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ADP.OQ - Q2 2023 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Co. reported 2Q23 YoverY organic constant currency revenue growth of 10%. Expects FY23 consolidated revenue growth to be 8-9%.

CORPORATE PARTICIPANTS

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

Don Edward McGuire *Automatic Data Processing, Inc. - CFO*

Maria Black *Automatic Data Processing, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Bryan C. Bergin *Cowen and Company, LLC, Research Division - MD & Analyst*

Eugene M. Simuni *MoffettNathanson LLC - Analyst*

James Eugene Faucette *Morgan Stanley, Research Division - MD*

Jason Alan Kupferberg *BofA Securities, Research Division - MD in US Equity Research & Senior Analyst*

Kartik Mehta *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

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

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

Samad Saleem Samana *Jefferies LLC, Research Division - Equity Analyst*

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

PRESENTATION

Operator

Good morning. My name is Michelle, and I'll be your conference operator. At this time, I would like to welcome everyone to ADP's Second Quarter Fiscal 2023 Earnings Call.

I would like to inform you that this conference is being recorded. (Operator Instructions). I would now like to turn the call over to Mr. Danyal Hussain, Vice President, Investor Relations. Please go ahead.

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

Thank you, Michelle, and welcome everyone to ADP's Second Quarter Fiscal 2023 Earnings Call. Participating today are Maria Black, our President and CEO; and Don McGuire, our CFO.

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.

During our call, 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 the 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.

I'll turn it over now to Maria.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

Thank you, Danny, and thank you, everyone, for joining us. ADP delivered strong Q2 results headlined by 10% organic constant currency revenue growth; 120 basis points of adjusted EBIT margin expansion; and 19% adjusted EPS growth. We continue to deliver exceptional value in the HCM market as we invest in ourselves and innovate to continuously meet and exceed the changing needs of our more than 1 million diverse, global clients.

I'll start with some highlights from the quarter. In Q2, we drove very strong ES new business bookings growth, which included an incredible finish in December. We have continued to see robust demand across our downmarket portfolio and our ES HRO offerings and our international sales performance, especially our GlobalView platform was much stronger in Q2 after a softer Q1.

Overall, we are pleased with our sales results for the first half of the year, and although clients are still dealing with a number of uncertainties, our pipelines are healthy, and we feel well staffed, and well positioned to deliver solid bookings growth for the remainder of the year.

Our ES retention was once again a source of outperformance with modest year-on-year improvement in Q2 overall despite continued normalization in down market out of business rates. This strong result was just shy of the record retention set during the pandemic and was led by our mid-market, our upmarket, and international businesses. And we're pleased to be taking our full year guidance up slightly.

Our pays per control metric was 5% for the quarter, decelerating slightly from Q1 as we had anticipated. Job growth in the U.S. labor market has been slowing, but clearly remains solid, which you see reflected in our client base. Despite recent headlines noting job cuts by number of companies, we have yet to see broad-based softening in the labor market.

Last, on our PEO, our growth in average worksite employees was solid at 8%. While we have been expecting growth to decelerate over the course of this year, the pace was a bit faster than we previously assumed and we're adjusting our outlook accordingly. With that said, demand for the PEO solution remains healthy. The secular growth opportunity is unchanged, and we are well positioned to reaccelerate our worksite employee growth.

Stepping back from the quarter, I want to provide a quick update on our broader strategy. Over the last several years, you've heard us talk a lot about the modernization of our products. Our simpler user experience enhances ease of use for our key platforms like RUN and Workforce Now, and enables a more seamless integration to complementary solutions like insurance, retirement and payments.

Our Next Gen Payroll engine is a prime example of how we're modernizing the back-end of our solutions, and we continue to offer it to a broader set of new mid-market clients. And brand new solutions like Roll in our Next Gen HCM platform position us to address certain HCM opportunities more fully than before. These product enhancements are designed to drive win rates and retention even higher, and we have tremendous opportunity in front of us. But our strategy has always been about much more than just offering HCM software.

ADP clients want us to help them find, hire, pay, engage, and provide for the retirement of their workers in a thoughtful and compliant way. To truly solve for these needs, we are modernizing all aspects of the client relationship. That starts with product, but also extends to our go-to-market approach, how we onboard our clients, and even how we advise and support them on critical issues.

We refer to this collective effort as our Modernization Journey. And as with our product journey, the opportunities here are incredible. We are removing friction and enhancing the client experience in many ways. In our U.S. down market, we continue to digitally onboard tens of thousands of clients every year, making onboarding easier for our clients and accelerating time to start. We have seen this success in the U.S., and we're beginning to scale the same capability in Canada.

Our Intelligent Self-Service capability launched only last quarter is already helping a portion of our client base answer millions of questions from client employees through a completely automated process. And now in our international portfolio, we're implementing chatbots to reduce work for those clients as well.

