evercore. Your line is open.

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

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

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

<Q – David Togut – Evercore Partners (Securities)>: Congratulations, Elena, on your new role.

<A – Elena Charles – Automatic Data Processing, Inc.>: Thank you.

<Q – David Togut – Evercore Partners (Securities)>: Carlos, could you just walk us through your thought process on FY 2015 ES bookings growth? And maybe dig in a little more on FY 2014? You seem to be scaling back expectations throughout the year. I know you highlighted weakness in the national accounts market, but do you think some of this was execution-oriented with the ADP sales force? Increased competition? What are your thoughts?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: So, I think we – from the beginning of the year, in the first quarter, I think we shared with you that we have some – what we consider to be some execution issues, not across the prior ADP sales force, but really concentrated in our up-market sales force, and I think that unfortunately continued throughout the year. It's not unusual for us, when we have a kind of, I would say, a very slow start, to then continue to struggle throughout the rest of the year. It's just – it's been something that historically, it has been hard to overcome just because of the way the incentives work and momentum and so forth. But I just want to reiterate that I think it was clear in our comments that the rest of our ADP sales force and the rest of our markets performed incredibly well, even including the low end of national accounts. So, it's a fairly concentrated issue, in some respects because of some grow-over issues with some large accounts we sold in the previous year.

But there's really no escaping the fact that we had some execution issues in our up-market and it is an important part of our overall results. Although, it's not – as you can see from the results, despite that weakness, we still managed to achieve what I would say are pretty respectable sales results, especially when you look at them in the context of the compounded annual growth rate over the last two years or three years. So, it's an important part of our sales results, but so is the low end of the market and so is the mid-market, and so is PEO and insurance services and a lot of the other products that we sell. But I think in view of some of those execution challenges we have, Jan and I think took the position that we just thought it was prudent to be careful in terms of our planning process for fiscal year 2015 in terms of what our expectation is from our new bookings growth.

But we hope and we – that's why we've reiterated our commitment to the 8% to 10% long-term growth in sales because that's really what we planned for in terms of our head count and productivity improvement expectations. But I think we're – you could call, could say that we're hedging, but we're just being careful because of some of these challenges we have just in case they're related to anything other than specific execution issues, which is right now still our hypothesis.

<Q – David Togut – Evercore Partners (Securities)>: Understood. Just as a quick follow-up, what are your head count growth targets for the ES sales force in fiscal 2015?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Our head count growth is expected to be around 3% to 4% next year. And again, you can go obviously then back into the fact that we expect about half of our sales growth to come from head count growth and half to come from productivity improvements. That's a little slightly faster head count growth, but not by much than what we've been experiencing over the last two years or three years where we've actually had more productivity growth and head count growth into our sales results, which we've been extremely happy with. But again, in view of some of our execution challenges this year, we thought it was prudent to invest a little bit more in sales and accelerate our head count just slightly more to make sure we take out a little bit of an insurance policy in terms of delivering the results.

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

Operator: Thank you. Our next question comes from Gary Bisbee of RBC Capital Markets. Your line is open.

<Q – Gary Bisbee – RBC Capital Markets LLC>: Yeah, good morning. The 6% to 7% growth in Employer guidance for next year is, I think, a touch slower than what you've been doing over the last year. Is that just no M&A in the numbers and maybe in light of this slightly slower sales number? Or is there anything else going on out there?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think some of it is – there are some tiny issues in terms of calendar that again, we typically don't get into them. But when you start getting into tenths of percentage points, these things do unfortunately add up. So, our growth in net new business is still contributing to our growth rate, but it will contribute about 0.4% less in terms of revenue growth rate in Employer Services, assuming that we hit our retention rate and our sales plan, as we've given you in terms of the guidance.

So that's some of it, but that's really not a big number. We have a couple of other items around calendar and assumptions around our balance book being slightly lower, which affects the way Employer Services reports its revenues because of the way we credit them at 4.5% fixed interest rate. So, there are two or three items that add up to it, but it's really nothing – there's no specific one item that I could point to that is creating some sort of big issue for us.

We're still pretty positive about the acceleration on our Employer Services revenue growth over the last two years or three years, and I think we're at a level now where we're pretty comfortable with that growth. We'd love to accelerate it even more, but any major change in that growth rate would come really as a result of acquisitions or a major improvement in retention or a major, I guess, beat on the sales results as well.

<Q – Gary Bisbee – RBC Capital Markets LLC>: And in the follow up, I don't know if it's possible, can you break out or give us a sense of the difference in the revenue retention rate between those on the newer cloud offerings versus legacy offerings? And if it is, in fact, a decent amount higher, what's the gating factor to more aggressively pushing through the migrations in the mid-market? Thank you.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: So, just to go through a couple of the numbers in terms of whether we're being aggressive or not. We have less than 50,000 clients left in our small business segment on EasyPay, which is our legacy platform, and I think we're down to under 5,000 of the PCPW clients left on – which is our legacy platform in our major accounts space. So this is a pretty – in my opinion, a lot of progress and very, very proud of the organization because two years or three years ago, we were on a different path here and we're going to really be – we're going to be off of these two platforms here within fiscal year 2015 and off the EasyPay platform relatively quickly here given at the pace that they're moving at.

