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PRESENTATION

Operator

Good morning. My name is Crystal, and I will be your conference operator. At this time, I would like to welcome everyone to ADP's First Quarter Fiscal 2021 Earnings Call. I would like to inform you that this conference is being recorded. (Operator Instructions) I will now turn the conference over to Mr. Danyal Hussain, Vice President, Investor Relations. Please go ahead.

Danyal Hussain *Automatic Data Processing, Inc. - VP of IR*

Thank you, Crystal. Good morning, everyone, and thank you for joining ADP's First Quarter Fiscal 2021 Earnings Call and Webcast. Participating today are Carlos Rodriguez, our President and Chief Executive Officer; and Kathleen Winters, our Chief Financial Officer.

Earlier this morning, we released our results for the quarter. Our earnings materials are available on the SEC's website and our Investor Relations website at investors.adp.com, where you will also find the investor presentation that accompanies today's call as well as our quarterly history of revenue and pretax earnings by reportable segment.

During our call today, we will reference non-GAAP financial measures, which we believe to be useful to investors and that exclude the impact of certain items. A description of these items along with a reconciliation of non-GAAP measures to the most comparable GAAP measures can be found in our earnings release. Today's call will also contain forward-looking statements that refer to future events and involve some risk. We encourage you to review our filings with the SEC for additional information on factors that could cause actual results to differ materially from our current expectations. As always, please do not hesitate to reach out should you have any questions. And with that, let me turn the call over to Carlos.

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

Thank you, Danny, and thank you, everyone, for joining our call. This morning, we reported excellent first quarter fiscal '21 results, and I'm very pleased to say that across the board, we delivered a very strong start to the year that was well in excess of our expectations.

For the quarter, we delivered revenue of \$3.5 billion, down just 1% on both reported and organic constant currency basis, and our adjusted EBIT margin was up 120 basis points. Coupled with a slight increase in the effective tax rate versus last year and a share count reduction, our adjusted diluted EPS grew 5%, much better than our expectation 3 months ago, which was for a meaningful decrease in EPS. On this call, we'll discuss the changes that drove ADP's better-than-expected start to fiscal 2021.

In Q1, macroeconomic conditions continue to gradually improve, and we executed extremely well in several key categories, including better-than-expected sales performance, a continued commitment to client service and prudent expense management.

Let me start by covering key macro-related trends to provide context to our results, specifically on pays per control, out-of-business losses and client funds interest. During the first quarter, pays per control, which as a reminder, declined 11% in the fourth quarter, was in line with our expectation for high single-digit decline with a year-over-year decline of 9%. And in a continuation of the trend we saw into

our fiscal 2020 year-end, employment in small businesses continued to show the most improvement, while large businesses actually showed some degradation as we exited the first quarter. Out-of-business losses performed better-than-expected as small business losses stabilized and a substantial number of clients that had gone inactive last quarter, have restarted processing activities over the last 3 months.

Finally, average client funds interest rates declined in line with our expectations for the quarter, but client funds balances were favorable to our expectations, declining 7% compared to our double-digit expectation.

With that said, let me shift to the highlights resulting from our own execution. We delivered positive 2% growth in Employer Services new business bookings, which was significantly ahead of our expectations and marked a record Q1 performance. As you may recall from our commentary last quarter, we did expect some amount of sequential improvement relative to our Q4 bookings performance as economic conditions stabilize. However, we delivered a much faster reacceleration as our sales force started strong in July and carried that momentum through the end of the quarter.

We attribute the rapid reacceleration to a few key factors: first, we did see our clients and prospects show greater willingness to engage and purchase; but second and most importantly, we took action by maintaining our overall investment in sales and marketing, applying our best-in-class inside sales expertise to continue training our field sales force. And utilizing innovative demos and other HCM content to start conversations, we've designed a client acquisition funnel that is successful even in the current environment.

Our teams delivered across the board. That's everything from the downmarket where RUN continues to grow -- And in fact, we've now exceeded 700,000 RUN clients for the first time, surpassing pre-COVID levels to the mid-market, where we're seeing clients showing more interest in fully outsourced HRO solutions -- to the enterprise space, where we had strong traction in compliance-related solutions.

Our international sales were also strong as we closed several larger deals that were previously put on hold as prospects were waiting for a more stable environment to proceed. And our attach rates on many of our solutions continued to increase as well. This quarter, our workforce management solutions, also referred to as time and attendance, reached the 90,000 client milestone for the first time, and we're pleased to see that continue to grow.

Our revenue outperformance was also driven by stronger retention. We are very proud to report that we hit record Employer Services retention levels for a Q1 period, and our performance likewise experienced -- and our PEO performance likewise experienced stronger-than-expected retention. While our retention likely benefited from having some clients delay decisions to switch HCM vendors given elevated uncertainty, higher client satisfaction clearly contributed as well. You may recall that last quarter, we delivered record NPS scores across our businesses as we helped our clients manage through government programs like the PPP. This quarter, I'm happy to say that across our businesses, we either maintained or reached new record NPS levels.

We believe these results show that our commitment to providing outstanding service to our clients is paying off and will continue to do so. A combination of stronger bookings and retention in Q1 drove better revenue performance, and the high incremental profitability associated with those revenues, plus prudent expense management, ultimately drove stronger margin performance as well. This is another great example of execution by our associates. And in a few minutes, Kathleen will cover our margin performance in more detail.

I'd like to now provide an update on the progress we continue to make in driving innovation. Earlier this month, as part of the annual HR Tech conference, ADP was given the top HR product award. This marks a record-setting, sixth consecutive year that we have been recognized at the conference for our breakthrough technology innovations, which is representative of how we remain committed to leading the industry with the Premier HCM technology.

This year, we were recognized for our Next Gen Payroll engine. And as we highlighted in our February Innovation Day, the benefits of this new engine include a policy-based framework that enables easy self-service and powerful transparency that allows practitioners and employees to more easily understand the effects of regulatory, policy or potential life changes and is designed to be scaled globally. We continue to deploy our Next Gen engine to the market, and we added another 100 clients during the first quarter. We remain excited about expanding its availability and driving adoption, and the feedback so far has been overwhelmingly positive.

Ultimately, we expect a higher level of satisfaction to generate even better retention and higher win rates, supporting our long-term revenue growth trajectory. And we continue to innovate throughout our ecosystem. This quarter, the ADP marketplace reached 500 app listings, and we are pleased to offer an expanding suite of offerings as we continue to drive millions of daily API transactions for tens of thousands of clients that are current users. And just this past week, we hosted our annual ADP Marketplace Partner Summit, where we further strengthened our partner relations and provided actionable ideas to help our partners grow their business.