We continue to invest in our robust partner ecosystem, cultivating deep relationships and integrations with financial advisers, CPAs and benefits brokers to provide a seamless experience for our mutual clients. And we're using the power of our extensive data to deliver insights to bring greater value to clients from better aligning pays to market trends, to reducing the frequency and severity of workers compensation claims, to identifying tax credits and other legislative incentives.

To bring this large-scale Modernization Journey to life, I'll speak to one of our fastest-growing businesses: ADP retirement services, which helps employers establish and administer retirement plans. Businesses today face a complex environment with significant legislative change and our clients look to us to help them navigate these changes, stay compliant and address talent challenges.

For example, in the retirement space specifically, the recently passed SECURE Act 2.0 alone has over 90 provisions for businesses and employees to consider. And what we've designed makes life easy for our clients and partners, improves the financial wellness of their employees, and sets us apart in the market. Our robust 401(k) solution with thousands of different investment options is not only clean and intuitive, thanks to our new UX framework, but is also deeply integrated with RUN and Workforce Now.

Our highly tenured, licensed, retirement services sales force understands our clients and understands which solutions to make a meaningful difference in a client's unique talent strategy. To expand on our partnerships with financial advisers, we recently developed a platform called Advisor Access, much like the Accountant Connect platform we developed for the CPA community years ago. This positions us better to serve our mutual clients and their employees.

And our tax credit team, full of experts in their field, is there to help our clients or their CPAs apply for, and obtain the appropriate legislative incentives. Our goal in our Modernization Journey is to consistently improve the full end-to-end experience for our clients and their employees, which will in turn contribute to our long-term sustainable growth and profitability.

We look forward to keeping you updated.

And now over to Don.

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Thank you, Maria, and good morning, everyone. I'll provide some more color on our results for the quarter and update you on our fiscal '23 outlook.

Overall, we had a strong Q2 on both revenue and margins. If I can summarize, we had generally positive developments in our ES segment despite some incremental headwinds. Meanwhile, trends were a little softer than expected in our PEO.

Let me focus on ES first, and I'll cover our results and outlook all at once. ES segment revenue increased 8% on a reported basis and 10% on an organic constant currency basis which was a good outcome for the quarter. Maria mentioned the strong new business bookings performance in Q2. Given the continued macroeconomic uncertainty, we think it's prudent to maintain our current guidance range for now, although, we feel well positioned for the back half.

We also had near-record ES retention in Q2, with first half ES retention results up year-on-year, we're now revising our outlook and we expect retention to be down only 20 to 30 basis points for the full year. This continues to assume normalization in out-of-business losses in our downmarket.

Pays per control were in line with our expectation in Q2, but with better line of sight on Q3, we are now assuming less of a deceleration in pays per control over the back half than we did previously and are raising our outlook to now assumed 3% to 4% pays per control growth for the year. And on FX, we had about 2 percentage points of revenue headwind in Q2, but the outlook for the rest of the year is slightly improved, and we now expect full year headwind somewhere between 1% and 2%. Those are the bigger positive developments in ES revenue. There were few developments in the other direction as well.

Client funds interest revenue was up nicely in Q2, but was actually a bit lighter than we had planned. This is primarily because yields pulled back slightly from where they were 3 months ago when we provided our prior outlook. We're also tweaking down our balance growth assumption now to 4% to 5% growth for the year due primarily to assumptions around average wage related to worker mix, tax rates as well as the impact of the lapping of the payroll tax deferral. Together, we are lowering the full year by $5 million at the midpoint for revenue and $15 million at the midpoint for net impact to our earnings.

We also saw underperformance in some of our volume-based businesses like our recruitment outsourcing business and our employment verification business. Overall, though, we're feeling good about our ES revenue growth trajectory and are taking up our guidance by 1% to now expecting growth of 8% to 9% for the year.

Our ES margin was up 170 basis points in Q2, which was in line with our expectations and there was no change for our full year outlook. As a reminder, we've invested in headcount in sales, product and other areas throughout the organization over the last several quarters as we see continued opportunity to win new clients and further increase satisfaction with existing clients. And although we may scale back as appropriate, at a high level, we feel comfortable with our staffing levels against the secular growth opportunity in front of us.

Moving on to the PEO. We delivered 11% PEO revenue growth in Q2 with 8% growth in average worksite employees. As Maria shared, the PEO results came in a bit softer than expected. The PEO business continues to benefit from long-term tailwinds, but there was a lingering effect from the pandemic, which is still adding variability to our PEO results and outlook. We are, for example, lapping very strong results on retention, bookings and same-store pays. And while the overall trends are playing out consistent with our expectations, we continue to refine our assumptions about pace and magnitude. With that said, we still see a continued solid demand environment in the PEO and the team remains focused on reaccelerating worksite employee growth.

For this fiscal year, we are lowering our PEO revenue outlook to 8% to 9%, driven by growth in average worksite employees of about 6% to 7%. PEO margin in Q2 was up 130 basis points about in line with our expectations, and we continue to expect PEO margin to be flat to up 25 basis points for fiscal 2023.

