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ADP.OQ - Q1 2025 Automatic Data Processing Inc Earnings Call

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OVERVIEW:

Company Summary

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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 first quarter 2025, earnings call. I would like to inform you that this conference is being recorded. (Operator Instructions)

I will now turn the conference over to Matt Keating, Vice President, Investor Relations. Please go ahead.

Matthew Keating - ADP Inc - VP, Investor Relations

Thank you, Michelle, and welcome, everyone, to ADP's first quarter fiscal 2025, 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 a reconciliation of non-GAAP measures to their 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 the factors that could cause actual results to differ materially from our current expectations.

I'll now turn it over to Maria.

Maria Black - ADP Inc - President, Chief Executive Officer

Thank you, Matt, and thank you, everyone, for joining us. This morning, we reported strong first quarter results that included 7% revenue growth, 130 basis points of adjusted EBIT margin expansion and 12% adjusted EPS growth. I'm excited to share the considerable progress we made across our three strategic priorities in the quarter, but let me first begin with some additional financial highlights.

We had a solid start to the year from an Employer Services new business bookings perspective with record volume for a first quarter. This performance was broad-based as our small business portfolio benefited from our continued strength in retirement services.

Our mid-market and HR outsourcing businesses also showed good growth, and our international business maintained its strong momentum from last year. Overall, HCM demand remained steady, and our new business pipelines were healthy at the end of the quarter.

Our Q1 Employer Services retention rate exceeded our expectations and only declined slightly. Our overall client satisfaction score reached a new all-time high for a first quarter, driven by improvements in our mid-market, enterprise and HR outsourcing businesses. Moving forward, we expect our record client satisfaction levels to continue to support our strong retention results.

Employer Services pays per control increased 2% for the first quarter as our clients continue to hire employees at a moderate pace. Finally, PEO revenue growth of 7% and average worksite employee growth of 3% for the first quarter exceeded our expectations as strong PEO new business bookings growth more than offset the impact of modest further deceleration in PEO pays per control growth.

We are very proud of our strong first quarter financial results and equally excited by the significant progress made across our strategic business priorities. As the needs of today's global workforce continues to shift, employers require dynamic workforce management solutions that will help them maintain compliance and flexibility while engaging their employees. We continuously aim to offer solutions that will solve our clients' complex business challenges.

As part of this approach, we recently acquired WorkForce Software, a leading workforce management solutions provider that specializes in supporting large global enterprises. This acquisition expands our current array of time and attendance, absent management and scheduling tools and strengthens our ability to win in a highly attractive market.

WorkForce Software is a leader in serving large complex organizations and their robust solutions can adapt to the dynamic needs of today's employers by offering tools that create resiliency, help drive optimal performance and make managing a global workforce easy.

We are thrilled to bring together these capabilities as well as their trusted global support organization to broaden our suite of workforce management solutions. Based in Michigan, WorkForce Software serves over 1,000 clients in more than 100 countries, including many well-known global brands.

I'd like to officially welcome the members of the WorkForce Software team to ADP. Together, we will continue to drive the future of WorkForce management innovation, and we are looking forward to all the great things we will accomplish.

Additionally, in September, we introduced ADP Lyric, our flexible, intelligent and human-centric global HCM platform. Lyric is the new name for our Next Gen HCM offering, which is designed to meet the evolving needs of the modern workforce.

This is a differentiated offering, combining global HR, global payroll and global service to adapt to unique structures and workloads and to offer employers a human-centric approach to managing their people. Thanks to its integrated generative AI technology and the power of ADP's unmatched data set, Lyric provides insights and intelligence like predictive analytics and anomaly detection to provide clients with personalized recommendations.

Lyric is a global platform. It can support payroll in over 75 countries today, and we are focused on expanding its international reach moving forward. Following its successful launch at this year's HR Tech Conference, we are seeing very strong interest in Lyric, and we look forward to sharing our future progress with you. The acquisition of WorkForce Software and the introduction of Lyric position us to provide our enterprise clients with a unique global HR, payroll, time and service solution.

We continue to invest in generative AI capabilities to enhance the experience of our clients and empower our associates. During the first quarter, we expanded access to our robust generative AI-based service tools, which are designed to bring speed to our service interactions and improve the client experience.

These tools seamlessly integrate productivity-enhancing technologies like call summarization, virtual knowledge assist and guided workflows for our associates so they can best support our clients. We expanded the use of these tools to our associates, supporting our small business clients in the first quarter. Early feedback is impressive, and we look forward to continuing along this journey to drive productivity gains and even higher client satisfaction.

We're also excited to share that we recently launched intelligent workflow automation technology in Workforce Now. These dynamic workflows deliver a personalized and satisfying employee experience at pivotal moments in an employee's career like onboarding, while at the same time, dramatically reducing manual work for HR practitioners.

This functionality enhances the experience of mid-market clients and their employees on our Workforce Now platform, and we look forward to adding similar capabilities to our other HCM platforms over time. These meaningful steps collectively demonstrate our continued focus on our three strategic priorities, which are: to lead with best-in-class HCM technology; provide unmatched expertise in outsourcing; and benefit our clients with our global scale. We remain confident in our ability to advance our strategic goals, drive our competitive differentiation and deliver strong financial results.

