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# **Fiscal 2012 Second Quarter Earnings Webcast & Conference Call**

**January 25, 2012**

**HR. Payroll. Benefits.**

# Forward Looking Statements

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# Agenda

- **Opening Remarks** *Carlos Rodriguez, President & CEO*
- **Second Quarter Fiscal 2012 Highlights** *Christopher Reidy, CFO*
- **Fiscal 2012 Guidance** *Christopher Reidy, Carlos Rodriguez*
- **Summary** *Carlos Rodriguez*
- **Q&A** *Carlos Rodriguez, Christopher Reidy*
- **Closing Remarks** *Carlos Rodriguez*
- **Appendix**
  - *Second Quarter Fiscal 2012 Detailed Results*
  - *Fiscal 2012 Guidance History*

# Opening Remarks

- **Solid results Q2 FY12, despite mixed economy**
- **Continued strength in key business metrics**
  - New business sales growth for Employer Services and PEO Services
  - U.S. pays per control (same-store-sales employment metric) growth
  - Client fund balances growth
  - PEO worksite employee growth
  - Excellent client retention level although tick down from a year ago due to large client loss
- **Continued investment in product innovation, salesforce and client service having positive impact on new business sales**
- **Dealer Services**
  - Continued stabilization in North America with strong finish to calendar 2011 car sales
  - New business sales ahead of expectations
  - Worldwide revenue retention increased

# Second Quarter Fiscal 2012 Highlights

- **Revenues ↑ 7% to \$2.6 billion, ↑ 6% organically**
  - Strong new business sales – ES/PEO ↑ 14%
  - Employer Services revenues ↑ 7%, ↑ 5% organically
    - Client revenue retention at excellent level year-to-date despite 0.2% decline
    - Pays per control ↑ 2.8%
    - Average client balances ↑ 6%
  - PEO Services revenues ↑ 16%, all organic
    - PEO average worksite employees paid ↑ 13%
  - Dealer Services revenues ↑ 7%, all organic
    - Transaction activity ↑, win rates solid, retention ↑

## Second Quarter Fiscal 2012 Highlights (continued)

	Including 2Q12 Gain*	Excluding 2Q12 Gain*
▪ <b>Pretax earnings</b>	↑ 20% to \$579.7 million	↑ 6% to \$513.7 million
▪ <b>Pretax margin</b>	22.4%, ↑ 230 basis points	19.9%, ↓ 25 basis points
–	Decline in high-margin client interest revenues due to lower yield on balances, resulted in 80 basis points drag on margin	
–	Acquisitions resulted in 30 basis points drag	
▪ <b>Effective Tax Rate</b>	↓ 0.7 pts to 35.3% from 36.0%	↓ 1.0 pts to 35.0% from 36.0%
▪ <b>Net earnings</b>	↑ 21% to \$375.0 million	↑ 8% to \$333.8 million
▪ <b>Diluted EPS</b>	↑ 23% to \$0.76 from \$0.62	↑ 10% to \$0.68 from \$0.62
▪ <b>Share Repurchases</b>		
–	Acquired 0.9 million shares at a cost of about \$44 million during 2Q12	
–	Acquired 6.3 million shares at a cost of about \$305 million fiscal year-to-date	

\* Gain on the sale of assets relating to a third-party expense management platform

# FY12 Guidance - Client Funds Portfolio Extended Investment Strategy

	<u>FY12 (F)</u>		<u>FY11</u>		<u>Change</u>	
	\$	Yield/ rate	\$	Yield/ rate	\$	Yield/ rate
<b>Balances:</b>						
Average Client Short Portfolio Balance	~\$3.4 B	~0.3%	\$3.3 B	0.3%	~\$0.1 B	~ flat
Average Client Extended Portfolio Balance	7.6 – 7.7	2.8 – 2.9%	7.1	3.6%	0.5 – 0.6	↓ 70-80 bp
Average Client Long Portfolio Balance	<u>6.9 – 7.0</u>	<u>3.8 – 3.9%</u>	<u>6.5</u>	<u>4.2%</u>	<u>0.4 – 0.5</u>	↓ <u>30-40 bp</u>
= Average Client Funds Balance	\$17.9 – 18.1 B	2.7 – 2.8%	\$16.9 B	3.2%	\$1.0 – 1.2 B	↓ 40-50 bp
Average Corporate Extended Investment Balance	\$2.4 – 2.5 B	2.7 – 2.8%	\$2.1 B	3.5%	\$0.3 – 0.4 B	↓ 70-80 bp
Average U.S. Commercial Paper Borrowings	\$2.1 – 2.2 B	~0.1%	\$1.6 B	0.2%	\$0.5 – 0.6 B	↓ ~10 bp
Average U.S./Canadian Reverse Repurchase Borrowings	<u>~0.3</u>	<u>~0.7%</u>	<u>0.5</u>	<u>0.4%</u>	<u>~(0.2)</u>	↑ ~30 bp
= Average Short-term Borrowings	\$2.4 – 2.5 B	~0.2%	\$2.1 B	0.3%	\$0.3 – 0.4 B	↓ ~10 bp
<b>Pretax P&amp;L Impact:</b>						
Interest on Funds Held for Clients – Client Short	~\$10 M		\$10 M		~flat	
Interest on Funds Held for Clients – Client Ext'd	215 – 220		254		↓ \$35 – 40	
Interest on Funds Held for Clients – Client Long	<u>260 – 265</u>		<u>276</u>		↓ <u>10 – 15</u>	
= Total Interest on Funds Held for Clients	\$485 – 495 M		\$540 M		↓ \$45 – 55	
Corporate Extended Interest Income	~70		74		↓ ~5	
Corporate Interest Expense - Short-term	<u>~(5)</u>		<u>(6)</u>		~flat	
	\$550 – 560M		\$608 M		↓ \$50 – 60 M	