Adding it all up, the favorable revision to our ES revenue outlook is largely offset by our lighter PEO revenue growth forecast. And so we continue to expect consolidated revenue growth of 8% to 9% in fiscal '23. We also maintain our outlook for adjusted EBIT margin expansion of 125 to 150 basis points. We still expect our fiscal 2023 effective tax rate to be about 23%. And we continue to expect adjusted EPS growth of 15% to 17%, supported by our steady share repurchases.

I'll just make one quick comment on cadence. We expect consolidated revenue growth to be relatively steady in Q3 from where we were in Q2. We expect margin expansion to be a bit more modest compared to what we experienced in Q2, closer to 50 to 75 basis points of expansion. There were a few reasons, including the lapping of a onetime item last year, comparisons from a headcount perspective, and certain investments in sales and marketing that we're assuming for Q3. Again, there's no major change contemplated for the full year, but hopefully, this helps you think about Q3.

Thank you, and I'll now turn it back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Ramsey El-Assal with Barclays.

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

On PEO, you mentioned the lingering effects from the pandemic is having an impact. But I was just curious, is the macro environment and I guess, labor market trends impacting PEO differently than ES? Is there more -- is it a question of sensitivity to small versus large market clients? Is it vertical exposure? Or is this really something you see is as quite transient?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

Thank you, Ramsey. I appreciate the question. So I'll try to cover all the ground on the PEO that you asked about. So specifically, what we saw with respect to the first half, we did see, as mentioned in the prepared remarks, we did see that booking did come in softer. We saw that retention came in a bit softer as well than our expectations.

In terms of the lingering effect that we cited, all of our businesses had an impact from the pandemic. I would say the PEO is probably the one that had the most impact. If you think about all the drivers that constitute the PEO, it's everything from average wages to worker mix to state unemployment to certainly the lines of insurance, workers' compensation and health benefits.

So I would say it's the business that had the most impact as the pandemic came into the business. And as the pandemic gets flushing out, it is having a lingering effect on the business. I think you touched on what we're seeing with respect to pays per control in the PEO in the context of ES. But I would say is, pays per control is -- the growth rate is decelerating in the PEO. That was expected. If it contributes to the slighter softer performance in the first half and is contributing to the second half.

But the 2 main drivers really behind the performance in the first half as well as the outlook for the second half are bookings and retention. One thing I would say, though, because I want to go back to the strength of that business. We have incredible faith in that business as it relates to the growth from a long-term outlook perspective. The demand is still there. In absolute form from a bookings perspective, the PEO did have growth year-on-year, albeit it was softer than ES and softer than our expectations.

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

Got it. That was super helpful. And just a quick follow-up for me. Tech layoffs have been -- tech sector layoffs have been in the headline recently. I know you guys have a very diversified business, but I thought I'd ask anyway. How exposed are you to that particular vertical? Are you feeling any kind of acute impact from all those headlines kind of layoffs in the technology sector?

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes, Ramsey, it's a good question. I think it's hard to avoid all the headlines that we're seeing day in, day out. And it's fair to say that there's been a number of large names that have announced major layoffs, I'd also with the -- tough to say that some of those clients are -- or some of those people making those layoffs are our clients. But those layoffs are happening around the world in some cases, they're not necessarily our clients in all of our markets.

So I think it's fair to say that we have yet to see any significant impact from all those announcements. And I guess I'll just round it out by saying, we're still seeing stronger or strong demand. We've taken up our pays per control assumption for the back half. And we're doing that not just on our own internal perspective, but we're also looking at the BLS reports, the JOLTS reports. Everywhere you look continues to suggest that there's still strong demand for employment. Unemployment continues to be very low. Unemployment applications are still at record lows. They're not increasing. So the macro environment continues to be very, very favorable for us, irrespective of some of those headlines that we're seeing.

Operator

Our next question comes from Eugene Simuni with -- I'm sorry, MoffettNathanson.

Eugene M. Simuni - *MoffettNathanson LLC - Analyst*

I wanted to ask about ES bookings. So it sounds like a positive commentary, strong performance there. I think you called out international as coming back strong versus last quarter and also downmarket. Can you talk a little bit about the mid-market? How are the trends there? And yes, I think the key question in everybody's mind is, are you seeing any signs of macro pressure on bookings as companies potentially pulling back their tech spending?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

We were very pleased with our overall new business bookings for the second quarter. Definitely saw an acceleration in pipelines. I'll get back to pipelines in a minute. I did cite the downmarket, the strength that we're seeing in the downmarket, that's really our entire downmarket portfolio. So thinking about our -- obviously, our Run offering, but all the things that tether off of the Run offer, which is the retirement services that I spoke to at length during the prepared remarks, Insurance Services. We did see strength in Employer Services HRO. And then last but not least, one of the other things that I was most pleased to see was the bounce back in international in the second quarter, both in pipelines as well as results. And that was, as mentioned really in our GlobalView space. So very happy with the results, very happy with the strengthening of pipelines. That's what gives us confidence, stepping into the back half as we think about heading toward our guidance of 6% to 9%.