And with that, I'd like to take a moment to recognize our associates whose efforts and outstanding performance are positioning us to consistently deliver for our clients and our shareholders.

Thank you all. And now I'll turn it over to Don.

Donald McGuire - ADP Inc - Chief Financial Officer

Thank you, Maria, and good morning, everyone. I'll provide some more color on our results for the first quarter and then update our fiscal 2025 outlook which now includes our WorkForce Software acquisition and our recent debt issuance.

Let me begin with our Employer Services results and outlook. ES segment revenue increased 7% on both a reported basis and organic constant currency basis coming in ahead of our expectations. As Maria shared, ES new business bookings were solid to start the year. With a stable demand backdrop and healthy pipelines, we are maintaining our 4% to 7% full year growth guidance. ES retention declined slightly in Q1 versus the prior year, but still came in modestly better than anticipated.

We are continuing to forecast a 10 basis points to 30 basis points decline in full year retention based on an expected increase in small business losses due to higher out of business rates. ES pays per control growth of 2% met our expectation for the quarter, and we continue to forecast 1% to 2% growth for the full year.

Client funds interest revenue increased a bit more than we anticipated in Q1, helped by stronger average client funds balance growth. While the yield curve has broadly declined since our last update, this impact is partially offset by our stronger client funds balance growth.

For the full year, we are reducing our client funds interest revenue forecast by \$10 million. However, we are maintaining our net impact from client funds extended investment strategy forecast as lower reinvestment rates are almost entirely offset by lower average borrowing costs.

Based on our Q1 ES revenue growth performance and the expected contribution from the WorkForce Software acquisition, we are increasing our fiscal 2025, ES revenue growth range to 6% to 7%. Our ES margin increased 260 basis points in Q1, driven by both operating leverage and continued client funds interest revenue growth. On a full year basis, we are adjusting our ES margin outlook to incorporate the expected impact of the acquisition, and now forecast an increase of 40 basis points to 60 basis points for fiscal '25.

Moving on to the PEO. Revenue growth of 7% and average worksite employee growth of 3% exceeded our expectations. As Maria mentioned, strong PEO new business bookings growth more than offset the impact of further modest deceleration in PEO pays per control growth.

As a result, we now expect fiscal 2025, PEO revenue growth of 5% to 6% and average worksite employee growth of 2% to 3%, which at the midpoint of the ranges are each up 50 basis points from our prior forecast. We continue to expect PEO pays per control growth to be slower than ES pays per control growth in fiscal '25.

PEO margin decreased 80 basis points in Q1, which is less than we anticipated, due primarily to stronger revenue growth. The margin decline versus last year stemmed mainly from higher workers' compensation program costs and higher zero-margin benefits pass-through revenue growth. We now expect PEO margin to be down between 70 basis points and 90 basis points in fiscal '25, which is 20 basis points better than our prior outlook.

Putting it all together, we are increasing our fiscal 2025, consolidated revenue growth forecast to 6% to 7%. While we anticipate future revenue synergies from the WorkForce Software acquisition, we expect it to pressure our adjusted EBIT margin this fiscal year.

We now forecast full year adjusted EBIT margin expansion of 30 basis points to 50 basis points. In addition, in September, we enhanced our capital structure by issuing \$1 billion in 10-year notes. And subsequently, our corporate interest expense will increase by about \$40 million for fiscal 2025.

We continue to expect a full year effective tax rate of around 23%. After incorporating the anticipated impacts of the acquisition and our recent debt issuance, we now forecast 7% to 9% adjusted EPS growth for fiscal 2025.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bryan Bergin, TD Cowen.

Zachary Ajzenman - TD Cowen - Analyst

This is Zack Ajzenman on for Bryan. First question is on Employer Services, just the demand and bookings backdrop. If you can just dig into the areas of strength in Q1, and kind of how it progressed through the quarter? And then we have a follow-up.

Maria Black - ADP Inc - President, Chief Executive Officer

Sure, Zack. Thanks for joining us today. So demand overall, we feel good about it. We feel good about the HCM demand. We had a great sales quarter. We have a great sales and marketing organization. It was solid, and it was broad-based.

I think from a demand perspective, I called out a few areas of strength, one of which is the Retirement Services offering in our down market. We continue to execute there against opportunity and our strategy. And so excited to see them continue the great progress.

Certainly in the mid-market, our HR outsourcing offerings as well. And then we saw continued strength in international. I think that's a great story on the heels of the strength that we saw in international, all 4 quarters last year.

So really pleased with the broad-based result. And I think the demand remains pretty consistent. I think the down-market, companies are still hiring and they're buying. I think in the mid-market, certainly not getting any easier. It's still very complex.

We do also have those offerings beyond tech-only in the mid-market that extend our reach into the HR outsourcing offerings. And you heard the PEO result was solid as well. So -- and again, we're always watching what's happening in the global space, which is why we continue to be as pleased as we are with the execution on new business bookings in international.

Zachary Ajzenman - *TD Cowen - Analyst*

Got it. And then a follow-up on PEO retention. So it sounds like worksite employee retention came in above plan in Q1. As we think about the balance of the year, are you still anticipating an improvement in PEO worksite employee retention year-over-year growth for fiscal '25? And is it an offset -- enough to offset the decel and pays per control?