So, I think we've been aggressive, and we're going to continue to be aggressive because we have to move onto other platforms in other parts of the business where we have some legacy platforms. I think Jan might have some specifics on the retention rates. I can tell you anecdotally that the last several quarters, as we've looked at the retention rates of clients who've moved from PCPW over – which is our legacy platform in major accounts, over to our Workforce Now platform, the retention rates have been higher than the line average. So, we think it's helping us in terms of our retention rate, but there's lots of other moving parts in the retention rate other than migrations.

So, you have to be careful about building any kind of model in terms of any improvements. Likewise, we can't specifically attribute retention rates in small business to the migration of clients on the RUN, but that retention rate happens to have also been quite good over the last two years or three years as we've been moving clients, but there are other moving parts at work. And then lastly, I would caution that as we get to the last mile of some of these platforms and some of these migrations, we have to be prepared to potentially have some challenges with the last few clients in terms of retention and migration.

So, we're not planning for that and we're hoping, against all hope, that, that doesn't occur, but I think it's prudent to assume that the last 1,000 clients are going to be harder than the first 1,000 clients. We had a lot of clients that had been raising their hands to migrate and the last few of them are probably going to be ones where we're going to have to ask them nicely and provide them incentives to move over. So, I think it's a balanced picture in terms of retention. And we also are moving on now to other platforms that are included in our retention rates overall, so it's not just RUN, and Workforce Now, and PCPW and EasyPay that impact our retention. We have a lot of benefits platforms that we're trying to consolidate and migrate off of, and we still have a couple of other smaller payroll platforms that are legacy also we're in the process of moving off of. So, we have still quite a bit of work to do, but the progress has been phenomenal and I'm incredibly proud of the organization. I think overall it's had a positive financial impact on us so far.

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

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

<Q – Sara Gubins – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Hi. Thanks. Good morning. Just to following up on the last discussion, could you talk a bit more about the magnitude of potential cost savings from shutting down legacy platforms? I know that some of that may be going back into investment plans, but I was hoping to get a sense of the gross savings that you might be able to get from here?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: It really is – it's a great question, which we're really trying hard to internally get our arms around exactly that issue. But, for example just this is a real-life example, we're almost off of the EasyPay platform here and those migrations took a great deal of effort, and we ramped up a reasonable amount of expense and people in order to accomplish that. And so as we plan for fiscal year 2015, our business units are working very effectively together in terms of seeing what we could do to help overall ADP rather than just focusing on an individual business unit. And in this example, we've decided to move some of the resources that were working on the migrations of EasyPay to RUN and moving them over to our major account and national account migration efforts because those folks are – even though they were working on different platforms, they're dedicated resources that were also trained on migration efforts.

So, even though they have to learn new products and new platforms, rather than downsizing or eliminating those resources, our decision was to move those resources over. And, in fact, overall – and Jan may have the exact number, but we actually are increasing incrementally our investment and our spend on migrations in fiscal year 2015 versus 2014. So I think this call is really – it's very difficult, on this call, to go through the level of detail. We're a, as you know, a $12 billion company with a fair amount of legacy, and there's a very reasonable list of projects and targets that we have that we believe will really create a better financial picture for ADP long-term. And we see evidence of that already in what we've done with RUN and with PCPW and SBS and in major accounts, but I think as you said it – you said it best that we are not done and we're continuing to invest.

So, I think for 2015, it is not appropriate to plan any kind of savings or improvements, as a result of migrations, because we actually are planning for a slight incremental increase in spend on that. Obviously, with the view we're not doing it without the expectation that there will be some large benefit in the future and I wish I could quantify that and give that to you today, but we're just not prepared to do that.

<Q – Sara Gubins – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Okay. Thanks.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: And I think what Carlos is saying is it's above and beyond of the margin expansion that it's pretty healthy that you have seen in our business segments. I mean, you see the results of ES in this fourth quarter, which had really very nice margin expansion. We delivered our margin expansion fiscal year 2014 above our kind of long-term expectation of 50 basis points and the confidence that overall the business is scaling to which migrations in an indirect way and in a complicated way, help us is also reflecting in 100 basis points guidance that we give for the improvement of our pre-tax margin in the Employer Services segment, which is also above what we have historically really committed to at this point in time.

So, as the CFO, I'm pleased with the progress we are making in the business overall of which migrations are a small part and a part, but in driving the scale for us. So my hope is that that is being recognized as the progress we're making relative to scaling of our business which we put a lot of effort in and it's showing the results now for a number of years in a row.

<Q – Sara Gubins – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Great. Thank you. Just switching gears briefly, given the improving labor market trends I'm wondering if when you put out the 2% to 3% guidance range for pays per control, if you see any bias towards the high end of that and if that is potentially a conservative approach. Thanks.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Well, the range includes the full range, 2% to 3%, but you're right of course our pays per control has been not very strong for a couple of years really but at 2.8% growing again faster than the U.S. economy is growing employment which is a benefit that ADP has that our clients doing a little bit better on employment growth than the rest of the country. And it is just, I think, more prudent planning as looking forward the economy seems to be picking up and sitting on solid grounds but since it is a, above the national growth rate and we have this up for a number of years, we don't really have a strong-formed opinion of if it's going to be at the upper end or the middle of the range, but it moves slowly. You know that from observation and we exited at 2.8% so that's I think is where I would form my mind around.

<Q – Sara Gubins – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Thank you.

Operator: Thank you. Our next question comes from David Grossman of Stifel Financial. Your line is open. Pardon me, David. You might want to check your mute button. Okay, we'll move on to Jeff Silber of BMO Capital Markets. Your line is open.