In terms of -- I think you also wanted to know about the mid-market because I didn't cite that specifically. We had very solid yes, very solid mid-market sales, and we continue to see the demand there as a byproduct that is certainly not getting easier for anyone to be an employer, both from a legislative perspective as well as a talent perspective. We have incredible strength in that business as it relates to the product investments we've made.

So think about user experience to what we're attaching with the Next Generation Payroll engine. So we made good product enhancements. We had strong NPS. We have incredible retention results. So the mid-market in general had also a solid sales performance. What I would say is, as you contemplate the mid-market, don't forget that Employer Services HRO, the offer that we call Comprehensive Services fits squarely in that market, and that's an area that experienced tremendous growth during the pandemic, and that growth has sustained and is exceeding the overall Employer Services growth. So altogether, the net results for the mid-market are very, very solid for us.

Eugene M. Simuni - *MoffettNathanson LLC - Analyst*

Got it. Got it. Very helpful. And then a quick follow-up for me on pays per control. Your number was very strong this quarter we thought, out from your expectations. But also keeps outperforming by 1 point or 2, kind of the broad measures of labor market growth in the U.S. like nonfarm payrolls. Remind us what's the driver of that? And how sustainable is that as the overall labor market slows down? Can you maintain that 1 to 2-point premium?

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes, it's a good question. But just to remind everyone that, that number is really a mid-market number. So we focus on the mid-market when we provide that pays per control number. And it has been strong. As I mentioned in the earlier answer with respect to the macro environment, the labor market continues to be strong. We're continuing to see our existing clients add employees. As Maria said, bookings are strong. And I think it's the kind of the $64,000 question about how long the labor market can continue to grow. Unemployment can stay so low as we look at some of the headlines and will those things start to converge at some point in the future. But for now, I think we're comfortable with what we've done in terms of taking up the pays per control growth for the back half.

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

And Eugene, just to your point about that spread, having existed in the past, I think typically, we would have expected 2% to 3% pays per control growth in normal economic environment, and that compares to maybe 1% to 2% total employment growth. And that's a function of our clients in general being perhaps a bit healthier than the overall economy, but also the fact that total labor includes things like bankruptcies and new business formation. So it's a slightly different take on employment.

Operator

Our next question comes from James Faucette with Morgan Stanley.

James Eugene Faucette - *Morgan Stanley, Research Division - MD*

I wanted to quickly just revisit a little bit, I think you touched on it. But retention and it's an area where we had at least been expecting to see some normalization but -- especially from a company perspective, but it seems to continue to improve or tighten. Obviously, you made technology advancements, et cetera, but what are some other areas, if any, that you'd point to -- that are helping drive that retention performance.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

Sure. Thanks, James. With respect to retention, we are very, very pleased by the strength that we've seen year-to-date. We cited, at the end of the first quarter, we had record retention. The second quarter was near record. If you look at the first half, it was a record. So we're very proud of the -- not to be a broken record, but the record retention and the strength that we saw -- and we believe that, it is a byproduct of the investments.

I alluded to the investments we've made into the mid-market, as an example of the user experience. That's broad-based now across the RUN platform, our mobile app, our international offer, where we're also in international seeing record retention. So we believe a lot of these things are anchored in just really driving a better user experience, driving the product into a better place.

I think the other is NPS. We have strong service results that's broad-based across the portfolio. I think we generated a tremendous amount of goodwill and value during the pandemic and how we chose to service our clients. And I think that value is -- has continued, and we see that in the results on the NPS side. So I think that's another place.

You did touch on normalization. I think it's an important point to make. We do believe at this point, specifically in the down market, I think we even touched on it during the prepared remarks. We do believe that retention has normalized. When we normalize for average or adjust for average size client, we are back to the downmarket really having out of business and bankruptcies back to fiscal '18, fiscal '19 levels.

So we do believe that the downmarket has normalized. So again, back to kind of the broader retention picture, it is a very strong one for us because we believe at this point, that is broad-based. And it's really a result of the investments and the service levels that we offer.

James Eugene Faucette - *Morgan Stanley, Research Division - MD*

So Maria, that's an interesting point that you're already kind of at least what you think were -- where we should be from a attrition perspective, et cetera, at least compared to where we were pre-COVID.

What are you seeing now from the competitive environment, especially, as we see companies expressing more concern. Are you seeing flight to quality versus some of the regional players or newer entrants? Is that helping you? Just love an update of how the competitive environment factors into what you're seeing overall?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

The competitive environment is certainly -- on one hand, I could say it continues to evolve. On the other hand, I would tell you, if there's nothing really new to report. I think what we're seeing and we look very closely at our balance of trade, we look very closely at our win rate.