Maria Black - *ADP Inc - President, Chief Executive Officer*

So the biggest contributor to the outperformance in worksite employees, average worksite employees was really bookings, right? So we did have a strong first quarter, albeit the first quarter for PEO is generally relatively light on the year, so we still have to execute that.

And that is the focus. We've been laser-focused on accelerating PEO new business bookings. That remains to be the case. That was the biggest contributor, and that is the piece that can really overcome the deceleration in worksite employee pays per control or PEO pays per control. Retention does contribute.

It contributes very modestly compared to new business bookings. That's really what we saw in fiscal '24 as well. We saw that retention was year-on-year up, but only contributed modestly and that's really what we expect for '25 as well.

Donald McGuire - *ADP Inc - Chief Financial Officer*

Yeah. Maybe just to add some color to the -- maybe just add a little bit of color to that. In terms of the pays for control growth, we do expect to see pays per control growth lower in PEO than in Employer Services. That's what we called out -- the outside of the year. We're going to talk about, ES, I'm sure, later. But PEO is definitely showing growth but slowing growth.

Operator

Ashish Sabadra, RBC Capital Markets.

David Paige Papadogonas - *RBC Capital Markets - Analyst*

This is David Paige on for Ashish. I was wondering if we could double-click on the WorkForce Software business. Maybe what's the financial profile in terms of revenue growth, the annualized revenue and the margin profile? And then a follow-up after that.

Maria Black - ADP Inc - President, Chief Executive Officer

Yeah. So David, maybe I'll let Don talk through the financial element, but maybe before we do that, it's prudent to just kind of comment on the strategic rationale behind the acquisition. As you can imagine, we're pretty excited to have the opportunity to speak to it today. This is a company WorkForce Software that we've been aware of for quite some time, aware of their capabilities, aware of how they're able to support some very marquee clients.

I think we talked about in the prepared remarks, they have -- they serve about 1,000 companies around the world. These are marquee well-known global brands. So we're really excited about the product set. We're excited about the clients.

But I have to tell you, too, we're pretty excited about the organization as a whole. I was out there on October 15, a couple of weeks ago for day one. And in addition to a fantastic product and a pretty marquee set of clients, it's also an incredible team.

It's a great team with great domain expertise in this space. And so we're really excited to add this deep expertise to ADP's overall workforce management solutions and how we incorporate that with our organization to really drive further opportunities. So this is a growth story for us about the future, and we're pretty strategically excited about it. But with that, I'll let Don kind of walk you through the financial implications.

Donald McGuire - ADP Inc - Chief Financial Officer

Yeah. So David, I expect we're going to get this question later on. So maybe I'll just elaborate a little bit more on the impact of the WorkForce Software acquisition. So if you look at the -- we took up our revenue expectation, but on the ES side, out of the 1% increase to our consolidated FY '25 revenue growth outlook, about half of that is coming from WorkForce Software, and the remainder is coming from the strong results in the rest of the business.

We had a good first quarter. And we're certainly expecting to see strength throughout the balance of the year as well. And this is certainly more a strategic transaction for us, as Maria just went through, gives us the ability to serve complex global companies with a much broader offer. Now HCM payroll service and now, time and attendance or WorkForce management in that marketplace.

And so when we move on and look at some of the additional expenses and some of the things that are causing some drag on our EPS expectations, we only closed the transaction about two weeks ago. So we're not going to be terribly precise on this point.

So we do expect some modest pressure. It's important to remember the biggest pieces to be coming from debt intangibles, integration of the deal cost itself. So nothing unusual. I do want to point out that this is a very -- it's a relatively small company with a relatively large capability.

And when I say that, we're not expecting a significant amount of expense synergies from this transaction because they run themselves pretty lean and they're pretty effective. And then when you move on and you look at what we did in our -- to the midpoint of our ES margin and our adjusted EBIT margin were down 60 points and 30 points, respectively. And so the question could be is that all from WorkForce Software as anticipated drag? And the answer is actually more of the drag is coming from WorkForce Software.

So the other businesses are compensating somewhat for that. So we do anticipate about a 0.5 point of EBIT margin pressure as a result of the transaction in fiscal '25. So if you -- if we look at the EPS growth as well, it's expected to be a bit more than 1% of the drag. So we've outperformed in other parts of the business, so we overcome some of that. And as I said earlier, most of the dilution is coming from integration costs, amortization of intangibles and interest expense.

And then I'll jump ahead of the anticipated question I have, and that is when do we think this is going to be accretive to ADP? And I think the short answer is, give us a couple of quarters to get things in line, and we'll come back and we'll be very excited about sharing success stories and client wins over the next couple of quarters, but it's a bit early given this transaction only closed about two weeks ago.

Operator

Mark Marcon, Baird.

Mark Marcon - Robert W. Baird & Co. - Analyst

First of all, congratulations on the first quarter results, really strong particularly. Maria, you mentioned client satisfaction scores are at all-time highs. Can you talk a little bit about some of the factors that drove that? And then I'd like to do a follow-up on WorkForce Software.

Maria Black - ADP Inc - President, Chief Executive Officer

Yeah, Mark, and thank you very much for the congratulations. We're pretty excited about the quarter as well. To the NPS question that you had. So what I mentioned in the prepared remarks is we had an all-time high for a first quarter, and we did see strength.