<Q – Jeff Silber – BMO Capital Markets (United States)>: Thanks so much. I wanted to switch gears to the PEO business. It's been fairly strong and your expectations are for that to continue. Can you just give us a little bit more color what's driving that and how sustainable you think that is?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: It's a great question because we've been asking the same question over the last six months or nine months and I think, as usual, it's a combination of things and I don't know if we have a scientific answer about the percentage of each factor. It's impossible to deny that some of it is just good execution because that business has been executing well for several years and I think our sense of just watching what they've done in terms of building their sales infrastructure, their go-to-market strategy, their products, et cetera, is that they are just doing well from an execution standpoint and from a leadership standpoint, so I think some of it is that.

I just want to remind everyone that that business has had double-digit growth here for several years and our sales results have been really quite impressive for several years as well. It's not just this one year. Having said that, as we said on the call before we believe that we have some help from the Affordable Care Act, which has caused, if nothing else, a lot of activity in all over the markets, but particularly in the small end of the market in terms of people looking at alternatives, whether they be the exchanges or whether they be a PEO.

There are some things about the structure of ACA around large groups that provide some potential benefits in some states, some of which we got in 2014 through the help, some of which we might get in 2015 and 2016 but there are also some things in the ACA, that beyond 2016 may make it actually difficult in terms of acting as a – or at least may level the playing field and remove any potential advantage that anyone including us may have had in 2014, 2015 and 2016.

And so, I think it's a balanced picture there where I think ACA appears to be helping but we're not planning on it helping forever and the combination of that with just great leadership, great execution and a good value proposition and I think competitive offering from a price standpoint. So, I think it's a combination of a lot of factors but as I – you just alluded to we're incredibly pleased with that because it's helping not just our overall growth rate but growth in earnings so that that business has a lot of factors in it but what we care about is obviously dollars of profit and in terms of the growth in pre-tax operating income from that business, whether it's on a per-employee, per-client or any basis is really quite helpful to ADP's overall growth in profitability.

<Q – Jeff Silber – BMO Capital Markets (United States)>: All right, that's helpful. And as a follow up, you mentioned the additional expense in each of the first two quarters in the current fiscal year, can you just tell us which line items that will be affected? And also does that mean you're not expecting pre-tax margin expansion in the first half of the year and it's all going to be back-end loaded?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: I don't think we want to go as detailed as to the guidance that protects margin by quarter. I think the attempt to isolate these two items was to help you a little bit with the skewing in your models. And they will be found, really, in the segment reporting line as they pertain mostly to the ES segment basically.

<Q – Jeff Silber – BMO Capital Markets (United States)>: Yeah. I guess, I was alluding to the expense line item on the income statement. Is that all in SG&A?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: It would be in systems development, as well as SG&A.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: It's going to be in a couple of places because with I think the two items we mentioned were the comparison year-over-year of our R&D and technology spending which is on a couple of different lines and then our sales expense which would be mostly in the SG&A line. So, I think it is probably spread out in a couple of different places but tilted towards the SG&A.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Tilted. And back to your initial question, the first half is really going to be the price on the pre-tax margin side. I think you got that right and...

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: But depressed compared to the full year, not necessarily going backwards from the previous year. I think your question was around – I don't remember exactly how you worded it, but you don't expect to go backwards necessarily. It's just that, in comparison to the overall pre-tax margin for the year, Q1 and Q2 will be lower, just as we expect the growth rate of operating income to be slightly – the growth rate to be slightly lower in the first half versus the full year compared to overall guidance...

<Q – Jeff Silber – BMO Capital Markets (United States)>: All right. That's very helpful. Thanks so much.

Operator: Thank you. Our next question comes from Bryan Keane of Deutsche Bank. Your line is open.

<Q – Ashish Sabadra – Deutsche Bank Securities, Inc.>: Hi. This is Ashish Sabadra calling on behalf for Bryan Keane. My question was in regards to the interest on funds held for client. It's positive to see that number turn around and be positive in fiscal year 2015. But as you think about the out-years and the funds coming up for reinvestments and the interest rate based on the forward curve, I was just wondering if you could provide some color on your expectations for the growth in that interest on funds held in going beyond fiscal year 2015. If you could just provide some color on that.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Jan and I are fighting over who gets to answer the question. We've been waiting for five years to talk about this. So, I will let Jan do the honors.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: So, just to provide a little bit more color to 2015, which we are guiding towards is, you'll see our balance curve to be still healthy, which is driven by good new additions to our client base, which is a good sign and then continued good pays per control growth, et cetera. But our rate of funds maturing during fiscal year 2015 is still higher than our – the rate is approximately 2.7% and the reinvestment rate is lower, so we do expect overall pressure on our yield for fiscal year 2015. So, you'll have as the turnaround situation, that it will be accretive to our earnings by the $5 million to $15 million of a client fund strategy impact, but it will be putting pressure on our margins because the growth of that client fund revenue is lower than our overall revenue base due to the situation that I just described to you.

So, it's in fact really just a turning point and you have to be very careful and thinking that through because it does – it expands earnings, but it depresses margins and this is the mechanics beyond it. As we look forward, and this is now based on the forward yield curve that you could look also the material we published for you about the embedded rates in our client funds portfolio in the third quarter, this will get better throughout the next few years. We don't provide specific guidance, obviously, for fiscal year 2016 and 2017 and 2018. We're happy to provide 2015 guidance in this detail, but it will be naturally better.