Also, earlier in Q1, we released our return to workplace solution that helps clients bring their employees back to work safely through a comprehensive set of tools designed to streamline and manage the process. We now have thousands of clients using the return to workplace solution, and we expect usage to grow over time as more clients start to gradually bring their employees back to the office or the worksite.

As I said, we are very pleased with the start to the year, and I'd like to recognize our associates from sales to service to implementation and all the others who support them for their continued efforts and outstanding performance during this time. They continue to come through for our clients when it matters most. And with that, I'll now turn the call over to Kathleen.

Kathleen A. Winters *Automatic Data Processing, Inc. - Corporate VP & CFO*

Thank you, Carlos, and good morning, everyone. We had a great Q1 with the combination of gradually improving macroeconomic conditions and outstanding execution, driving better sales, retention and overall volume. We do expect to continue to face a number of headwinds over the course of fiscal '21 as the global economy continues to recover from the effects of the COVID-19 pandemic. But with our strong first quarter, we now see the potential for a better full year outcome compared to our outlook 3 months ago, and our updated guidance reflects this view.

For the first quarter, our revenue declined 1% on a reported and organic constant currency basis. Clearly, a nice start out of the gates and better than we were expecting 3 months ago. Better bookings and retention rates were the main drivers of revenue favorability. And that, coupled with expense favorability, resulted in a year-over-year increase of 120 basis points in our adjusted EBIT margin. As you will recall, we anticipated that the first quarter would have a modest acceleration in bookings compared to the previous quarter, but a greater year-over-year revenue decline than we experienced in the previous quarter. And that much of this lost revenue would be at very high margin. Instead, our bookings swung to a year-over-year increase. Revenues declined only modestly, and our margins expanded even with the sales and implementation expense generated by a much stronger-than-expected bookings quarter. Several factors drove this margin favorability.

First, with a more modest revenue decline than expected in Q1, we saw less associated margin pressure than expected. In addition, the better retention we had in Q1 also translated to lower bad debt expense than we had originally contemplated. We also continue to execute our downturn playbook with our entire organization carefully managing headcount and discretionary expenses. And lastly, we made great progress on our digital transformation and expanded procurement initiatives in Q1 and effectively reduced operating expenses and overhead faster than anticipated. We are encouraged by what we have seen so far and are making a modest increase in our expected full year cost benefit from these transformation initiatives, and now expect \$150 million in benefit for fiscal '21, up from \$125 million. That revenue and margin performance together drove adjusted EBIT growth of 5%.

Our adjusted effective tax rate increased 10 basis points compared to the first quarter of fiscal 2020 to 21.3%, driven by lower tax benefit on excess stock compensation. Our share count was lower year-over-year, driven by both share repurchases that took place pre-COVID as well as the resumption of buybacks during the quarter. All of this combined to drive 5% growth in adjusted diluted earnings per share to \$1.41, a great start to the year.

Now some detail on the segments. For ES, our revenues declined 3% on a reported basis and 3% on an organic constant currency basis. A great result considering this quarter included the effects of a 9% decline in pays per control and a 20% drop in client funds interest revenue, plus the impact from last quarter's lower bookings level. Our client funds balances were down only 7%, better than the double-digit decline expected. And that outperformance was driven by the same bookings and retention-related factors that supported revenue. The year-over-year decline in average balances continued to be impacted by lower pays per control, lower state unemployment

insurance rates, continued payroll tax deferrals among some of our clients, and the closure of our Netherlands money movement operation in October of 2019. Our average yield for our client funds interest declined by 30 basis points, about in line with our expectations in this low interest rate environment. Employer services margin was up 120 basis points for the quarter, well ahead of our most recent expectations, driven by the same factors I mentioned earlier when discussing consolidated results.

For PEO, also a strong quarter out of the gate. Our total PEO segment revenues increased 4% for the quarter to \$1.1 billion, and average worksite employees declined only 3% to 547,000. This revenue growth and worksite employee performance were both ahead of our expectations, driven primarily by better retention and stronger-than-expected bookings in Q1. Same-store employment at our PEO clients performed in line with our expectations for a mid-single-digit decline, steady from last quarter. Revenues, excluding zero margin benefits pass-throughs, declined 1%. And in addition to being driven by lower WSEs, it continued to include pressure from lower workers' compensation and SUI costs and related pricing. PEO margin increased 40 basis points in the quarter. This included about a 60 basis points of favorability from ADP indemnity pertaining to changes in the actuarial loss estimates.

Let me now turn to our updated guidance for fiscal '21. We are very encouraged by our strong Q1 performance, yet we are still somewhat cautious about the balance of the year. You'll see that the implied increase in guidance for the next 3 quarters builds in some ongoing momentum for the balance of the year, but does not anticipate the same level of outperformance we just experienced in Q1. This reflects both our confidence in the fundamental strength of ADP as well as a realistic assessment of the lingering uncertainties ahead for the global economy, including uncertainty around the rate of continued economic improvement, the labor participation rate and the timeline for a vaccine.

For the details of our outlook, I'll start by updating you on some of our key macroeconomic assumptions. For pays per control, we continue to expect a decline of 3% to 4% for the year. And as we mentioned, pays per control performed approximately in line with our expectations in Q1. We continue to assume a modest pace of improvement from this point, with a mid to high single-digit decline in Q2, improving to a mid-single-digit decline in Q3, followed by a mid to high single-digit increase in Q4 on the easier compare. And as you are aware, the reported BLS unemployment rate has trended better than most people's expectations these past few months. But factors like a reduced labor force participation rate are creating an offset, which is why our pays per control has actually been in line so far.

Out-of-business losses outperformed our expectations and contributed to our record Q1 retention levels. We are raising our retention guidance accordingly. While we have seen effectively no incremental pressure so far this year from increased bankruptcies among our clients, with continued uncertainty as to further stimulus and strain in parts of the economy remaining from partial shutdowns, we believe it is still prudent to assume some effect from higher out of business losses in the coming quarters.

On client funds interest, there is no material change to our expectation for average interest rates for the year. Though we are revising our balance growth higher given the better start to the year with stronger sales and retention, we continue to expect the client funds balances to return to year-over-year growth in Q4.