Again, it was broad-based. I think some of the call-outs that we've been making over the last couple of years, specifically as it relates to the business that really have been broad-based, and it's been near record levels really kind of across the various businesses. I think we've talked quite a bit about the mid-market.

We've talked about the last couple of years that we've been speaking to the mid-market. A lot of that, Mark, comes from the investments we've been making in product, the investments we've been making in some of the tools that we provide to our service organization.

I mentioned some of those as we extend the reach into the product and in Workforce Now. During the remarks, I also mentioned some of the other work that we've done in SBS specifically, the extension of generative AI tools into the SBS service organization.

And again, the thesis behind it and what it's proving itself to be true is the more we invest in making things easy for our clients and frictionless, the greater our NPS results, and it seems to be resulting in pretty favorable retention results as well. So from an NPS perspective, on a year-on-year basis, just kind of rounded out.

We did see the mid-market, enterprise and HR outsourcing businesses from a year-on-year perspective kind of have those the biggest improvements. But from a broad-based perspective, I would say almost every business is at record levels. And year-on-year, it was a record for a first quarter.

Mark Marcon - Robert W. Baird & Co. - Analyst

Got it. We had a chance to demo the WalkMe tool within Lyric, and that was pretty impressive. I imagine that's going to end up continuing the upward surge in terms of the NPS. Wondering with regards to WorkForce Software, what's the integration plan?

I mean the strategic rationale seems fairly obvious. But just how long -- how soon will we be able to see you fully integrate them in terms of a go-to-market plan? When will you start doing joint sales? How much of their client base, which does include similar marquee already ADP clients?

What are the opportunities with regards to potentially penetrating some of those that aren't? Can you talk a little bit about whether it's going to be domestic as well as international in terms of when you go to market and how quickly you can do that?

Maria Black - ADP Inc - President, Chief Executive Officer

Yeah, sure. By the way, I love every single one of your questions, Mark, because they're the exact same questions that we've all been asking ourselves as we looked at this great organization and also post the signature, if you will, as we really started comparing kind of what we all have. And so I think it's probably too early to comment on the exact overlap of clients, things of that nature.

But if you imagine, and you know full well the types of clients that ADP serves on a global, call it, enterprise perspective and you imagine that they have some of the most formidable marquee clients. You can only imagine that there's overlap there.

So what we're focused on is exactly what you're referring to, which is adding this offering into our global and enterprise call it, go-to-market growth opportunity. We're pretty excited, and you mentioned Lyric and what you saw with WalkMe with Lyric. I hope we get to the Lyric conversation today because we're really excited about where that is on the heels of HR tech. If you imagine marrying Lyric to the great story now of WorkForce Software, that's an exciting opportunity for us as we extend our reach into that global MNC, call it, enterprise space.

So that is the intention. It is an offer that's where it sits today. I think it does add to the plethora of offerings that ADP does have across our workforce management solutions. So if you imagine, we have products already in that space. We also have partnerships in that space.

We have products in the mid-market. We also have partnerships there. And certainly, we have time and attendance offerings also in the down market, inclusive of, I think we have well over almost 100 marketplace partners in the down-market.

So this offering is going to be a great addition to our overall suite, specifically in that global enterprise space. And that is a growth story for us, and it's married directly to our Lyric excitement. And so that's the intent, and we're working through each and every one of the questions you asked as we speak.

Operator

Scott Wurtzel, Wolfe Research.

Scott Wurtzel - Wolfe Research - Analyst

I wanted to go back to the to PEO segment to start, and thought the results there were very encouraging, especially on the bookings side. So I would love to hear just a little bit about that bookings outperformance. And has there been any sort of change to the sales strategy, to your benefits packaging and offering? A little bit of a combination of both? Any color on that would be very helpful.

Maria Black - ADP Inc - President, Chief Executive Officer

Sure. I think it's intense focus and execution. And so I think the team has been very focused. We've been speaking about this since the strangeness in the PEO post pandemic. We've been very focused on reaccelerating bookings. And so I think it's great execution by the team. I think the offering, the value proposition, and I've been pretty bullish about this. Well, probably since about 1997. But listen, the PEO value proposition, it continues to only gain in strength. You mentioned health offerings and things of that nature that sits squarely in that space.

If you are a company of the target market of our PEO, in the industries that we target with our PEO offering here at ADP, you need the types of things that the PEO offers. That's best-in-class health benefits. It's a competitive workers' compensation program. It's best-in-class retirement services offerings.

And so I think continuing to lean into that value proposition, and as I always say, and I said it earlier today, it's not getting any easier for those types of clients to be employers that's only getting more complex. And so I think we're aligning our sales organization to be laser-focused on it, and I think it's a byproduct of strong execution.

Scott Wurtzel - *Wolfe Research - Analyst*

Got it. That's helpful. And then just as a follow-up on the WorkForce Software acquisition. And as we sort of think about maybe incremental revenue opportunities, I mean is there -- I know it's an enterprise-focused solution. Is there an opportunity to maybe also bring this down to serve your mid-market customers as well?

Maria Black - *ADP Inc - President, Chief Executive Officer*

So again, I think that's in the same bucket as Mark's question. I think that is a big piece of what we are working through at this time. I think they have, across their thousand clients, they certainly have clients in that space. I think, again, the way I sort through it, if you again go back to the big plethora as I use that word to describe the varied offerings we have across each segment, down-market, mid-market, upmarket. Across each one of the global businesses -- the in-country offerings. In fact, we were not too long ago, actually bought a attendance offering in Asia Pac.