<Q – Ashish Sabadra – Deutsche Bank Securities, Inc.>: No, that's great. Good to hear that. And just a quick follow-up on the Dealer Services spin-off, as we think about the model post the spin-off and think about the other expense line item and the margin expansion in fiscal year 2015, I was just wondering if you could provide some color on how we should think about the model post the spin-off.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Yeah. So, we mentioned it in our comments. We just filed an updated Form 10 responding to questions that the SEC gave us and should have a look for that. We are not prepared to provide additional financial updates at this point in time. You'll see the updated fiscal numbers for 2014 included in the September numbers. And then Dealer Services will provide their go-forward financials. But we reconfirm that we're expecting $40 million to $50 million of incremental public company cost for the company, and that's pretty much, I think, the model that you should build to the level of precision that we see today.

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

Operator: Thank you. Our next question comes from Jim MacDonald of First Analysis. Your line is open.

<Q – Jim MacDonald – First Analysis Securities Corp.>: Good morning, guys. I think you mentioned that the ACA benefits in the PEO may diminish over time. Maybe you could explain that a little more.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I can attempt to, but again, this call may not be the appropriate place to get into all the details, but we're happy to – this is all public information, and we're happy kind of off-line to take anyone through kind of our view of the world, which is an uncertain view of the world because it's been constantly changing. As you probably also know, things have been delayed multiple times, and there's been multiple changes in the laws and the regulations. So, we will keep every quarter on top of that and updating you.

But in general, in 2017, there are some changes that take place that are scheduled to take place that I think would potentially diminish any – if there is an advantage or a positive wind at the back of our PEO or any other PEO, we believe that, that might diminish in 2017 as a result of the opening up of all the exchanges and all the regulations in our large group, as well as small group.

So, I think getting into more detail would probably not be easy to do here, but we're happy to have that conversation off-line with anybody because it's not obviously related to our specific guidance, just related to how the law and the regulations operate. But again, just the footnote on that is that two or three – what we thought was going to happen two years or three years ago has changed multiple times as a result of adjustments that have been made through the laws and the regulations. So it's something that, unfortunately, we have to continue to monitor. But overall, it's definitely a positive right now for us.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: And maybe I'll add to – just a reminder, the PEO has of course executed and grown for a decade, a long, long time from us. And as Carlos alluded in his initial comments, the principal driver or a principal driver of advantage that ADP has aside from a competitive offering is our strong distribution capabilities that leverages the scale and scope of our overall down and mid-market operations to feed leads into the business. And that strong new business bookings growth that we have seen this year was definitely aided by an excellent execution in that space, and that is something that is due to ADP's inherent structural advantages. And that would not diminish, hopefully, in the long run.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Yeah. And I think to be – again, I think that's a fair point. I'm glad Jan brought it up. The PEO has, from the time that ADP entered the business, has grown – from the time it made a major acquisition in the business in 1999 has grown from 65,000 worksite employees to 300,000 worksite employees before any Affordable Care Act impact.

So, we're not planning to go backwards or to change the growth trajectory of that business as a result of ACA. We're just acknowledging that it may be giving us some incremental help today and that incremental help may not be large in the future, but we would not be planning for anything other than what we've been able to do for – because it's just inherent advantages that, that business has in terms of its value proposition and distribution as being part of ADP. So, we will continue to leverage those advantages beyond any kind of regulatory changes that may take place in the next several years.

<Q – Jim MacDonald – First Analysis Securities Corp.>: And related to that, your guidance for next year of 13% to 15% is below the 19% this quarter. It seems like you're sort of built in for growth above that rate, at least early in the year? Is that right? And what would cause the lower growth rate maybe later in the year?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: That's a great question because we did look at it, again, over the last couple of days as we're getting ready to make this call. And all I can tell you is we had, again, a small item that helped – there was a one-time item in the quarter, and we kind of relooked at our expectations or our plans for sales in that business and our loss of function in that business. And we felt comfortable that, that was the appropriate range to provide you guys.

Because, again, the business tends to, like all of our businesses, we do have sometimes small calendar issues and other one-time issues that affect us, but we try to be transparent and give you guys a fair range of what we really expect. And I think we're being fair based on what we – because you could probably look at the previous quarters and see that the 19% is somewhat great news, and we appreciate it and we'll take it. But if not, on a trend line, it would be out of trend on the upper end. And so I think we expect to get back on trend, which is a slightly lower number than the 19%.

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

Operator: Thank you. Our next question comes from David Grossman of Stifel Financial. Your line is open.

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: Hi. Thank you. Good morning.

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

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: I dropped off for a few minutes, so if this was covered, just we can pass. But Carlos, you talked about the sales execution, obviously at the high end. And I think I understand that. I'm just curious whether or not, since this is a new product for this segment of the market, do you have any feedback on the technical merits of the product? And for those that have purchased it, what their experience has been and how it's stacked up?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: So to clarify [indiscernible] (54:30) talking about the up-market, and especially the higher end of the up-market. We also – I assume you're referring to Vantage, but I just want to clarify that some of the GlobalView sales would be in that same category and any increases or decreases in sales of GlobalView would also impact our comments and our guidance around growth in the upper end. We also have some sales that take place in our benefits platforms that are also very high end, and those comparisons also would be in those numbers.