Let's now look at a revised fiscal '21 guidance. I'll start with ES. We now expect revenue to be flat to down 2% for the full year versus our previous expectation for a decline of 3% to 5%. I'll break that down into some of its components. We now expect our new business bookings to be up 10% to 20% compared to our prior forecast of flat to up 10%. That 10% increase in guidance reflects the impact of our Q1 outperformance as well as a slight increase in our bookings expectation over the rest of the year. We are still contemplating a modest year-over-year bookings decline in Q2 as instances of partial economic lockdowns in Europe, plus uncertainty from the U.S. election keep us somewhat cautious. But this Q2 outlook is certainly better than what we contemplated 3 months ago.

We now expect our ES retention to be flat to down 50 basis points, versus down 50 to 100 basis points previously. As again, we had stronger Q1 retention than expected and believe our strong client satisfaction will translate to continued strong controllable retention though we continue to assume elevated out-of-business losses in Q2 and Q3.

And for our client funds interest, which primarily impacts the results of our ES segment, we are raising our average balances expectation on the strong Q1 sales and retention performance. And accordingly, raising our client funds interest range by \$10 million, now to \$400 million to \$410 million. We now expect our margin in the Employer Services segment to be down 100 to 150 basis points for the year

versus our prior forecast of down 300 basis points, driven by the stronger Q1 performance, a stronger revenue outlook and continued expense discipline.

For our PEO, we now expect revenue to be flat to up 3% versus our previous forecast of down 2% to up 2%. And we expect an average worksite employee count down 1% to up 1% versus our previous forecast of flat to down 3%. We continue to expect average worksite employee growth to be negative during the first 3 quarters and turn positive in Q4. Our revenues, excluding zero-margin pass-throughs, are expected to be down 1% to up 1% versus our previous forecast of down 4% to down 1%. We continue to expect lower workers' compensation and SUI revenues on a per worksite employee basis.

For PEO margin, we now expect to be down 50 basis points to flat in fiscal '21 versus our prior forecast for down 100 basis points. This increase in our guidance is driven by stronger revenues and a more favorable benefit from ADP indemnity.

Moving to our consolidated outlook. We now anticipate total ADP revenue to be down 1% to up 1% in fiscal '21 versus down 4% to down 1% prior. And we anticipate our adjusted EBIT margin to be down 100 to 150 basis points versus our prior guide of down 300 basis points. As I mentioned earlier, we now expect about \$150 million in savings from the combination of our digital transformation as well as our procurement transformation initiatives. And we will continue to manage our expense base prudently. As we saw in Q1, you should expect that further upside to our revenues, whether from macro-related factors or our own execution, should drive upside to our margins as well. In August, we refinanced \$1 billion of notes maturing in 2020. And as a result, we will benefit from approximately \$5 million in interest expense savings this year.

For our effective tax rate, we continue to anticipate 23.1% for the year. We resumed our share repurchases in Q1, and we assume a net share count reduction in our guidance. Net of all these changes, we are raising our adjusted diluted EPS guidance to a decline of 3% to 7%, which represents a much more modest decline compared to our prior guidance of down 13% to 18%.

I'd like to wrap up with a few comments on longer-term margins. To be clear, there has been no departure from our focused and consistent approach to continue to drive margins higher over the long term. Looking beyond fiscal '21, a continued economic recovery should support employment growth and above normal pays per control growth. And we would expect such a trend to contribute incremental margin uplift to our results, all else being equal. The impact of lower interest rates will also begin to moderate in the coming years.

In addition to these macroeconomic factors, we expect our underlying margin performance to continue to be supplemented by our ongoing efforts to transform our organization and client service operations and to be supported long-term by Next Gen platforms that are more efficient and less expensive to maintain. As you have seen from our Q1 results, we are committed to protecting and driving margins even as we maintain our steady approach to investing for the long term. We remain confident in our long-term growth prospects and our ability to execute, and I look forward to continuing to update you on our progress.

With that, I will turn it over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from David Togut from Evercore ISI.

David Mark Togut *Evercore ISI Institutional Equities, Research Division - Senior MD*

Good to see the upgraded guidance. As we enter the critical year-end selling season, I hear the caution around factors like the partial lockdowns in Europe and the U.S. election. But can you give us some more detailed kind of insight around your expectations for new bookings potentially of RUN, Workforce Now and Vantage. In our surveys of your customers pre-COVID, we were hearing a lot of demand for Workforce Now, especially into the bottom of the upmarket up to 4,000 to 5,000 employees per company?

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

Yes. I mean, I think that we'd like to be -- given the momentum we just demonstrated, we'd like to be really optimistic. Unfortunately, we all watch the same news, and the backdrop in terms of these issues, it's not just Europe. I think there are some concerns here in the U.S. as well. And what we saw from April -- March, April, May, is that we stick to our story that our clients -- if our clients are hunkering down and are unable to make decisions, it impacts us. So we remain positive because it doesn't feel like there's going to be a full lockdown across the board nationally like there was here in the U.S. last time, and we've clearly adapted. I mean, we've -- you can see it in the quarter, how much progress we've made in terms of being able to sell virtually and use online tools and really ramp up our digital marketing and a lot of other things that we can talk about that we've done to adjust our sales force.

But for us to tell you, what our view is of RUN and Workforce Now and enterprise sales in the next 2 or 3 months, honestly, is difficult other than to stick to our story around our guidance, which is really more about the full year and couching it in optimistic, positive and good execution terms, but also with some level of caution because we're still dependent, I think, on the health care situation and to some extent, on the economy as well.

One of the questions that you're not -- you didn't ask, but I'm sure people are wondering is about this question of stimulus, and that's another one that I wish we could tell you that we have kind of a scientific placeholder in our forecast around how much stimulus and whether there is stimulus or not, and we don't, but that's another factor that I think would just create the kind of overall picture that would either be supportive or not supportive of our sales efforts. Because clearly, if you look at the last 20, 30 years of ADP, there is some general correlation between GDP and our sales results, our new business bookings. And that is impacted by not just the economic activity related to the health care crisis, but also to things like stimulus because obviously, the government can offset down pressure on the economy through stimulus as it just did, but there's also uncertainty around that as well.

So I wish I could give you a more concrete -- one thing I can tell you for sure is we're maintaining our sales investment. We're maintaining our optimism and we are gradually getting some people back into the field in terms of selling, and we're certainly pivoting in a big way in terms of using the large resources we already had with inside sales to really train a lot of our traditional field sales to be able to sell virtually. And I think you saw great execution and great results in the quarter as a result of that.