We're measuring all these investments that we make and whether or not they're impacting things such as our balance of trade and such as our win rate. And what I would offer is that, there is a direct correlation between the places we're investing, whether that's the downmarket and our go-to-market brands, headcounts or in the mid-market into the product and the next-generation suite and the win rates that we have. And so we do believe that we're getting stronger in terms of our offer. And I think the record retention is a direct correlation to that.

Operator

Our next question comes from Mark Marcon with Baird.

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

Maria, you mentioned there was a modernization initiative. I'm wondering if you can expand a little bit on that, just in terms of what we should expect over the next 6 to 18 months in terms of new offerings or increased offerings. And how would that end up impacting both from a revenue as well as from expense perspective? How should we think about that?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

Sure. I love speaking about the investments we're making into the Modernization Journey. And so perhaps, I can offer the story around the next generation and how we're thinking about the impact of that over the next 16, 18 months from a revenue perspective. And maybe, Don, if you want to cover the margin side.

So Mark, as it relates to our overall modernization initiatives, there is all the things that I talked about in the prepared remarks, which is around tools, technology, removing friction, taking work out. Last quarter alone, we talked about Intelligent Self-Service, Voice of the Employee. So these are bespoke features, functionality that were layering into our offers, and into our platforms to make them more competitive and bring more value to the market.

With respect to the next generation platforms, I touched briefly on Next Generation HCM. We've given updates of that over time. And I think we continue to see us implement our backlog, continue to build scale, build implementation. Our goal would be -- to use your time horizon over the next 16 to 18 months that we would open the aperture to have that suite specifically sold across a broader set of the upmarket clients.

In terms of the Next Generation Payroll, which is what we are offering attached to Workforce Now in the mid-market. We continue to make progress on Next Generation Payroll, pretty excited about that progress from a quarter perspective. Every quarter, there's an increase of the number of clients that we are attaching the Next Gen Payroll to Workforce Now. So I think from Q4 to Q1, we had more. From Q1 to Q2 -- or Q2 to Q1, we had more. As continue again to attach more and more, we're running about 30% to 40% attached.

So again, using your time frames over the next 16 -- 6 to 18 months, our goal would be to continue to more broadly offer and scale that offering across specifically, our mid-market. We're seeing, again, great signs on win rates, things like that.

I think the other initiative I would speak to is Roll. Very excited about our project that we -- or it's not project, our product that we call Roll, which is really the downmarket product that we're offering to an incremental buyer that digital native. And so again, it's exceeding all of its project milestones. We're learning. We're continuing to understand how a digital buyer wants to consume payroll end-to-end in a digital capacity. And we believe over the next 6 to 18 months that we will learn more and as such, we will scale it across.

In terms of the impacts to revenue, I would tell you, revenue over the next 6 to 18 months, I'm not sure that any of those projects will make a meaningful impact to the revenue. They certainly will make a meaningful impact to bookings. And as we onboard those clients, that will generate new revenue lines for us, whether that's an upmarket, our Next Gen HCM, it's a broader piece to the mid-market, our Next Gen Payroll. And then in the downmarket in the micro market that Roll addresses, it take a lot of units for it to make a meaningful revenue impact to the broader ADP. But that's the -- the excitement is really in the offers, and offers being able to drive win rates and retention and changing the competitive narrative. So with that, I'll kind of stop and I'll let Don speak to any margin impact.

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes, Mark, I'll just follow up on Maria's comments. I think the adoption of these products is exciting and doing well. And as we have the adoption increase quarter to quarter, we expect to see improvements in revenue from these new offers. But I think at the same time, the penetration rate within our 1 million existing clients is going to take some time to achieve.

So the margin impacts from those new sales and those clients is going to take some time to make its way through to the bottom line, so to speak. But I would say that we -- you've heard us often speak about transformation of these calls over the last few years. And I would say that internally, I think our biggest transformation exercise, our biggest transformation opportunity is coming from these new products themselves. So we are excited about these new offers, and we do think they're going to -- they're going to help us out in the future.

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

That's terrific. And then obviously, in the headlines, everybody is concerned about what could potentially occur from a macro perspective in terms of, if we go into a recession, ADP has obviously got a stellar long-term track record of navigating successfully through recessions.

But I'm wondering, what's your philosophy going to be Maria, if we go into a recession in terms of thinking about expenses, margins, et cetera. Would you just focus on the long term? Or would you do things in a short-term manner to adjust expenses?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

We do have a recession playbook, if you will. I think the first thing that happens is, we adjust things such as our go-to-market. When you think about how we address talent needs on the way up in an economy, it's kind of the converse on the way down. So that's not to suggest that the business wouldn't be impacted. The things that would be impacted are things like bookings. And the reason I bring that up is, it is somewhat self-adjusting, right, as it relates to the action.