# FY12 Guidance – Total ADP

- **Total Revenues** ↑ 7% - 9%
- **Diluted EPS** – ↑ 8% - 9%
  - Up from \$2.52 in FY11
  - Excludes Q2 gain on the sale of assets
  - Reflects \$0.02 lost earnings per share for remainder of fiscal year from the Q2 sale of assets
  - Share buybacks to offset anticipated dilution related to employee benefit plans contemplated in guidance
  - No further share buybacks beyond offset to dilution contemplated in guidance
- **\$50 - \$60 million anticipated decline in pretax earnings related to client funds extended investment strategy**
  - Estimate 90 basis point to 100 basis point drag on total pretax margin

# FY12 Guidance – Reportable Segments

- **Employer Services**
  - Revenues ↑ ~7%
  - Pretax margin ↑ up to 30 bp
  - Pays per control ↑ ~2.5%
- **PEO Services**
  - Revenues ↑ ~17%
  - Slight improvement in pretax margin
- **Annual dollar value of ES & PEO Worldwide New Business Sales**
  - ↑ ~12% compared to \$1.1 billion in FY11
- **Dealer Services**
  - Revenues ↑ 9% - 10%
  - Pretax margin ↑ at least 50 bp

# Summary

- **Overall pleased with results for Q2 FY12**
  - Solid organic revenue growth
  - Strong new business sales, investments in product innovation, supplemented by acquisitions that complement our core
- **Strong & consistent cash flows**
- **Committed to returning excess cash to shareholders through dividends & buybacks**
- **AAA credit rating reflects strength of business model & balance sheet**
- **Focused on enhancing market leadership by investing in product innovation, as well as distribution and service capabilities**

## Q&A

*There are no slides during this portion of the presentation*

# Appendix

# Segment Results 2Q12 – Employer Services

- Revenues – ↑ 7%, ↑ 5% organically
- Pretax margin 24.5%, ↓ 120 basis points
  - ↓ 40 basis points excluding drag of ~80 basis points from acquisitions
  - Tougher year-over-year comparisons
    - Higher sales and implementation expense
    - Investments in service and product innovation
- Pays per control, same-store-sales – AutoPay ↑ 2.8%
- Worldwide client retention ↓ 0.2 percentage points year-to-date through 2Q12
- Annual dollar value of new business sales ↑ 14% (Employer Services and PEO Services combined)

## Segment Results 2Q12 – PEO

- Revenues **↑ 16%**, all organic
- Pretax margin **10.2%**, **↑ 20** basis points
- Average worksite employees paid **↑ 13%** to approximately **251,000**

## Segment Results 2Q12 – Dealer Services

- Revenues – ↑ 7%, all organic
- Pretax margin 17.1%, ↑ 220 basis points
  - ↑ 150 basis points excluding favorable grow-over impact of last year's acquisition-related costs of 70 basis points
- Strong new business sales

# Client Funds Portfolio Extended Investment Strategy – 2Q12

	<u>2Q12</u>		<u>2Q11</u>		<u>Change</u>	
	\$	Yield/ rate	\$	Yield/ rate	\$	Yield/ rate
<b>Balances:</b>						
Average Client Short Portfolio Balance	\$2.2 B	0.4%	\$1.8 B	0.5%	\$0.3 B	↓ 10 bp
Average Client Extended Portfolio Balance	6.7	3.0%	6.4	3.6%	0.3	↓ 70 bp
Average Client Long Portfolio Balance	<u>6.7</u>	<u>3.9%</u>	<u>6.5</u>	<u>4.3%</u>	<u>0.3</u>	↓ <u>30</u> bp
= Average Client Funds Balance	\$15.6 B	3.0%	\$14.7 B	3.5%	\$0.9 B	↓ 50 bp
Average Corporate Extended Investment Balance	\$3.6 B	2.6%	\$2.9 B	3.3%	\$0.7 B	↓ 80 bp
Average U.S. Commercial Paper Borrowings	\$3.3 B	0.1%	\$2.4 B	0.2%	\$0.9 B	↓ 10 bp
Average U.S./Canadian Reverse Repurchase Borrowings	<u>0.3</u>	<u>0.7%</u>	<u>0.5</u>	<u>0.5%</u>	(0.3)	↑ <u>30</u>
= Average Short-term Borrowings	\$3.6 B	0.1%	\$2.9 B	0.3%	\$0.7 B	↓ 10 bp
<b>Pretax P&amp;L Impact:</b>						
Interest on Funds Held for Clients – Client Short	\$2 M		\$2 M		\$0 M	
Interest on Funds Held for Clients – Client Ext'd	50		58		↓ 8	
Interest on Funds Held for Clients – Client Long	<u>66</u>		<u>69</u>		↓ <u>3</u>	
= Total Interest on Funds Held for Clients	\$118 M		\$129 M		↓ \$11 M	
Corporate Extended Interest Income	24		25		↓ 1	
Corporate Interest Expense - Short-term	(1)		(2)		↓ 1	
	\$140 M		\$152 M		↓ \$11 M	