Kathleen A. Winters *Automatic Data Processing, Inc. - Corporate VP & CFO*

I'll just add one other thought here or comment here, in addition to what Carlos said. I mean, look, obviously, we're very encouraged and we're optimistic because of the great outperformance in Q1. But as you heard us say, we're very cautious because of the various uncertainties that we mentioned. But I would also say we're cautious because as we look back in history and as we look at how in other recessions, how we recovered from that, we do see a period of choppiness. It's not all kind of a straight line up in terms of the recovery during the great financial recession. After that, we had I believe it was 6 quarters of negative sales growth after that, and it was quite choppy, actually. So we're expecting there to be some choppiness here as well. So I just wanted you to be aware of that.

David Mark Togut *Evercore ISI Institutional Equities, Research Division - Senior MD*

Understood. As a follow-up, how do you see the current economic environment affecting the case for outsourcing of payroll and HR services? In other words, do the economic challenges that businesses face make them want to focus more on their core business and outsource payroll and HR services?

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

Yes. I mean, I think that's safe to assume that we would probably be on the side of the ledger of businesses that would benefit "under normal circumstances" post-pandemic. So in other words, once we get through the transitory nature of the challenge, I don't see how it's not a positive backdrop for companies like ADP and outsourcers who help people, first of all, maintain business continuity; and second of all, focus on their core business, as you imply. So I think it has to, again, but we have what do we -- how many points of growth is that? Only history will tell, but we think it will be a positive.

Operator

Our next question comes from Lisa Ellis from MoffettNathanson.

Lisa Ann Dejong Ellis MoffettNathanson LLC - Partner

Wow, the recovery in bookings is pretty fantastic. I know you provided a little color around using your inside sales to train your outside sales. Can you just even provide a little -- like what is your sales model looking like right now? To what extent are you using digital marketing and digital onboarding? Can you just give a little bit more color around kind of what happened and what changed over the course of the 3 months to drive that recovery?

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

Sure. I'm not sure if the call is long enough, though, to be able to give you all that because one of the differences between us and some of our competitors, which I would see as a positive if I were all of you is that we're very diversified, both geographically and also across segment. So the answer, unfortunately, is complicated and it goes area by area. So in international, for example, we were very happy with very strong results versus expectation, but also, frankly, very strong results versus the prior year. But there were a few larger deals there. I think there were a few GlobalView deals that helped. And when you look at the core, best of breed, like in-country solutions, we also outperformed there versus expectations but not as well in terms of versus the prior year, which is obviously understandable given the pandemic. So that's international.

And then you move to the U.S. and the story in the down market is different than the mid-market, it's different than the upmarket. Although across the board, we were better than expected, but the growth year-over-year varied because I think that's the biggest surprise, which we're frankly very excited about is that we had positive growth. But if you decompose it, it's a different story in each area. And we had tailwinds in the down market. I think as a result of some big recovery that was probably some pent-up demand. The PPP loans probably, frankly, saved a lot of small businesses and provided a lot of cash to small businesses to continue to kind of run their businesses and make decisions around purchasing solutions like what we provide to help them run their business better. So it really -- by the way, our upmarket was also good and strong. So that was very encouraging.

The mid-market, I think, performed also better than our expectations. So I wish I could give you a simple answer. I personally see it as a positive because if it was one thing that we could point to, I think, it would be problematic because that could easily change overnight, but there really isn't. It's just a lot of execution across the board. I do think that we have a little bit of help. Again, we don't have a scientific way of estimating it, but I've been consistent in the 9 years that I've been in this job, because of knowing our culture and how we operate.

The fact that our fiscal year ended where it did, we clearly had a little bit of pent-up demand from, call it, May, June that carried over into July. I would say that, that was somewhat minor in this case because getting companies to make decisions on your timeline is probably not as easy to do now as it has been in prior years. But historically, when we have a bad year, we get off to a good start. And in some segments, that didn't affect probably international business, didn't affect the downmarket because the downmarket doesn't really have that ability to kind of hold off on something and start it in the next fiscal year, but may have had a little bit of an impact. But we're pretty convinced that that's not a major story. But I thought it's important for me to be consistent because I've been saying that for 9 years. By the way, likewise, if we have a blowout fourth quarter, we end up usually struggling at the beginning of the next fiscal year.

Lisa Ann Dejong Ellis MoffettNathanson LLC - Partner

Okay. And then for my follow-up, I know you called out the payroll engine and adding 100 additional clients this quarter. Can you just remind us or update us on sort of where you are in that overall rollout and what the kind of rate and pace of that is?

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

So I think we have a total of a couple of hundred clients. And I would describe that as still very early compared to ADP size. So if we were a start-up, you'd be really excited. And I think we have a \$20 billion market cap right now with only 200 clients, given what I've been seeing in the market. But the reality is that relative to ADP size and given our profile as a company and so forth, you got to take it in context. But we can't help but be excited because 2 years, 3 years, 5 years, 10 years down the road, it's going to be a big difference maker. I think it is. And that was our plan when we book the business case. We've been at it for 3 or 4 years. This is a global, scalable new payroll engine. It's incredibly exciting in terms of what it's going to do in terms of feature functionality and, hopefully, client satisfaction, but also cost to maintain, cost to develop. But as you know, we have approximately 800,000 clients -- sorry, not 800,000, it's not fair because RUN -- this has nothing to do with RUN, but a large portion of ADP's business is still on our current versions of our payroll engine, which

by the way, all of these payroll engines are transparent to the clients.

I don't know if you guys understand that, but Workforce Now and Vantage and Lifion and all of our products are -- the front ends are really what our clients experience. And it's just important to remember that this is not like the transitions we had with Workforce Now or even with RUN because this is a gross to net engine that is really kind of underneath the hood, if you will, of what the clients are experiencing on the front end. So that's positive, too, because we don't anticipate a major migration effort, if you will, when we get to that, which is still at some point in the future.

Operator

Our next question comes from Tien-Tsin Huang from JPMorgan.

Tien-Tsin Huang JPMorgan Chase & Co, Research Division - Senior Analyst

Really terrific new sales results. Just to add to what Lisa asked at the beginning there. Just thinking about ROI on your sales investments. Did you lean in really hard in this quarter there? And I'm sure everyone was motivated to drive sales, but could we see more return on some incremental investments as you go throughout the fiscal year? I'm just trying to understand the timing of some of the investments you put in place? And also if there's any call-outs on pricing, on new deals, especially on the enterprise side?