And so we have organic and we have proprietary offerings. We partner and we go to market in this giant array of offerings and how we sort through that. I think the easiest way that I think about it is client by client. And so I think we kind of put the client at the center, making sure that we are allowing the best possible solutions for our clients. And certainly, as we absorb WorkForce Software's offerings into our ecosystem of time and attendance, we will be taking a close look at the mid-market clients and making sure that -- call it, client by client, they have the right offering at the right time.

Operator

Samad Samana, Jefferies.

Samad Samana - *Jefferies - Analyst*

I'll echo the congrats on a good quarter. Don, maybe first one for you. Just as I think about the size of the WorkForce deal, it's one of your bigger transactions. Any signal in that, that we should take whether that's the company willing to be more acquisitive or if multiples are in a state where ADP is maybe ramping up M&A more broadly overall? Or is this a one-off as part of a strategy or kind of a broader signal? And then I have a follow-up for Maria.

Donald McGuire - *ADP Inc - Chief Financial Officer*

Okay. So thanks for the question. Yes, in terms of absolute dollars, definitely one of the larger acquisitions or the largest acquisition ADP has ever done. Although I think the company is a lot bigger than it was when we did some of those acquisitions a number of years back. So I think it fits in squarely. I don't think our M&A -- be more precise than that. Our M&A strategy hasn't changed. We look for opportunities, and we've been looking for opportunities for quite some time, but we need to make sure that they're additive.

We need to make sure they complement our offer and they don't complicate our offer. Spent a lot of time over the last 10 years or so, cleaning up our portfolio and making sure we get fewer platforms to do the same thing. And so looking at things that are additive to us, are in good tight adjacencies as this acquisition was and making sure that the business model, the recurring revenue model is particularly important to us the way we go to market. Looking at all those things is important and will continue to be important to us. So we will continue to look. And if things show up that we think are going to be additive to us and we have an opportunity, we'll move again. But certainly, we haven't really changed our philosophy at all on how we approach and what we're looking for in terms of M&A.

Samad Samana - *Jefferies - Analyst*

Great. And then, Maria, just maybe a question on Lyric. This is something that investors have talked to us a lot about. Just thinking about how it builds on Lifion, which was a focus before and with the rebranding, I guess the question we've gotten is, is this -- what was the evolutionary or revolutionary moment that led to the rebranding now? Is it product market fit is finally right, and maybe there's an inflection that we're reaching? Is it about -- from a go-to-market perspective, like what led to it now at this particular moment? And should we see maybe an inflection in demand going forward?

Maria Black - *ADP Inc - President, Chief Executive Officer*

I'm so glad you asked Samad. I've been excited to talk about Lyric for quite some time. So just to level set, just everyone's clear, Lyric is the new name for Next Gen HCM. And I think we're all tired of saying Next Gen HCM. I think that was part of it. But all kidding aside, listen, we're -- we couldn't be more thrilled to bring ADP Lyric HCM into the market.

Personally, I love the name. I think it's a name that evokes emotion. It speaks to the rhythm of what it looks like to be a worker in today's environment and making sure that's something that perhaps was static in the past, that didn't have the right type of Lyric to it ultimately comes alive with the name. And so I think it's the right name at the right time. I think to answer the why now, I think the world is ready for this next offer of HCM in this space.

This product, it's flexible, it's intelligent. It's designed with humanity in mind. It's human-centric and its design is how we speak about it. And that is groundbreaking and that is orchestrated really around the person. And what that allows for things, as I mentioned earlier, such as flexible workflows.

It allows for inserting generative AI that can drive everything from anomaly detection to nudges. And so it is a unique offer and that it is married to, call it, the other strengths of ADP. It's a global HCM, global payroll and global service, that's unique, and we're pretty excited.

And so I think part of it is the market is ready. I think the other part is we're ready. And so as we unveil this, there's been tremendous demand from the clients. I think we saw in the heels of HR Tech. We saw great analyst reviews.

Mark just mentioned seeing some of the functionality. And so I think the buzz is out there. We see that also in the pipelines but -- as you can imagine, it's still early days. So it's going to take some time until it contributes to the overall ADP financials. But from a product perspective, it's the right product at the right time with the right name. We're pretty excited to lean into that growth story. Marry it now to the WorkForce Software offering that we're folding in. I think it's a great growth opportunity for ADP.

Operator

Ramsey El-Assal, Barclays.

Ramsey El-Assal - *Barclays - Analyst*

Retention continues to outperform expectations. Can you update us on the drivers here, new products, technology, maybe fewer SMB bankruptcies? I'm not sure if that's still an important driver. And also, what was the retention rate in the quarter?

Maria Black - *ADP Inc - President, Chief Executive Officer*

Sure. So I think happy to talk about the drivers. I mentioned some of them earlier. Listen, all of the things that we're doing, best-in-class service, the investments we make into our product set, it is yielding a better experience. You see that directly on the NPS. NPS correlates to retention.