So having said that, I just wanted to clarify that we're broader than just our Vantage platform in the upper end of the market. Having said that, the answer is no, we're not aware of any issues that would prevent us from winning. So, again, that's why we keep harping on the execution issues. We're clearly still – you heard the comments about our focus on innovation and our time to market and how fast we're trying to move, so to be clear, we're not standing still, and so we are making a lot of enhancements, as we speak, not only to Vantage, but also to our other strategic platforms in national accounts, which is our enterprise platform.

And so I think that we are doing whatever we can to improve our user experience to make sure that we have the right kind of functionality to make sure that the products provide global solutions as well, not just GlobalView but Vantage itself has also been enhanced with some global capabilities. So we're doing a lot of things to enhance our competitiveness in the upper end of the up-market. But we're not aware of any glaring holes or problems from a competitive standpoint.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: And, David, in order to give you a little bit more color around the momentum of Vantage, as Carlos mentioned, we doubled the number of sales this year that got to new clients throughout the fiscal year, so that is in line with our expectations and our plans. So the interesting part is the comments have to be really dissected by the part of national accounts that are selling in the one to 10,000 and above 10,000, so it's not a general up-market common debt policy.

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: Okay. Thanks. That's helpful. I'm wondering, Jan, maybe if I could just ask a financial question. Could you perhaps give us some more color on free cash flow in fiscal 2015? And perhaps help us understand whether the Dealer business contributes pretty much pro rata to free cash flow?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Yes, in general, yes. Let me jump back to cash flow to 2014 that provides you with starting point for 2015. You saw our cash flow from operations to be about $1.8 billion and that was up 16% year-over-year. And I want to caution that that is impacted by items that are one-time or timing items, so when you adjust for changes in working capital and some lower pension contributions we made and the increase for stock comp, our actual kind of like-to-like cash flow has been closer to about $1.6 billion, or 7% growth, I would say, in a like-to-like comparison. And historically our cash flow from operations has really grown in line with our operating results.

And that's a good assumption to have and there's no difference between the business in principle. Obviously the cash flows that ADP would receive from the dividend I excluded from this, but from the operational perspective I can answer your question that is really in line with what the business is doing. We published our capital expenditures for Dealer Services in Form 10 that you can find, so there's really nothing unusual in the cash flow situation for Dealer Services.

<Q – David Grossman – Stifel, Nicolaus & Co., Inc.>: So the free cash flow conversion of Dealer is very similar to...

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Very similar. Very similar.

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

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Thank you.

Operator: Thank you. Our next question comes from Jason Kupferberg of Jefferies. Your line is open.

<Q – Ramsey El-Assal – Jefferies LLC>: Hi. This is Ramsey for Jason. Back to our new business bookings, you're guiding for a slight acceleration in the metric for fiscal 2015, and as you mentioned, your easiest comp is by far in the first quarter, which has historically been a relatively inconsistent quarter. Can you give us some additional color on your confidence levels or expectations or just dynamics you see for the metrics specific to the first quarter? Should we assume because of the easy comp the Q1 result should be quite high or anything additional there would be helpful.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I wish I could, but I'm getting a look from Elena. And really, all kidding aside, as you know, we're only in the first month of the quarter, so it's very – sales, unlike revenues for us, we have a lot of visibility around lot of things in our business because it's a great business model because of its recurring revenue nature. The sales are something that we really can't – we know what our head count growth is which drives on our – if you look at it over multiple quarters and multiple years, it's very easy to answer the question. If you look at any individual month or an individual quarter, we have to be careful because it is, like other companies in terms of what they consider to be revenues which is sales, for us sales is like other company's revenues where it's very, very – it's harder, not very hard, but it's harder to really pin that number down.

So I think we've avoided giving quarterly guidance in the past, and we certainly don't want to start now. So unfortunately I'm going to have to defer, but we believe we have a head count in place, we believe we have an easier grow-over, so there are some factors that give us comfort about the first quarter, but I just don't have the ability to give you, and I honestly don't have the visibility today to be able to comment on that.

<Q – Ramsey El-Assal – Jefferies LLC>: All right. That's fair. On another track entirely, you mentioned you're seeing some stabilization in Europe. It's obviously been a headwind the last couple of quarters. Are you seeing what you'd describe as sort of an inflection point there? How should we think about Europe in the context of contribution to your fiscal 2015 projections guidance?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Well, I think, for example, from a pays-per-control standpoint, I think the stabilization that Jan was referring to is really purely on the employment levels in Europe, which generally speaking, whether it's in the U.S. or Europe or anywhere else, are indicators of other things also stabilizing. But the only comment we're making is that the pays-per-control has gone from 0.8%, 0.9% negative to now 0.2% or 0.3%, so the trend is heading towards flat, but not obviously growing yet.

So that's better than where we have been and that's indication of some stability. On the sales front we had a slight decrease in our sales results in Europe, which in the context of the situation, we were very pleased with. And we expect that to grow. That's our plan is to have our European sales results grow in fiscal year 2015, so that's part of our assumption that there is stabilization that there is some improvement and there will be some end demand generated in Europe.

So all of those things added together, with very good retention rates, because I should add also that they have had an improvement in retention in fiscal year 2014 versus 2013 which was great and we certainly appreciate. So when you add that all together, we expect to have positive revenue growth and I think in the context of the situation, we're happy with that but it's not helping accelerate ADP's revenue growth. And it was the European results, not the international results, but the European results were net-net at a lower growth rate in 2014 than the line average for ADP.