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

Yes. So on the sales investment, what I would say is maybe think about 2 big buckets in terms of investment from a headcount perspective and continuing to invest in marketing and digital marketing. The headcount investment, we kind of try to do that on a very steady pace over time, and that's been consistent with how we thought about it and approached it. It was somewhat modest headcount investment in Q1, and that will ramp up during the course of the year. We're planning to continue to focus on and do that. And for sure, have committed funding and resources, if you will, from a digital marketing perspective to help support the bookings.

Tien-Tsin Huang JPMorgan Chase & Co, Research Division - Senior Analyst

Perfect. And then, on pricing, anything -- any call-outs there?

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

No. It's really -- we really don't see any -- I'm sure, I know we did, and I think some of our competitors did things to try to help our clients. And even in some cases, prospects, like there's a couple of examples of people giving away like 3 free months and I think 1 competitor was doing 6 free months, et cetera, but -- and 1 competitor changed their pricing online, but then changed it back a couple of months later. So I would say there's nothing to report. There's really very little change in the pricing environment. This is not -- I don't think this is really a question of pricing. I don't think you can impact end demand in a significant way in this environment through that. That would not be -- certainly wouldn't be -- would be our view that that's not how to drive growth.

Tien-Tsin Huang JPMorgan Chase & Co, Research Division - Senior Analyst

Great to hear. Great to hear. Just my quick follow-up just on PEO and sort of the sales outlook there, given some of the same caution and uncertainty with the election and maybe insurance, do you -- are you more bullish or less bullish on PEO here as we go into the second quarter here versus 90 days ago?

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

I'm always bullish on the PEO. I was born in the PEO and -- as you know. So I think the -- I think as usual, my answer has to be, if you look at the short term, we have a lot of pressure in some parts of our business because of the health care situation. And the question is, do you want to look through that? Or do you want to stay focused on it. So for example, in the PEO, when you have clients shrinking, we, from a discipline standpoint, have some rules around that can sometimes affect -- creates adjustments, if you will, in our sales results that puts pressure in the short-term on the sales results, i.e., call it, audits, if you will.

So if a client was sold and was valued at \$1,000. And 12 months later, they're now valued at \$900 because they're paying fewer people, and we're collecting less revenue, which, as you can imagine, is happening with the majority of our clients, that affects our PEO sales results. So I would say that, the fact that workers' comp and SUI prices and costs have come down, which is part of the revenue picture,

there's a lot of short-term transitory things. But I would say, on a unit basis, our results were very good in the quarter, and we're very happy with that. And I would say that, again, if there's any businesses that are going to be even more from a pure positioning standpoint, stronger coming out of the pandemic, the comprehensive outsourcing businesses, which PEO is one of them, should be very compelling value propositions because as people look back a year or 2 from now, they might be thinking, I really don't want to go through that again.

Like I don't want to be figuring out how to process -- forget about payroll because that -- we have that covered. But most people -- a lot of our clients do not use us for health benefits, processing or management of open enrollment. They don't use us for time and attendance. They don't use us for workers' compensation. And our comprehensive solutions take care of the entire picture. And I think if you're a small and midsized business, if I were you, I'd be thinking about making that change, maybe not right now because you've got other things that you're focused on. But I think 6 to 12 months from now, I would expect people to be seriously considering any options they have to deal with multiple things that are very critical to the ongoing operations and to their employees, but they may not have thought of pre-pandemic.

Operator

Our next question comes from Jason Kupferberg from Bank of America.

Mihir Bhatia BofA Merrill Lynch, Research Division - Research Analyst

This is Mihir on for Jason. Maybe I can just follow-up a little bit on bookings. If you could maybe just talk a little bit about trends you saw in F1Q and what you're seeing even now, I guess, between small, medium and large, anything different worth calling out that we should be considering? And then just relatedly on bookings, was there any negative booking adjustment in the F1Q booking number?

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

I'm sorry, negative adjustment in which Q?

Mihir Bhatia BofA Merrill Lynch, Research Division - Research Analyst

In the first -- in the booking number this quarter, like in terms of the bookings number this quarter, like...

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

We had a minor -- I would say we had a minor -- we talked about last quarter that we had taken some reserves because we expected to have, obviously, clients that were going to cancel their orders and so forth to [abuse] layperson's terms. And I think that's exactly what happened. And I think our -- we did reverse some of that reserve. But it was actually very much in line with the actual client. Look, we had identified -- we didn't do this kind of at a very high level, like we had specific clients when we booked that reserve in our "bookings." We had identified a list of clients that we thought were probably going to cancel in this first quarter. And I believe the 2 things...

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

Yes. And so we utilized -- we basically utilized a portion of that reserve, which is a normal course of how it happens. I guess Q4 was just an outsized amount for that, we call it the backlog adjustment. It was just outsized, obviously, because of the COVID impact and a portion of that was utilized in Q1, but nothing significant other than that.

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

I think it's safe to say it would not have made a difference. I mean, it clearly would have made a difference if we hadn't had the reserve.

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

If we hadn't, right.

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

But if you want to know what our gross bookings performance was, it was not affected by our gross bookings performance. That did not affect our gross bookings performance. You would have had basically the same picture.

Mihir Bhatia BofA Merrill Lynch, Research Division - Research Analyst

Understood. And then just any trends between just small, medium or large businesses, what we were seeing this quarter?

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

Other than noise, I think we -- probably the strongest performance was in the downmarket because much to everyone's surprise, like there is strong business formation. And we saw that as kind of -- we think we talked about that on our last call, a remarkable recovery in small business very quickly at the beginning of the pandemic, both in terms of pays per control and kind of all categories, including this kind of new business formation. And I would probably add a note of caution there that to me is counterintuitive. And whenever in my career, I've seen something that doesn't make sense. It generally -- I think there's probably a little bit of payback at some point. I'm hoping I'm wrong because if there is a relatively quick solution to the health care crisis, it's possible that the government managed to get small business through this relatively unscathed through PPP and all the other things that they've done. But in general, it's a counterintuitive kind of situation, but we'll take it. It's -- it was positive.

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

Yes. The other areas where we saw some particular strength, I think, we mentioned already on the international side, particularly Canada was very strong for the quarter. And also our compliance services area, so things like employment verification, unemployment claims, things like that, more compliance services related stuff. So a very strong, great performance in the quarter.

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

It's a great point, like, we don't always talk about some of these businesses that we have that are very good businesses that we call them stand-alone businesses. And we did have some good tailwinds from some of those businesses this quarter. But again, I would tell you that they don't change the overall picture, but important to note that those were helpful.