So I'd like to think some of the results we have are structural. I will say that from an outperformance perspective in the first quarter, we did see, while retention was down slightly or declined slightly, we did see that the SBS or the small businesses held. And so our belief in how we're looking at the outlook for the rest of the year is that while we are almost normalized back to kind of the out of business rates from fiscal '19, we're not all the way normalized.

And so we do still expect that there could be some pullback. Part of how we've also modeled it, so many of our businesses last year specifically, were at record highs on the retention. So I think we modeled kind of assuming that those businesses were at record highs, and we're assuming some pullback in the down market, specifically as it relates to [out] of business.

Listen, we didn't see that in the first quarter. We're hoping that between the strength in small business, kind of the environment, coupled with strong execution on our strategic road map around best-in-class products and best-in-class service will ultimately yield continued favorability. But we believe at this time that the retention guide is prudent.

Ramsey El-Assal - *Barclays - Analyst*

Great. And a follow-up for me then is on PEO margins, they came in better than expected in the quarter and you listed your full year margin expectations for the segment. Could you elaborate on the main drivers there? And also for the full year, are you anticipating any reserve releases around workers' comp. As I recall, I don't think that (inaudible) in last year at this time so I was curious.

Donald McGuire - *ADP Inc - Chief Financial Officer*

Yeah. So Ramsey, firstly, the PEO margins were certainly better and really based on the stronger revenue that we had in the quarter. So stronger revenue based on stronger worksite employee growth and also some help from rates -- wage rates. So that was really the biggest driver for the improvement in margin in PEO. We did have a small release of the \$4 million in the quarter. And certainly, that contributed a little bit as well, but we are not anticipating to see releases for workers' compensation reserves as we did in prior years. So that is not something that we factored into our balance for the forecast. So strong worksite employees, strong growth in wage rates, strong growth in margin.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-tsin Huang - *JP Morgan - Analyst*

I just want hoping Maria, you can elaborate on the strong pipeline comment. Any surprises or change in visibility across all of your markets, any change in decision-making? I know we get a lot of questions up market around the elections. Can we see a little bit of a pause before we get back to normal, that kind of thing?

Maria Black - *ADP Inc - President, Chief Executive Officer*

So the answer to your question is really no change. So we exited the fourth quarter. We talked about strong pipelines. We're exiting this quarter, feeling confident in strong pipelines. We haven't seen any changes in buying behaviors as it relates to any of the things that are happening across the world, if you will.

That's not to suggest that we're not keeping a watchful eye. I think we've spoken about deal cycle, specifically in the upmarket because as you mentioned it, that's where a lot of the questions come in the space. And I think we're in that new normal. I think it looks like it used to back in the pre-pandemic.

And so I think it's just the normal cycle. Listen, as always, every quarter has a little bit of ebb and flow as it relates to some businesses. But I think overall, the strength was broad-based exiting the fourth quarter, exiting the first quarter and the strength on the pipeline side is also broad-based.

And just a reminder, pipelines look different. In the down market, it's about net new appointments, it's about activities. It's about those things in the mid-market and into the enterprise space. Obviously, these are year-on-year pipeline compares and we feel solid about the pipeline.

Tien-tsin Huang - *JP Morgan - Analyst*

Terrific. Just my quick follow-up. I know Mark and others asked about cross-sell potential synergies with WorkForce Software, but it's got some really nice logos going to the site when you first announced this. So is cross-sell an important consideration and decision to bring the asset in?

Maria Black - *ADP Inc - President, Chief Executive Officer*

I think -- and by the way, of course, those logos are also very exciting and the many logos, many would be familiar with from a marquee brand perspective. I think how we go to market together is an exciting story. So some of that will be the continued way that this company has been able to execute and win really marquee clients in the marketplace. I'd like to think it only helps them to have the scale and the brand of ADP behind them.

And so in a more simple way to say it, if you think about global marquee clients going out to RFPs, the exciting part is we're going to get invited to all of their parties. And hopefully, we get -- they get invited to all of our parties. And I think the strength between their product and our distribution and our scale and our brand, I think, leads us to be very optimistic on the growth narrative.

Operator

Jason Kupferberg, Bank of America.

Caroline Latta - *BofA Securities - Analyst*

This is Caroline Latta on for Jason. I just had a question on generative AI. I know you mentioned progress on rolling out some of those initiatives. Do you have any call-outs on potential further investment and cadence of that over the coming year?

Donald McGuire - *ADP Inc - Chief Financial Officer*

Caroline, thanks for the question. No real -- I'll start with no real call-out on further investments. We are continuing to invest modestly as we've shared over the last few quarters. And we are continuing to see good results, maria touched on some of those earlier. Certainly, some of the call summarization tools that have been deployed already are showing good results. We've seen good results in our sales area, things -- setting appointments, deciding which appointments to go to preparing for appointments, coaching salespeople when they're in live calls, and we're continuing to see opportunities and success in our technology area, coding and some of the Co-pilot tools that are available there. So really not a lot of incremental investment, really just continuing the course and looking to get more and more returns on the investments we've made over the coming quarters.

Operator

Kartik Mehta, Northcoast Research.

Kartik Mehta - Northcoast Research - Analyst

Maria, you talked a little bit about the SMB and out of business, and you're anticipating maybe it hasn't completely normalized. But I'm wondering as you look at KPIs for your customers, what do you think about the health of small businesses? And if you've seen any change over the last few months?