<Q – Ramsey El-Assal – Jefferies LLC>: That's really helpful. Thanks a lot.

Operator: Thank you. Our next question comes from Joe Foresi of Janney Capital Markets. Your line is open.

<Q – Jeff Rossetti – Janney Montgomery Scott LLC>: Hi. Good morning. This is Jeff Rosetti on for Joe Foresi. Just a quick question. I think, Carlos, you alluded to the transition of some of the remainder of your clients that haven't switched to the cloud maybe taking a little bit longer. Is there any kind of incentive, any kind of discount that you might provide them? And how that might impact your assumptions with respect to margins?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think the incentives are, so far – again, one might argue that we have gone after the largest segments first into where there was probably the biggest opportunity. And it's probably there where there was the most natural demand for movement. So there the tools largely around better products and enhancements and integration, and so there really wasn't year-to-date – not year-to-date but up until now in terms of our migration strategy. It hasn't been around giveaways or lower price or incentives. It's been around, you were on this legacy payroll platform and I think if you move to an HCM cloud platform you now have time and attendance benefit that helps you with compliance of ACA, easier user experience. You've got access to mobile applications, so it's been largely a pull strategy, if you will, of getting people excited about a product that we believe is better for them and it helps them manage their employees better and more effectively and more cost effectively.

So we haven't yet found ourselves in a position where we've had to do unnatural acts to move clients. That doesn't mean we haven't spent money, because we've invested a lot in the migration tools. And generally speaking, we haven't "charged" for it. So we've incurred the expense of some of those migrations and some of those movements. So as we go forward, we'll keep you apprised of whether or not we end up needing to use incentives, discounts, pricing, et cetera. We are considering using our sales force more than we have thus far. The sales force has been involved only to the extent that there's an opportunity to add additional modules and increase the penetration rate of our clients' individual client level. So as we move more up-market in our migration strategy, we are likely to involve our sales force, which would obviously result in the occurrence of some commission expense. And we would certainly keep you updated as to whether or not pricing is affected. So far nothing to report.

<Q – Jeff Rossetti – Janney Montgomery Scott LLC>: Okay. Thank you. Very helpful. And just as a follow-up, could you provide any timeline with respect to some of the compliance-related products that you will be rolling out this year related to ACA? Thank you.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Jan probably has the answer to that.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Yes, I think we have current plans to introduce the ACA compliance product in its comprehensive view in the second quarter of this fiscal year and then we hope to see it contributing to sales for the second half of the fiscal year.

<Q – Jeff Rossetti – Janney Montgomery Scott LLC>: Thank you.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: You're welcome.

Operator: Thank you. Our next question comes from Mark Marcon of Robert W. Baird. Your line is open.

<Q – Mark Marcon – Robert W. Baird & Co., Inc. (Broker)>: Good morning. Thanks for taking my question. Couple of specific elements with regards to products, particularly as it relates to the higher-end in terms of Vantage and Workforce. Can you talk a little bit about some of the new upgrades that are going to be coming out? I was at SHRM and saw the previews and looked pretty interesting. Just wondering when those would be rolled out and if your guidance is assuming any sort of specific impact from those?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think in terms of the impact on the guidance, I think we have convinced ourselves over the last two or three years that for us to drive our sales growth, it can't just be elbow grease. It has to be product driven. We also have to execute, but they have to product to help, right? The market wants it. The market wants integration, it wants global, it wants a good user experience. So those are all the things that we are focused on.

I think some of the things you may have seen are specific items around data analytics that are going to, I think, really help our clients manage their workforces better, both from a planning standpoint but also from a compensation standpoint. We've added some great tools in the talent management space that from an on-boarding and recruitment standpoint we think are very positive. So we're adding a lot enhancements to global – I think we've talked over the last couple of quarters that we've added global system of record in our Vantage platform. We have added a capability to provide Streamline as an offering with Workforce Now in major accounts which is – there are many clients in our major account space and those are 50 to 1,000 that have employees in other countries, and so that's a fairly significant enhancement as well.

So I think we have a lot of things and it's reflected in our spend rate, our innovations, and product development, and R&D, and I think you've seen a few of them. And how much each one specifically is quantified in terms of our forecast in sales, the ACA is really the only one where we have kind of specific dollars assigned, not because we had a scientific way of doing it, it's because it was easier as a separate swindling, if you will, to look at. But all of the things I just mentioned and all of the things you've seen are part of the plan to continue to drive to drive our win rates in the market and to help us hopefully grow our market share and grow slightly faster than the rest of the market which is what we're trying to do to our sales results.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: And, Mark, the features that Carlos described are either available today or will become available in fall of what was presented at the SHRM, and naturally will enhance on our overall sales dynamic driving hopefully Workforce Now and Vantage sales.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I think from a packaging standpoint which I think is important, because I think the world has moved in a direction where consumerism is a big factor in all technology solutions. So we are really putting a new skin, if you will, on most of our products. And some of what we talked about in terms of our innovation going on in our New York Innovation Lab is a combination of a lot of things, some of which we're not prepared to talk about yet, but our new user experience and our new packaging I think is something that is coming out very, very soon here, and I think will again help us from a competitive standpoint and just I think really help the sales force in terms of its ability to get in the door and close business.