# FY2012 Guidance History

	1/25/12 Forecast	10/26/11 Forecast	7/28/11 Forecast
<b>Total ADP</b>			
<b>Revenues</b>	↑ 7% - 9%	↑ 7% - 9%	↑ 7% - 9%
<b>Diluted EPS</b>	↑ 8 - 9%	↑ 8% - 10%	↑ 8% - 10%
<b>Employer Services (ES)</b>			
<b>Revenues</b>	↑ ~7%	↑ ~7%	↑ 6% - 7%
<b>Pretax Margin</b>	↑ up to 30 bp	↑ ~50 bp	↑ at least 50 bp
<b>Pays per Control</b>	↑ ~2.5%	↑ ~2%	↑ 1% - 2%
<b>PEO Services</b>			
<b>Revenues</b>	↑ ~17%	↑ ~17%	↑ 15% - 17%
<b>Pretax Margin</b>	slight improvement	about flat	about flat
<b>ES &amp; PEO New Business Sales, Worldwide</b>	↑ ~12%	↑ 8% - 10%	↑ 8% - 10%
<b>Dealer Services</b>			
<b>Revenues</b>	↑ 9% - 10%	↑ 8% - 9%	↑ 8% - 9%
<b>Pretax Margin</b>	↑ at least 50 bp	↑ ~50 bp	↑ ~50 bp

# Appendix: Fiscal 2012 Guidance History

Client Funds Portfolio Extended Investment Strategy	FY12 1/25/12 Forecast		FY12 10/26/11 Forecast		FY12 7/28/11 Forecast	
	\$	Yield/ rate	\$	Yield/ rate	\$	Yield/ rate
<b>Balances:</b>						
Average Client Short Portfolio Balance	~\$3.4 B	~0.3%	~\$3.5 B	~0.3%	~\$3.5 B	~0.4%
Average Client Extended Portfolio Balance	7.6 – 7.7	2.8 – 2.9%	7.6 – 7.7	2.8 – 2.9%	7.6 – 7.7	2.9 – 3.0%
Average Client Long Portfolio Balance	<u>6.9 – 7.0</u>	<u>3.8 – 3.9%</u>	<u>6.9 – 7.0</u>	<u>3.8 – 3.9%</u>	<u>6.9 – 7.0</u>	<u>3.9 – 4.0%</u>
= Average Client Funds Balance	\$17.9 – 18.1 B	2.7 – 2.8%	\$18.0 – 18.2 B	2.7 – 2.8%	\$18.0 – 18.2 B	2.8 – 2.9%
Average Corporate Extended Investment Balance	\$2.4 – 2.5 B	2.7 – 2.8%	\$2.3 – 2.4 B	2.8 – 2.9%	\$2.3 – 2.4 B	2.9 – 3.0%
Average U.S. Commercial Paper Borrowings	\$2.1 – 2.2 B	~0.1%	\$2.1 – 2.2 B	~0.1%	\$2.1 – 2.2 B	~0.2%
Avg. U.S./Canadian Reverse Repurchase Borrowings	<u>~0.3</u>	<u>~0.7%</u>	<u>~0.2</u>	<u>~0.7%</u>	<u>~0.2</u>	<u>1.3 – 1.4%</u>
= Average Short-term Borrowings	\$2.4 – 2.5 B	~0.2%	\$2.3 – 2.4 B	~0.2%	\$2.3 – 2.4 B	~0.3%
<b>Pretax P&amp;L Impact:</b>						
Interest on Funds Held for Clients – Client Short	~\$10 M		~\$10 M		~\$15 M	
Interest on Funds Held for Clients – Client Ext'd	215 – 220		215 – 220		220 – 225	
Interest on Funds Held for Clients – Client Long	<u>260 – 265</u>		<u>265 – 270</u>		<u>270 – 275</u>	
= Total Interest on Funds Held for Clients	\$485 – 495 M		\$490 – 500 M		\$505 – 515 M	
Corporate Extended Interest Income	~70		~70		70 – 75	
Corporate Interest Expense - Short-term	~(5)		~(5)		(5 – 10)	
	\$550 – 560M		\$555 – 565M		\$570 – 580 M	

**Thank You**