Maria Black - ADP Inc - President, Chief Executive Officer

Sure. Kartik, so yes, listen, it's pretty close to being normalized. We're almost there. In terms of the health of the small businesses overall, we look at a lot of indexes. We look at other organizations that serve similar type of -- call it nondiscretionary offerings that we serve. I think overall health of small business is strong. There are a couple of watchout items.

One of the ones that we pay close attention to is new business formations. And so while it's down year-on-year and it's down even fiscal year-to-date, that is a watch-out item. That said, it's still elevated. So it's elevated from where -- call it, used to sit, pre-pandemic.

And so it's still arguably considered strong. So on one hand, it's strong. On the other hand, it's pulled back a tiny bit from the strength that it used to have. That's just one thing. But we look at all of these things. I think the general sentiment as it relates to demand across the down market and as it relates to the small business side is it continues to be strong. I think we spoke quite a bit about the down market last year, and we continue to see good execution among small businesses and overall strength.

Kartik Mehta - Northcoast Research - Analyst

And Don, just a follow-up. Any thoughts on change of strategy for the [full] portfolio? I know yields have been coming up a little bit. But I'm wondering if there's any thoughts on maybe changing some of the duration or just any other changes you might want to do for the portfolio based on kind of yield?

Donald Mcguire - ADP Inc - Chief Financial Officer

No, Kartik, we've looked at that, and we think we benefited significantly on our laddering that we've done over the last 20 years or so. And we did have a bit of opportunity cost, as we've shared over the last couple of years as we've been dealing with an inverted yield curve. But that yield curve is slowly starting to normalize. So we should expect to see more benefit.

We also called out in our -- in the prepared remarks, we are taking our investment or client fund interest number down by \$10 million, but we think the net impact -- because borrowing is less expensive now at the short end, we do think that we're going to be flat to our initial guidance for the year. So we don't see any compelling reason to change the structure of our portfolio.

Operator

Dan Dolev, Mizuho.

Dan Dolev - Mizuho - Analyst

Really good results here. Just a quick housekeeping question. Would you be able to quantify how much of the EBIT drag as a result of any incremental amortization?

Donald McGuire - ADP Inc - Chief Financial Officer

Well, I don't want to get into too much of the sausage making here, but we did disclose the value of the deal at \$1.2 billion. And I think industry averages are somewhere in the neighborhood of 30%. So you can go from there and look at a seven to eight-year amortization period and kind of figure it out. I'm sure all of you have done it already anyway. But rough numbers, I think that would get you in the ballpark.

Dan Dolev - Mizuho - Analyst

Okay. Got it. And just a quick follow-up. I mean you're doing really well on the top line. Can you maybe discuss a little bit of your pricing strategies and the pricing environment for the deals? And -- if you had already been asked. I joined late.

Donald McGuire - ADP Inc - Chief Financial Officer

So pricing, we have had 100 basis points to 150 basis points over the last couple of years. I think as inflation moderates somewhat, we're expecting to get closer to 100 basis points this year, and that's where we're sitting. So really no changes to pricing strategy since we spoke last time. And we'll make a small color though on price. It had a small impact in our revenue for the quarter.

We do have a couple of European countries where in the mid and the upmarket, the price increases are tied to various inflation indices and those indices came in higher. So we did get a little bit of contribution from price that we weren't expecting, but not a significant amount, like literally in the 10-bp range for the quarter, so nothing significant. But no real change, no change for our pricing strategy.

Operator

Pete Christiansen, Citi.

Peter Christiansen - Citi Investment Research - Analyst

Nice trends this quarter. One quick one on WorkForce Software and a bit of a housekeeping on top of that. Just curious, Maria, in terms of the -- I understand the strategic rationale, I totally understand. You're still working through things. But if we think about the opportunity and framing that, is it more about new logo adds from their customer set? Or do you see upside more a function of scaling their solutions on your existing base? Just the hypothesis there on sizing the upside opportunity.

Maria Black - ADP Inc - President, Chief Executive Officer

Yeah. Thanks, Pete. I think the answer to your question is both, right? But I think scaling their opportunity, leveraging a lot of ADP's strength our scale, our distribution, our brand. I also look at this, the workforce management space, it's a sizable total addressable market, right? So if you look at it from a TAM perspective, the TAM sits in the billions. We serve a lot of that today. Some of those billions are obviously domestic. Some of those are in the international space.

I also look at this as an area across the world that will continue to expand. And there I'm not talking about the next quarter or perhaps even the next year, when you think about the needs of global companies over the next decade, if you will, across ADP and what companies will look at as they try to solve for their global workforces in new ways and new places, I think this is an area that is going to continue to grow in demand and having an offering that can grow and expand as that demand expands, I think, is all about the growth story of ADP both, call it, in quarter this year, but also about the future of the company.

So really excited to more meaningfully step into this space. And I think that's what it's about. But certainly continuing their successful growth and our successful growth in this space. And in an ideal world, the execution here looks like that one plus one equals three, right, not two.

Peter Christiansen - *Citi Investment Research - Analyst*

Sure, sure. That makes a lot of sense there. And then a quick housekeeping modeling question for Don. Just curious, plans for the assumed debt from the transaction? And if you could potentially size the interest expense impact to earnings for us, that would be helpful.