Mihir Bhatia BofA Merrill Lynch, Research Division - Research Analyst

Understood. And then just if I could follow-up real quick on your EBIT margin guidance. You had a pretty nice raise in the guidance. And I was just wondering, how much of that is driven by the stronger top line outlook versus changes in your expectations for expenses? I know you mentioned an extra \$25 million in transformation savings, but were there other factors? Because it doesn't look like it's just float income, didn't change all that much. So anything else you could give us there?

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

I would say it's safe to assume that most of it is a result of that. But that -- I don't want to take away from us in terms of our execution because if we have higher revenue, we also, frankly, have more clients, more employees to pay. So to the extent that we believe we can hold the line on expenses -- some companies, you have to cut expenses. In our case, we just have to hold a line, and that's probably good news. But I would say that mathematically, you're on the right track, which is -- that's a big factor. The incremental revenue is -- a lot of it is flowing to the bottom line and helping our margins.

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

Yes, definitely. That incremental high-margin revenue is the biggest contributor. But also, as we said, look, we've been really focused on making sure we're doing a good job on cost control. We're keeping a close watch on headcount. We talked about investment in sales, but other than sales we're really controlling everywhere else from a headcount perspective. Very tight on discretionary costs. Transformation work is coming along very nicely. We did a little bit better with the higher retention, better on bad debt expense in Q1. We think we're cautious about that because we think it could come and hit us in Q2 and Q3. So we've built that into our expectation. But those were the contributors.

Operator

Our next question comes from Ramsey El-Assal from Barclays.

Ramsey Clark El-Assal Barclays Bank PLC, Research Division - Research Analyst

I wanted to ask about the contribution to bookings performance of delayed kind of bookings getting realized this quarter versus sort of net new bookings. I'm just trying to understand the contribution from maybe sort of a backlog of delayed bookings and how material that was? And then also to just understand whether there's sort of a pipeline of these delays that should flow in -- kind of continue to flow in as we get a little deeper into the year? Or was there more of sort of a onetime catch-up that happened in the quarter with some of these delayed deals, if that makes sense.

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

I'd say the only place where it's really meaningful and quantifiable is probably in the international space, where we had -- I think I mentioned a few GlobalView deals that were delayed, if you will, but that's really not a -- I wouldn't call it -- that's not something that was in the -- necessarily in the backlog because we hadn't sold it yet. So we don't actually book a sale until -- it doesn't go into the backlog until we get a contract. And so these were things that were in process, if you will, or in the sales process. And maybe we thought it was going to close in May or June. But by the way, maybe it wouldn't have even without a pandemic, like there's really no way to -- this is all, frankly, speculation stuff that we do when we get into these kinds of conversations. But I'd say that's the place where it feels like we had a few large deals that we thought were going to close in the fourth quarter and didn't, by the way, client decisions, not us trying to move them from 1 quarter to the other. We want to get business as fast as we can. So we are always trying to book everything as quickly as we can.

But couple -- some client delays in the international space, it's really not, honestly, a factor in the downmarket and very small factor in the mid-market in terms of controllability. Like we can't really sway our clients that easily from one way to the other, maybe a little bit of that in the upmarket and in international, but you really can't do that in a downmarket and the mid-market. So I would say, there's a difference between -- I guess I'm not sure what the nature of the question is, but I think I already said that there could have been some -- in some segments of our sales force if you have a terrible year and you're in the last month and you're not going to make the year, there's sometimes the tendency for people to hold and start that business in July. But I think you saw in our comments that August and September were also strong. So it doesn't feel like -- and people don't like hold something from May and June and then book it at the last day of September. They typically put it in the first week of July.

And so -- again, based on my experience and what I've seen here over the years, there was probably a little bit of that, didn't make a material difference in the sales results and it is where it is. We had great -- we had a great start, and I think great execution. And besides us leaning into our sales investments, the really big difference maker here is our sales force leaned in to drive results, right? And we're incredibly grateful to them for that.

Ramsey Clark El-Assal Barclays Bank PLC, Research Division - Research Analyst

All right. That helps a lot. I appreciate it. And just a quick follow-up. On the -- if you could give us an update on the rollout of the Next Gen HCM and the payroll engines, relative to, let's say, 3 months ago or 4 months ago, how do you think COVID is going to impact the rollout of some of the Next Gen technology? Is it going to be -- you've mentioned some delays I think, previously, but how is it looking now?

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

Well, we had -- I think we had a good quarter, like I was -- frankly, any client, to me, is a good client, is good news. And I think we had 3 or 4. I think Danny probably...

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

That's right. Yes, we had a couple of them, good sales.

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

So we had some sales like closed. In other words, we got people to sign contracts in the quarter. Like, I don't know about anybody else, but I'm not signing a lot of contracts in this kind of environment, like we just -- the whole focus of this call is how we're focused on prudent expense management and trying to keep expenses down. So when people are coming to me, selling me things, I'm generally not a big signer on those types of things. It just shows, I think, the value of -- our value proposition that people are still signing up because I think they believe that it will not only help them in the short term, but that perhaps it can make them more efficient even in the short term. So I think that is a good sign, right, of the strength of our products and the solutions and the pitch that we have. But that was good news. I mean, we were pleasantly surprised.

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

And we have several dozen, I think, in implementation -- active implementations right now. So the sales are continuing. The backlog, the implementations continue to scale up. So really no significant or substantial change in the outlook.

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

I think besides the sales, we actually started I think, a number of clients as well, 3 or 4 also? Yes.

Danyal Hussain *Automatic Data Processing, Inc. - VP of IR*

Yes, we're in the double digits now.

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

These are clients. So we actually sold new clients, new contracts that are now going to go into the implementation process, but we had clients that were in the implementation process, a few of which delayed starting in the fourth quarter, but then we started them here in the first quarter. So I would say that's all good news. And on Next Gen Payroll, you heard what we said, we sold 100, which again, I think is pretty damn good news, like in this kind of environment.

Operator

Our next question comes from Steven Wald from Morgan Stanley.

Steven Matthew Wald *Morgan Stanley, Research Division - Equity Analyst*

So I'd love to come back to the margin. I know it's been beaten over the head, but maybe just a couple of other sort of ways to look at it. It seems like the way you're looking at it going forward is, if macro cooperates, the higher-margin pieces of the revenue could drop to the bottom line and drive incremental upside from here. Is that the right way to think about it? And generally, should we assume that implicit in the remaining 3 quarters of the year, the lower margin implicit assumption for at least a couple of those quarters is really more dependent on the macro than it is on your pace of investment, which I think we may be collectively thought was going to be more robust and the headwind relative to what it ended up being this quarter?