So in the absence of bookings, there is also the absence of expense. So some of that self-adjust, thinking selling commissions, overall incentive comp. We could also, as a byproduct of that, if there's lower volume on the sales side coming in, we would have lower volume on the implementation side and potentially lower volume on the service side. And so there will be, maybe a pullback in hiring things of that nature. And these are all playbooks that we've run before, a few times in my lifetime.

We may at that juncture, choose to prioritize key investments differently, depending on what's happening. But we're going and we're very committed to continuing the work we've been doing on Modernization and on transformation. And I think one of the big lessons for us whether it was this most recent pandemic downturn, if you will, an event or it was the last -- the financial crisis or even the -- I've been here long enough to be a part of the 2000, call it, dot-com, et cetera, bust.

And what I would say is, our investments in growth will be maintained. I think that's the key is ensuring that we make smart decisions during a downturn so that when we come out of the downturn, we're positioned to execute quickly. I think we made some very wise decisions, specifically, on the go-to-market, on the seller side during the pandemic that allowed us -- we were lucky because it was short and steep and fast.

And as everything opened back up, we were well positioned to take advantage of that market because of the investments that we continue to make. So to answer your question, I think most of the changes that we would make are somewhat self-adjusting in their nature, if bookings were impacted.

Operator

Our next question comes from Bryan Bergin with Cowen.

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Bryan C. Bergin - *Cowen and Company, LLC, Research Division - MD & Analyst*

First one I had is on pricing. So just any change in view around ES pricing, any change in claim acceptance to the higher levels that I think you were contemplating when you entered the fiscal year, just given the macro?

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes, Bryan, thanks for the question. I think it's a relatively short answer. The fact is our prices are holding well. As a matter of fact, I would say that we are kind of at the high end of the guidance we gave previously, and we're comfortable with that. I think if we look at our retention, we look at our NPS scores, it appears that those price increases have been understood and accepted as well, as could be expected.

Bryan C. Bergin - *Cowen and Company, LLC, Research Division - MD & Analyst*

Okay. Good to hear. And then on the international front. So can you just talk about what you saw in Europe here that drove the better performance in the quarter.

And you cited U.S. pays per control here in the earnings material, what does that imply in the Europe base? So I'm curious not just on the employment level but also the demand, whether there's really any particular solutions that drove that better performance or different underlying behavior in that base versus U.S?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

We were very pleased by the improvement that we saw in international bookings. It was driven mainly by our GlobalView offer and a bit of our in-country business. So very excited about what we saw specifically, as it relates to performance in the second quarter. But also about pipelines, right?

So a quarter ago, I was on this call citing that we believe that there was some pipeline depletion that happened specifically in international. So pipelines that were pulled into last fiscal year. International was one of the businesses that had an incredibly strong fourth quarter finish. And so we did see a need during the first quarter to rebuild pipelines. The great news is those pipelines were rebuilt and we saw that execution in the second quarter. It's also what gives us optimism as we head into the back half. So very excited about international.

And as optimistic as I am, it is an area that we're still continuing to watch for all the obvious things, I said. Last quarter, which is, there's still the crisis in the Ukraine. There's still the energy crisis. It is also an area that we see a tiny bit of pipeline aging. And so international remains a watch item for us, albeit, very excited about the pipeline build and the results in the second quarter. And I think you asked about pays per control in international?

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

Yes. Bryan, pays per control for our international pays tends to be more subdued than what we have in the U.S. in both directions. And so early pandemic, it didn't fall very much at all. And in the recovery, subsequent, we had less growth there. So that's continued. .

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes. So just maybe -- so the government programs that are in place and the kind of the social aspect, if you will, of European employment means that things don't go down very quickly. And as a result, they don't recover very quickly as well because they don't have much to recover from. So that's a good for consistency, if you will, continuity of earnings. So that's -- that works in our favor in these -- when times are trying.

Operator

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

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

Hope you can hear me. Maria, I think I heard you say you were looking to reposition PEO growth. If that's the case, can you elaborate on that? I'm just trying to think if the implied second half growth in WSE volume within PEO, that's a good number to start from. As we look to next year, could growth get better or worse from there? Or how quickly can the repositioning, benefit of the volume outlook?

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

The comment that I made was really about bookings. And so we are looking to reaccelerate bookings in the back half. For PEO, as mentioned, it was a bit softer in the first half. In terms of the question of when we anticipate the reacceleration, the well-positioned reacceleration and worksite employee growth, we don't anticipate that it will be in the next couple of quarters. So not a position to necessarily give guidance for next year. But we are lapping -- as mentioned in the remarks, we are lapping record retention, record bookings. And as some of that lapping happens, we believe we're well positioned to reaccelerate worksite employee growth into next year.

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

Got it. Perfect. And then just on Retirement Services, since you mentioned it, in your prepared remarks. Any update on penetration there across the major lines? And if there's any change in the outlook or the model there.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

Sure. So it's safe to say that business is outperforming its targets. It has great growth. We do have -- and last, we talked about it, we do have 125,000 plans across that business. It's primarily an SMB space, a little bit into the mid-market and even upmarket. But nonetheless, if you just think of it in the SMB context and with the new SECURE Act and -- which is the 2.0 version of the 1.0 and all the state mandates. At this juncture, we have 125,000 of 800,000-ish Run clients that take advantage of the offer.