<Q – Mark Marcon – Robert W. Baird & Co., Inc. (Broker)>: So you mentioned in the fall. Do you think it will be ready for the key fall selling season? Or would it be more of, we're rolling this out and GA will be – and I'm referring specifically the analytics and the user interface is what I was specifically referring to as well as the social aspects?

<A – Jan Siegmund – Automatic Data Processing, Inc.>: The analytics product is in the market actually. I [ph] was just to give (01:11:29) that we sold already to the first client. So I think in the fourth quarter we sold a number of clients actually, and there's a great dynamic already for dynamics in the marketplace. So it's available and being sold, and the user experience coming out in the fall is already a part of our demonstrations. I think you saw in the third quarter Carlos presented I think a snapshot in the slides about it.

So I think I want to take from a financial point, I think that's what you're angling for. Our new product introductions, putting risk over opportunity into our new growth number, and my assessment would be that it is, as in past years, contemplated in our overall guidance. They don't form a huge amount of planned sales dollars, but they clearly are part of making our product more competitive. So I don't think there's more or less [indiscernible] (01:12:22) to these product introductions in our sales numbers than in previous years.

<Q – Mark Marcon – Robert W. Baird & Co., Inc. (Broker)>: And then just a follow-up question. Just with regards to new sales, what percentage of the very upper end of the client base would typically account for, what percentage of new sales would that very upper end 10,000+ typically end up accounting for?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: A very small, in terms of the overall percentage, which I can say for almost any other category of ADP, we're so big and so diversified that there isn't any one thing. But the difference is that it is very lumpy. This has been going on for decades. We've had a few quarters where we've had to tell you about some of this lumpiness that happens in the upper-end of the markets. When you're comparing just the upper-end of the market to the upper-end of the market, you can have swings and variability. But in terms of its impact on overall ADP, as you can see, it can affect our overall sales growth by around 1%, but 1% sales growth is about – I think it's a $15 million impact on revenue for ADP in fiscal year 2015. So these are just not giant impacts or giant numbers, but they affect the numbers and that's why we're trying to be transparent and help you guys with it, but it isn't what's going to make or break our results for ADP.

<Q – Mark Marcon – Robert W. Baird & Co., Inc. (Broker)>: Appreciate that. Thank you.

Operator: Thank you. Our next question comes from Jim Schneider of Goldman Sachs. Your line is open.

<Q – S.K. Borra – Goldman Sachs International>: Thanks for taking my question. This is S.K. Prasad Borra for Jim Schneider. Couple of questions, if I may. Firstly, on your cost base, how do you expect the cost base to evolve, especially your investments around cloud solutions? How much of that would be dedicated to R&D and how much would go to sales and marketing?

And secondly on the margin profile what you get for cloud solutions, if you compare that with your legacy products, is that a huge gap or do you think it will be comparable in the medium term?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I'll take the second part first and then maybe Jan can help with the first part. I think on the second part, just as a reminder, so we are not a pure software technology company. So the spend that we have on the services component and the compliance component of our products, we hope becomes more efficient and more productive over time in part because of [ph] health (01:14:53) from going to cloud-based products. But there is not an enormous change that we have planned there yet. We have seen some improvements in terms of what we need to spend on service and our low-end of the business and in mid-market as a result of new cloud-based solutions, our implementation processes in some cases are easier and faster.

So I think there's some benefit there, but we have unlike, again, a pure-play technology software. It's not quite – because I think if I understand the nature of your question, it's not quite as scientific as you might find other companies where you can say you're a software shop and this is how the cost changes because now you're cloud versus – because we have a lot of expense in our P&L that is not related to technologies, related to service.

So with that as a backdrop, we do think that it is helping us and will help us which is why we're moving on these migrations as aggressively as we're moving, but it isn't I think it's as dramatic as you would find in a software technology company. The new good news for us is in some of the pure software technology companies that transition comes with lower revenues in the short-term as you make a transition because they're not on a recurring revenue model. In our case we've always been on a recurring revenue model, so there isn't as much change to our overall financial model other than maybe some help in terms of our cost structure long-term as you might find in other places. So, Jan, I don't know if you want to add to that.

<A – Jan Siegmund – Automatic Data Processing, Inc.>: Just referring to the first part of your question, if you look at our overall P&L, you'll notice that our systems and development and programming cost grew by approximately 10% for the year, a little slower in the quarter, and that acceleration of expense is in line with our strategy of focusing on innovation. So we anticipate and we've talked in the past about aligning our investments into R&D with revenues, so I think at that cost line, you should not expect scale because we've committed to executing our innovation strategy in 2015 for sure.

Our sales and distribution and marketing costs are part, of course, of SG&A, and this year SG&A grew about 5.5%, so we did gain scale obviously relative to our revenue growth, but the sales and marketing costs are largely driven by the new business bookings that we do and we have talked in the past that we have gained productivity in that channel, historically, so there are slight productivity improvements we would hope to gain also in 2015, but that's I think as specific as we can get for 2015 for you. Those are the two big drivers that you alluded to and hope that's helpful.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: And one last just stat that I think helps in terms to show our commitment to innovation and also something that may not be obvious from the numbers that Jan just talked about in terms of our increase in system and development expense which we're trying very hard to grow in an appropriate rate and not trying to drive scale from it. But in addition to that, three years ago we set a target, we want to move the amount of spend that we have on new R&D or new cloud-based products compared to legacy products and three years ago that mix was about 40% on new and 60% on legacy. And the reason we know that number so well is because we've actually included that in the NBOs of myself and the entire management team to move that number up, so that we can not only grow our total expense but grow the portion of that expense that we're spending on new stuff versus legacy. And that number now has moved from 40%/60% to 60%/40%. So we're spending a lot more on new not just because of the absolute increase in expense but also because the change in mix of old versus new.