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

So I mean, just to clarify, remember, we outperformed not because we stopped investing or didn't invest as much as we said we were going to invest. It's because we outperformed on the top line, right, in terms of our revenue. Even though some of it was clearly expense management and so forth. But I would say that the answer to that question is that it's hard to wrap your head around our economic -- I know it's hard because most companies don't operate this way. But for example, the better things get in terms of the macroeconomic, the more we're going to invest. And I know that's not going to make some people happy. But like, for example, our fourth quarter, like our fourth quarter, like if things play out the way we plan in terms of the original guidance, this is not -- we're not changing anything on you.

But like our fourth quarter where we have easier comps, we would also expect to have great sales results, right? And those great sales results on a comp basis will also bring with them sales expense. And to the extent we can get some of these clients started and our sales results improve, we're going to start also investing more and stepping on the accelerator on implementation expenses. So this is all carefully planned, carefully controlled, as Kathleen was alluding to. Like this is not some kind of free-for-all in terms of expenses, but this is an amazing economic model. I don't know if you can see what we just delivered and what we're telling you that, assuming that the situation cooperates with us, we probably will be either flat to slightly up in terms of revenue for the year. So that would mean that we'll continue our streak of ADP of never being negative revenue growth, which is pretty remarkable, right?

We had a massive decline in volume in the last quarter, massive declines in new business bookings. And you see now -- now granted, this is not what we are targeting, like we'd like to have high single-digit revenue growth. So it's kind of weird that we're excited about flat, but it's all about the context, and it's all about relativity. So it's really a great economic model. But the economic model is a long-term economic model. You have to invest in sales, implementation and product to drive the results. This is not -- we're not running the business quarter-to-quarter. And what that means is the minute we see the sunshine, the sun shining, we're going to become bullish. It doesn't mean that our expenses are going to get out of control, but you will see our sales and our implementation expenses gradually come up. And along with that, at some point, our service expenses as well. But that's great because the most important driver of long-term value of this company is growth. It's not what the margin is next quarter or this year.

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

Yes, just some more color from my perspective. I mean, I would just say, look, we continue to be -- as we always have been very, very focused on growth and efficiency, and becoming more and more efficient every day. So we're going to continue to invest where it makes sense for growth and for efficiency. So we talked about sales headcount and continuing to support that investment. Investment in product and we invest in efficiency. All of the digital work that we're doing isn't -- doesn't come for free. You have to make investments to be able to drive that efficiency improvement. So we're focused on all of that, and we're going to continue to do that.

Danyal Hussain Automatic Data Processing, Inc. - VP of IR

And Steve, just one last thing to tie it back to our guidance. You're right, certain macro factors will have an outsized impact for the next 2 quarters. And so what we've contemplated is pressure in retention and pays per control, both of which come at high incremental margins. If ultimately, those come out better than forecast, then as you suggest, it would represent upside to margin.

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

And there's a few others, like Kathleen mentioned, bad debt expense is also something that, frankly, has been shocking in the last 6 months where we've had, honestly, like decreases in our bad debt expense, which makes no sense at all. So hopefully, that will continue, but we didn't plan for that. I think we didn't roll forward 3 quarters of lower bad debt expense.

Steven Matthew Wald Morgan Stanley, Research Division - Equity Analyst

Right. Okay. That's all very helpful. And then maybe as my follow-up there, I think it was asked a little bit before, but Carlos, you were just talking about it a little bit ago there of just kind of wanting to grow mid- to high single digits. If we rewind the tape back to January and you guys talked about the markets you were in and how you were growing, it sort of seemed like the way to think about it was you were generally growing in line with the market. And I think your earlier comments indicated next few years should be an uptick but there's going to be choppiness, of course. I guess I'm curious how you guys think of ADP's positioning relative to other platforms and, obviously, you had a really strong quarter. But for the last several years, you've seen a lot of other platforms growing in excess off of much lower basis. I'm just curious how you think about it today versus 6 months ago versus a year ago, if we are to see this uptick in HCM demand and outsourcing demand, where you feel about ADP's positioning in that market?

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

Well, I would answer that question just by saying that we just invested hundreds of millions of dollars in new platforms in our key markets because we intend to take market share.

Operator

Our next question comes from Kevin McVeigh from Crédit Suisse.

Kevin Damien McVeigh Crédit Suisse AG, Research Division - MD

Kathleen, you talked about kind of out-of-business and the guidance looks like it calls for kind of elevated losses in Q2 and Q3. Did it bottom in Q1 and gets better? And then I guess just along those same lines, can you talk about -- is there a way to also frame clients that are maybe still in business but not processing at this point? So I guess 2 different questions. I'm just trying to get a sense of, a, where's the out-of-business, did it bottom Q1 and then improves in Q2, Q3? And then is there a way to frame clients still in business that maybe aren't processing at this point?

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

Yes. So on the first thing, the out-of-business, I would not say it bottomed at all. In fact, we did not see a significant impact from out-of-business in Q1. I think the shoe has yet to drop there is how I would say it. And that's what we are forecasting and guiding that we're going to see some pressure from that in Q2 and Q3? Does it come in Q2? Is there more stimulus that helps support it? And we don't see it in Q2 and maybe it didn't come until Q3. I don't know, but we're planning, I think we're cautious about it. And we're planning to see that in -- that pressure in Q3 -- Q2 and Q3, sorry.

Danyal Hussain Automatic Data Processing, Inc. - VP of IR

And on your question about clients not processing. We did mention that a number of small businesses restarted in the first quarter, but there is still a sizable chunk of companies that have gone inactive and remain in that state.

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

And to be clear, there's -- just in case there's a misunderstanding there. That has nothing to do with our business bookings, right? So that affects our revenue and affects our losses to some extent, but this is unrelated to business bookings, because the word restart might confuse some people.

Kathleen A. Winters Automatic Data Processing, Inc. - Corporate VP & CFO

Yes. So it's higher than it would be in a normal period. It come down from where it was at the peak in probably April, May, June. It's come down from there, but it's still higher than normal situation.

Kevin Damien McVeigh Crédit Suisse AG, Research Division - MD

Got it. And just to wrap that point, Carlos, it's fair to say that with the stimulus, it probably helped those inactives a little bit that maybe would have fallen into bankruptcy, is that a fair way to think about it, too?

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

No question about it.