So you can kind of think about the opportunity in that way. That's not to suggest that every single one of those Run clients could be a retirement plan, but even if we were to capture a bit of that. We do believe, and it's part of the reason I'm so excited about it is because it does continue to outperform its growth targets. And we believe there's tremendous runway for growth in Retirement Services over the coming years.

Operator

Our next question comes from Samad Samana with Jefferies.

Samad Saleem Samana - *Jefferies LLC, Research Division - Equity Analyst*

I just wanted to ask one on the volume-based parts of the businesses that you mentioned, particularly on the employment verification. I was just wondering if you could help us understand how much did that contribute? And what are the assumptions going forward? Are you assuming that there will just be less activity around employment verification? Or do you think it was just seasonally lower? Just how should we think about that since you called it out this quarter.

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Okay. So let me talk about the 2 volume businesses that we referenced in the prepared remarks. The first one would be the RPO business, the recruitment outsourcing. That business was down and that business is not a very big business for us. And most of it is focused in the upmarket. Most of the clients we have there are in the enterprise space. And I think that is an area, of course, where we are seeing something internally that correlates more with some of the headlines that we're seeing in the press. But it's not a very big business for us, and it did come down.

On the employment verification business, of course, mostly and significantly related to the mortgage market. We don't share the number that EV business is part of our broader $1 billion comprehensive services business. It's meaningful for us. From a revenue perspective, it's more meaningful for us, if you will, from a margin perspective because it's above-average margin business. Hence, we called it out.

But our expectations as we look forward is, we do expect there to be softness in the mortgage market in the back half of the year. And we've reflected those expectations and those forecasts into the numbers that we're sharing with you today.

Samad Saleem Samana - *Jefferies LLC, Research Division - Equity Analyst*

Great. And then maybe just a housekeeping question on the rate side. So just so we understand it. When the company gives the forward outlook for the float revenue guidance. Are you assuming -- I'm assuming the tenure that's come in at the short end of the curve has actually gone up. So is it -- should we assume that the tenure at current levels is what you're now forecasting going forward? I'm just trying to -- we're just trying to make sure that we get it correct, the inter-quarter moves and how we should think about that on the guidance of that. .

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes. So since we presented -- since we gave guidance last quarter, rates have come down, particularly on the mid and the long rates. And even though short-term rates have increased, some of our short-term borrowing costs in our commercial paper program. So the rates that we're giving and the reason we take in our client fund interest forecast down a little bit at the midpoint, is to reflect those increased borrowing rates and the softening, if you will, of interest rates in the mid and the longer term.

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

Yes. Samad, thanks for asking that question because I know we take a slightly different approach than some of our peers. But even when you think about the short end of the yield curve, what is currently baked into market expectations is also what baked into our outlook for the year.

So even if the Fed raises rates, that does not necessarily suggest upside to what we had previously guided. And to Don's point, at the longer -- the mid and longer end of the yield curve, you actually saw a decline. And so we share in our earnings release the incremental yield on new purchases and that declined from, I think, 4.3% last quarter to 4.1% this quarter. So in other words, we're getting less in the mid and long end of the yield curve, and we're getting more or less what we expected in the short.

Operator

And our last question comes from Jason Kupferberg with Bank of America.

Jason Alan Kupferberg - *BofA Securities, Research Division - MD in US Equity Research & Senior Analyst*

I wanted to come back on PEO for a second and maybe piggybacking on Tien-Tsin's question. Just as we think about the second half of the fiscal year. It looks like the revenue growth is going to come in 5%, 6%. And then you talked about getting to some easier comps and some reacceleration.

But are you thinking any differently about the medium-term guide for PEO? I think that was 10% to 12% when you provided that at the Analyst Day.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

So the medium-term guide, all of the medium-term guides were somewhat aspirational in their nature, and we're not sitting here today making changes to any of our medium-term guide. I think, again, when I think about the PEO outlook, just a reminder, because I said it earlier on the call, but I think it is an important point. The demand has been incredibly strong still for the PEO. It is still growing nicely through the second quarter. Technically was year-on-year growth. It just wasn't what we had expected, and it decelerated a bit earlier than we thought.

And so when we think about kind of the back half of the PEO, we do expect bookings to reaccelerate. As mentioned, we expect worksite employees to not accelerate in the coming quarters, but we're well positioned to do so as we lap the compares into next year. But I think the big piece -- by the way, even retention was healthy.

Retention is right in line with really where it's been in the last decade. I spent a lot of years in that business. And I've seen this as nothing abnormal, if you will. It's really just the byproduct of some lingering effects from the pandemic, which is not that different than some of the strangeness that we experienced during ACA in that business.