<Q – S.K. Borra – Goldman Sachs International>: That's very clear – very helpful. Thank you.

Operator: Thank you. Our next question comes from Ashwin Shirvaikar of Citibank. Your line is open. Please check your mute button. If you are on speaker, please pick up the handset. Okay. We'll move on to Smitti Srethapramote of Morgan Stanley. Your line is open.

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: Hi. Thank you. This is Danyal Hussain calling in for Smitti. Just wanted to follow up on the PEO business. Obviously, it's done extremely well on organic basis. But, Carlos, maybe you could just comment again on the potential to acquire some of those smaller PEO businesses out there kind of in that same style that you've done with payroll? Thanks.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: I understand the comparison and we actually had some hopes over the years that we would be able to do that because we have done that fairly effectively in the payroll business at times. But the two businesses are really completely different in the sense that in the payroll space, it's really one of, frankly, just evaluation issue. It doesn't make sense in terms of the economics, because as you can hear we're not interested in new platforms. So the question is, can we absorb financially, and is it a net positive for our shareholders to acquire and roll out payroll businesses?

And the PEO is slightly different because there is a risk component where the acquirer has underlying workers compensation and health insurance risk both in terms of renewal and in terms of just pure balance sheet financial risk. And so we've been over the years looked at really, frankly, dozens of PEOs and we just never felt that we ran across something that made sense from a risk profile standpoint and the return we thought we might be able to get for our shareholders. So it's one thing to do the math on paper. When you introduce a risk element, then you have to risk adjust it, if you will, in terms of its potential downside. We've decided to just go it organically and so we will continue to look as we always do because we're open minded. But I would count on us continuing to follow the path that we've followed because it's been pretty successful.

And ironically, the PEO is one place where when you hear us talk about migrations and multiple platforms and so forth, one might argue and might speculate the part of why the PEO has had all the success it's had and I would attribute a small percentage of the success to this, but that simplicity and that focus on having one platform and just focusing on day-to-day execution and beating the competition and winning in the marketplace rather than being distracted by complexity and multiple platforms I think probably has helped them. So we're not in any hurry to change that.

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: Got it. And maybe could you just comment on how attach rates have been trending? And your pricing expectations for 2015?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Attach rates for several products?

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: Ancillary products on your ES segment.

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: So I'm glad you actually brought that up because I think I said that in the migration when someone asked a question about pricing, I said there was nothing to report and wasn't completely fair because even though on specific, the PEO portion of what we're migrating clients on there's been no discounting or a natural act. In general, we've actually benefited overall from a pricing standpoint as a company as clients have migrated because in general they've taken on additional products because of the opportunities that we have with integration of the multiple modules, if you will, being on a single database.

And so I think those attach rates continue to be very good in general and new sales and also continue to hold up very well on our migrations. I think in Vantage, the time and attendance attach rate is somewhere in the 80% range plus. We're getting good attach rates on benefits and also on talent. So we're very pleased because these are products we used to have to sell first one product and then another product and then another product, and now we're doing much better in terms of our attach rates upfront in the sales process as well as in the migrations.

And when you look at our penetration rates of our various ancillary products in general of the base and compare it to the attach rates on new sales, you would conclude that there's a huge opportunity there. But it's going to take many, many years to get there and there's a lot of execution risk along the way, but just want to be clear that the attach rates on new business are multiples of what our penetration rates are in the base of benefits, time and attendance and some of our other products.

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: And then pricing for 2015?

<A – Carlos Rodriguez – Automatic Data Processing, Inc.>: Pricing for 2015 is very much in line with what we've been doing for the last three or four years, which is net price increase of around 1% in terms of the impact that you would see from data in terms of our revenue and what the clients have experienced in the marketplace. So it's a competitive market space. Inflation is still low. And so we've historically – prior to the financial crisis, we were a little bit more, I wouldn't call it aggressive, but I think our price increases were healthier than they have been in the last three or four years and there's no plan to change that in 2015.

<Q – Danyal Hussain – Morgan Stanley & Co. LLC>: Thank you.

Operator: Thank you. I'm not showing any further questions in queue. I'd like to turn the call back over to Carlos Rodriguez for any further remarks.

Carlos A. Rodriguez, President, Chief Executive Officer & Director

Thank you very much for joining us today. As you probably could tell from our tone, we're very pleased with the results. When we report these year-end results, we don't always focus on the quarter, but we really had a great fourth quarter and just want to thank the entire organization and all of our associates, including our sales organization, for delivering great results in the fourth quarter. We continue our shareholder family actions, as Jan mentioned, through dividends and also share buybacks. We continue to be excited about the opportunities that the spin-off provides both for Dealer Services and for us and we'll continue to update you along the way as we get closer to the date of the spin.

I'm incredibly enthusiastic about the future as we begin 2015. This focus that we have on human capital management has finally come to fruition here as a result of the spin-off, and I think all of our efforts and our focus are going to be in that space which we believe is a great opportunity on a global basis. I want to thank you again for joining us. This concludes the analyst call for today. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.