Kevin Damien McVeigh Crédit Suisse AG, Research Division - MD

Cool. And then just real quick, it looks like the midpoint of the revenue guidance for ES is a 300 basis point improvement versus 150 basis point improvement for the PEO, any puts and takes to -- I know it's not 1:1, but is it just kind of the client mix that where you're seeing a little bit more upside on ES as opposed to PEO? Or just any thoughts around that?

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

No, other than -- that's actually a great question, which we'll go back now and decompose that because we hadn't looked at it that way, at least I hadn't. But I would say my instinct would tell me that has more to do with how the operating plan was built than any macroeconomic or other major explanation. So honestly, I wouldn't read much into that.

Operator

And we'll take our last question from Mark Marcon from Baird.

Mark Steven Marcon Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Just with regards to the bookings performance this quarter, to what extent do you think it was due to the sales force basically recalibrating and being able to get out and getting more at-bats relative to higher batting average, so in terms of thinking about the win rates? And then I have a follow-up with regards to Next Gen.

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

That's a great question. And I have some sense of that from looking at the data, right, from the quarter. And I would say that our win rates are in line, I think, a little bit better in some cases against a few competitors, which makes us very happy. But I would say there's not a lot to report there that, that is I think good news, but consistent, if you will, in general. So it's probably more the former, right, which is the at-bats. And I -- you could almost use the -- what I call as the traffic analogy, right? So ever since the pandemic started, whenever I go out on the roads, I do the traffic check and traffic is much higher and has been much higher over the last 2 or 3 months than it was in March and April, and that probably has something to do with probably just people on the street, but people on the streets turn into people buying things and people going to restaurants and people going back to their workplaces and so forth. So I hate to be so crass and so simplistic.

But I think that ADP is a very large company, which we're very proud of, and the gravitational pull of GDP and economic activity is strong in both directions. And I think we benefited a lot from -- I think it's safe to say better than most people. I mean, I think this is not an ADP

issue. I think most economists have raised their expectations about GDP. Unemployment is lower than everyone thought, even though labor force participation is lower. In general, things are better than people thought they were going to be in, call it, May, June, at this point, and we have benefited from that. I think that's -- I wish I could take more credit and give you a more complicated answer, but I think that is the -- that is actually what's happening, and the traffic is up for sure.

Mark Steven Marcon *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. And then just a short-term and a long-term question. The short-term one is basically just as we're here in the key fall selling season, how do you view, Carlos, the kind of the mix dynamics with regards to, hey, there's more uncertainty, there's this resurgence with regards to COVID, there's the election, perhaps not a lack of stimulus. But at the same time, things are more complicated. HR is more central. How does that end up impacting kind of the new sales, the bookings expectation, just here in the core selling season?

And then the longer-term question is, Next Gen Payroll, Lifion, they've gotten really nice awards. You've obviously been inhibited by the pandemic in terms of being able to go out there and talk about it with clients. But when things get a little bit back to normal, how would you expect the penetration of those elements to go over the next year, 2 years, 3 years? Like when would we see a big -- a bigger penetration because they've done really good rewards?

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

Yes. I think on the first part of your question, it's -- of course, the last question, of course, has to be the downer question because I think that's a hard one for me to -- I've been so optimistic the whole call, so I hate to like bring us all down. But based on what I'm seeing right now, both in the U.S. and in Europe and the fact that this is our key selling season, I wish I could tell you that I'm incredibly excited and bullish and so forth. I just want to get through this damn thing, right, and get out to the other side. And I'm looking forward more to the third and fourth quarter and the fourth quarter and the next fiscal year than I am to the next 2 or 3 months because the combination of the election with -- I mean, you guys all see the same thing that we're seeing. And again, you got to apply the test of common sense. And the test of common sense would tell me that this is a -- let's just try to keep us upbeat. Let's just call it a fluid situation.

Kathleen A. Winters *Automatic Data Processing, Inc. - Corporate VP & CFO*

If it's fluid, then it's going to be choppy, right? I mean we saw when we recovered from the last recession that it was choppy. And I'm fully expecting it's going to be choppy this time around too, particularly right, we're in Q2, we're in the fall, going into the winter, it's cold. We've got areas where there's resurgences that people might be hunkering down again. So Q2 might be challenging. But even in normal situations, normal years, right, bookings are going to be lumpy quarter-to-quarter. I'd focus more on the full year, the annual and the longer-term view.

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

Yes. And again, of course, we also thought that the first one was going to be terrible, and it turned out to be home run. So they can go -- easily go the other way. But I'm a man of like I speak the truth, right, in terms of what I know and what I think at the time. And I spoke the truth in our last earnings call and, obviously, I was wrong because things turned out to be much better. And I hope that happens here, again, but that's my story, and I'm sticking to it. But 1 quarter or 2 quarters or 3 is not going to make a difference in ADP's long-term trajectory.

What matters is the second part of your question, which is what do we intend to do? What do we expect in terms of penetration rates and rollout of kind of our Next Gen platforms? And by the way, it's not just about Next Gen, like, I hope you guys understand that we are making some fairly sizable investments, ongoing investments in Workforce Now. Workforce Now, now we have a version, if you will, I shouldn't call it a version, but Workforce Now is also on AWS, in the cloud. So we've completely rebuilt Workforce Now to be as modern as Next Gen, as Lifion and as our Next Gen Payroll engine. We also have been doing an enormous amount of work on RUN in the same vein, both at the guts of it in terms of the technology stack, but also on the user experience. You know what the investments we made in data cloud.

You know what we have with ADP marketplace so this has been, across the board, increase in investment over methodically over the last 6 to 7 years that I'd just summarize it by saying what I said once before, our intention is to have all of these things parlayed into taking market share and growing ADP faster than market and faster than the economy.

Operator

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

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

Well, thank you all of you for listening. Again, in summary, I just want to, once again, I think, complement the -- our associates and our leadership team for incredible execution in the short term. But I hope you also heard our commitment to the long term, both in terms of sales, R&D, client service and all the things that drive growth and long-term value for our shareholders and hopefully for all of you who represent them. We remain committed to expense management, to digital transformation, all the things that Kathleen said, but we are somewhat beholden to, obviously, the circumstances around the economy and the health care crisis. But we remain optimistic that this is -- and it's the reason for optimism. This is a transitory situation that we're going to get through it, hopefully, in the next 3 to 6 months to the point where things gradually start to get back to normal. And then ADP can get back to the normal growth rates that we're used to.

So thank you, again, and appreciate your support and you listening to us. And I hope that all of you continue to stay healthy and safe. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a wonderful day.

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