Donald McGuire - *ADP Inc - Chief Financial Officer*

Well, I guess I'd point you to our release. We issued \$1 billion of notes earlier in the year at 4.75%, and this transaction was \$1.2 billion. So you can impute the interest there.

Operator

Kevin McVeigh, UBS.

Kevin McVeigh - *UBS - Analyst*

Just one on the WorkForce acquisition. Any sense as that business scales, how much revenue it can contribute versus, I guess, what the multiplier effect could potentially be off of the acquired revenues, you scale it across your existing client base?

Donald McGuire - *ADP Inc - Chief Financial Officer*

Good question and certainly a question that we looked at when we're putting our business case together and making the decision to pursue this company. But as I said earlier, it's a little bit early to start drawing out the expectations here. The excitement is palpable.

The sales forces are able to work together. There are a lot of things you can't do until you actually have the deal signed. And so it's really been two weeks and a bit since that's happened. And I think the work teams are hard at it, trying to identify opportunities.

And I think there's lots of opportunity, as Maria said earlier. We have clients they don't have, they have clients we don't have, and there's a whole bunch of new logos out there that we can go pursue. And I think the great technology that came with WorkForce Software with ADP's financial strength behind it, and more certainty perhaps in a smaller company, is going to contribute to this growth here. So we're excited about it, and we think there's going to be more, but a little bit early at this point to call out the numbers.

Operator

Zachary Gunn, FT Partners.

Zachary Gunn - *FT Partners - Analyst*

I just wanted to go back to Lyric for a second. I understand it's still smaller, going to take a bit to have a meaningful impact. Just wondering if there's any thought process of how long it will take before it starts to have a meaningful impact to numbers? And just any data points you can give around that? I know last quarter, I think there was some commentary of client count increasing 30% year-over-year. So just any commentary there would be great.

Donald McGuire - ADP Inc - Chief Financial Officer

Yeah. Zach, we're very excited about the live clients we have, and they continue to increase. And as Maria said, there was an awful lot of excitement coming out of HR Tech in Las Vegas. So the pipeline has increased pretty dramatically. Lots of work to do. Once again, it's going to take a little bit of time to move the needle. \$20 billion of revenue, we're trying to move that needle a lot. It takes a lot. So once again, give a little bit of time. And as we package up these offers, the Lyric and the WorkForce Software, along with our tax compliance and the other solutions we have, global payroll, we're expecting good things. But once again, a little bit early to share specifics.

Operator

James Faucette, Morgan Stanley.

James Faucette - Morgan Stanley - Analyst

Just had a couple of, I guess, nuanced questions. First, last quarter, you had suggested that PEO pays per control would be lower than that of employer services. With it down ticking this quarter, do you still believe there's growth in PEO pays per control this year?

Donald McGuire - ADP Inc - Chief Financial Officer

Yeah. So the short answer is yes. We believe there's growth in PEO pays per control this year. There was growth in the quarter, and we expect it to be continued growth, but we do expect it to be softer than the 2% at the high end that we have for Employer Services. So yes, growth; yes, lower than Employer Services.

James Faucette - Morgan Stanley - Analyst

Okay. Got it. I just want to make sure I understood that. And then following up -- and -- if I missed this, but did you quantify Employer Services bookings growth for the quarter specifically? And it sounds like you're still pretty constructive on that front, but how you think about that for the full year range?

Donald McGuire - ADP Inc - Chief Financial Officer

No, we did not. We did not quantify for the quarter, and we're still sticking to our 4% to 7% guidance that we established at the outset of the year. As you know, things can get lumpy. But Maria said, we had a record first quarter on bookings, new business bookings, and we're comfortable with where we landed, and we're happy with the pipelines. Demand is strong. So we're still thinking that 4% to 7% range.

James Faucette - Morgan Stanley - Analyst

Got it. Got it. And just maybe just one last question there is, what are some of the swing factors that would push you towards one end of that range either to the upside or to the lower end?

Donald McGuire - ADP Inc - Chief Financial Officer

Yeah, it's all about execution. I think that demand remains strong. Demand for HCM remains strong, demand for payroll. We don't work in a nondiscretionary industry. People need what we have and what we sell. So we do think that demand is consistent, and we'll have to watch and see how things go, and we've got one quarter behind us.

We're happy with the quarter, solid first quarter. But I can't think of any specific things other than massive macro changes, et cetera, which none of us are anticipating. Certainly, if we look at some of the GDP numbers, we look at the inflation numbers, we look at the labor numbers, they all point to pretty solid and stable demand. So I think we're going to stick with our 4% to 7% for the time being.

Operator

There are no further questions at this time. I'd like to turn the call back over to Maria Black for closing remarks.

Maria Black - ADP Inc - President, Chief Executive Officer

Thanks, Michelle, and thank you, everyone, for joining us. I have to say it's not every day you get to get on and talk about such a solid quarter, both with respect to the overall performance of the business, but also making meaningful steps in our strategic priority agenda. So really excited about the quarter. I want to thank my team specifically. There's a lot that comes together to execute what we just did. I want to thank my team, I want to thank, obviously, the broader ADP organization as I did earlier, really proud of the execution across the entire company.

And then once again, welcome to WorkForce Software. Really excited to see where the future leads us. We're just getting started.

Operator

Thank you for your participation. You may now disconnect. Everyone, have a great day.

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