And so what I would say is, demand is healthy, bookings is healthy, just not as high as we wanted it to be on tough compares. Retention is healthy, just not as high as we wanted it to be, again, on tough compares. And we feel well positioned in that business to accelerate and very excited about its long-term growth opportunity for us.

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes. Sorry. And at the same time, remember, at Investor Day, we said that we were expecting high single-digit growth in average worksite employees. So I think we're still very much on that track and pretty much committed to that. .

Jason Alan Kupferberg - *BofA Securities, Research Division - MD in US Equity Research & Senior Analyst*

Okay. Appreciate that. Just wanted to follow up on -- so on the pays per control side, obviously, you upticked the guide there. But we have seen in the temp labor market, there's been some material declines in recent months. I'm just wondering how you guys think about the temp labor market relative to broader labor market conditions. And your business with some kind of potential lag? Just any views there would be helpful.

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

Yes. Jason, I think...

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Sorry, I will -- let me start. Maybe Danny can add some color. I think some of the leading indicators we look at -- so look at the JOLTS report, we look at the job postings, et cetera, those still seem to be healthy. It is -- I mean, the open positions, the until positions are certainly declining, but they still remain at healthy levels compared to pre-pandemic levels. So I think that would be an indicator we look at. And I think there's still some room there before they get back to what we saw pre-pandemic. So I guess we'll continue to pay attention to it. We're focused on it. But at this point in time, things still feel to be pretty healthy.

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

Yes. Jason, exactly to that point. It's one of many leading indicators that we look at. And for sure, things are slowing, given where we are with employment and 3.5% unemployment rate. So it's not a question of whether we expect the monthly jobs growth to slow over the next several months, I think that's more or less assumed. But the question is, at these employment levels to get that type of growth is still a very healthy outcome. And so I think that's how we would characterize the overall environment today.

Operator

We have time for one more question, and that question comes from Kartik Mehta with Northcoast Research.

Kartik Mehta - *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

Maybe Maria or Don, as you look at the PEO business and is -- are you seeing any more competition in the business? Could that be a part of maybe you're seeing? Or is this just that you need to reposition the business a little bit and the business was so strong that the comparisons are difficult.

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

I think the business was so strong. I think the compares were difficult. We plan for deceleration. It happened faster. We do not see a competitive change or landscape that exists. Again, in terms of where that business gets its business from, that 50-50 split between kind of new clients coming in as well as upgrades as well as where we actually return clients that leave. Certainly, there is PEO to PEO switching, but it's a very small piece to the overall results on the booking side or the impact on retention. And we're not seeing -- again, we look at balance of trade, we look at win rates and we do not see a meaningful change in the competitive landscape. .

Kartik Mehta - *Northcoast Research Partners, LLC - Executive MD, Director of Research, Principal & Equity Research Analyst*

And then maybe Don and Danny, I know you're talking about leading indicators and Don, you talked about the JOLTS report, and I assume we have lots of other statistics. But I'm wondering, are you able to look at the customers you have and the demand they see for employees? And if you kind of compare that to what you saw 3, 6 months ago. Are you able to do that? And if so, maybe what you might see in that type of -- those type of statistics?

Don Edward McGuire - *Automatic Data Processing, Inc. - CFO*

Yes. I mean, I think the way we look at that, Kartik, is through the pays per control growth. And so as we went from 7% growth in Q1 down to 5% and we were looking to be a bit flatter in the back half, although we've become a little bit more optimistic on that as time has gone on. So I think that would be the key area where we kind of take a look and see what the demand is with our installed client base.

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

Yes. Beyond that, Kartik, we do have some recruitment solutions beyond the recruitment outsourcing one that Don spoke about earlier. And so we have, for example, data on the total number of job postings that our clients have. And if you were to look back, that would typically track JOLTS, the trends would be very similar.

Now that said, clearly, you could be in an environment where people have job postings and then they decide to pull them. So how accurate that is, how great of a leading indicator that is, it's hard to say. But at the same time, we have live data on pays per control as Don points out. So we know with precision how many people are being added week-to-week. That's healthy. The job postings are healthy. Granted there are some signs of deceleration, layoffs and temp, but the bigger picture is still healthy.

Operator

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

Maria Black - *Automatic Data Processing, Inc. - President, CEO & Director*

Thank you, Michelle, and thank you to all of you on the phone today for your thoughtful questions. As you heard from our tone today, very pleased with the first half, excited about how we're positioned for the second half against our updated guidance.

Again, everything that we do every day is all about solving for clients in the world of work. And with that, I think it'd be appropriate for me to thank the 60,000-plus associates that are out there every day doing that work for our clients, for their workers and bringing meaningful value into the world of work and into the world of HCM. So thank you to all the associates. Thanks to all the analysts and the investors for your support and your continued support. We certainly appreciate it and we look forward to keeping you updated and speaking with you again soon. Thanks so much.

Operator

This concludes the program. You may now disconnect. Everyone, have a great day.