The Street Ratings

AUTOMATIC DATA PROCESSING
NASDAQ: ADP
Report Date: April 14, 2019

BUY
<table>
<thead>
<tr>
<th>HOLD</th>
<th>SELL</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+</td>
<td>A</td>
</tr>
<tr>
<td>B+</td>
<td>B</td>
</tr>
<tr>
<td>C+</td>
<td>C</td>
</tr>
<tr>
<td>D+</td>
<td>D</td>
</tr>
<tr>
<td>E+</td>
<td>E</td>
</tr>
</tbody>
</table>

RATING SINCE 04/11/2012
TARGET PRICE $190.90

- Annual Dividend Rate: $3.16
- Annual Dividend Yield: 1.95%
- Beta: 0.95
- Market Capitalization: $70.4 Billion
- 52-Week Range: $112.58-$162.71
- Price as of 4/11/2019: $161.67

Sector: Technology | Sub-Industry: Data Processing & Outsourced Services | Source: S&P

ADP BUSINESS DESCRIPTION
Automatic Data Processing, Inc. provides business process outsourcing services worldwide. It operates through two segments, Employer Services and Professional Employer Organization (PEO) Services.

STOCK PERFORMANCE (%)

- 3 Mo.: 22.80%
- 1 Yr.: 39.87%
- 3 Yr. (Ann): 21.69%

GROWTH (%)

- Last Qtr: 8.26%
- 12 Mo.: 8.20%
- 3 Yr. CAGR: 7.18%

RETURN ON EQUITY (%)

<table>
<thead>
<tr>
<th></th>
<th>ADP</th>
<th>Ind Avg</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2019</td>
<td>38.10</td>
<td>46.66</td>
<td>15.83</td>
</tr>
<tr>
<td>Q2 2018</td>
<td>49.26</td>
<td>33.74</td>
<td>13.34</td>
</tr>
<tr>
<td>Q2 2017</td>
<td>44.40</td>
<td>43.59</td>
<td>12.81</td>
</tr>
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</table>

P/E COMPARISON

- ADP: 39.24
- Ind Avg: 37.47
- S&P 500: 21.82

EPS ANALYSIS¹ ($)

<table>
<thead>
<tr>
<th>01/01</th>
<th>02/11</th>
<th>03/11</th>
<th>04/03</th>
<th>01/03</th>
<th>02/15</th>
<th>04/05</th>
<th>01/15</th>
<th>02/17</th>
<th>04/25</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.91</td>
<td>1.13</td>
<td>1.31</td>
<td>1.39</td>
<td>1.03</td>
<td>1.15</td>
<td>1.45</td>
<td>0.75</td>
<td>0.15</td>
<td>0.27</td>
</tr>
</tbody>
</table>

- 2017: 0.91
- 2018: 1.31
- 2019: 1.39

RECOMMENDATION
We rate AUTOMATIC DATA PROCESSING (ADP) a BUY. This is based on the convergence of positive investment measures, which should help this stock outperform the majority of stocks that we rate. The company’s strengths can be seen in multiple areas, such as its revenue growth, good cash flow from operations, expanding profit margins, largely solid financial position with reasonable debt levels by most measures and solid stock price performance. We feel its strengths outweigh the fact that the company has had sub par growth in net income.

HIGHLIGHTS
The revenue growth came in higher than the industry average of 8.3%. Since the same quarter one year prior, revenues slightly increased by 8.3%. This growth in revenue does not appear to have trickled down to the company’s bottom line, displayed by a decline in earnings per share.

Net operating cash flow has significantly increased by 81.76% to $782.30 million when compared to the same quarter last year. In addition, AUTOMATIC DATA PROCESSING has also vastly surpassed the industry average cash flow growth rate of -7.21%.

45.34% is the gross profit margin for AUTOMATIC DATA PROCESSING which we consider to be strong. It has increased from the same quarter the previous year. Regardless of the strong results of the gross profit margin, the net profit margin of 15.92% trails the industry average.

The debt-to-equity ratio is somewhat low, currently at 0.67, and is less than that of the industry average, implying that there has been a relatively successful effort in the management of debt levels. Even though the company has a strong debt-to-equity ratio, the quick ratio of 0.18 is very weak and demonstrates a lack of ability to pay short-term obligations.

Compared to its closing price of one year ago, ADP’s share price has jumped by 39.87%, exceeding the performance of the broader market during that same time frame. Looking ahead, the stock’s sharp rise over the last year has already helped drive it to a level which is relatively expensive compared to the rest of its industry. We feel, however, that other strengths this company displays justify these higher price levels.

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PEER GROUP ANALYSIS

REVENUE GROWTH AND EBITDA MARGIN*

Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between $21.5 Billion and $276.3 Billion. Companies with NA or NM values do not appear.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

REVENUE GROWTH AND EARNINGS YIELD

Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -15.3% and 49%. Companies with NA or NM values do not appear.

INDUSTRY ANALYSIS

The US IT Services industry includes companies that provide IT-related services, such as consulting, installation, systems integration, software development, and support. It includes providers of commercial electronic data processing and business process outsourcing (BPO) services, including back-office operations. There are about 35,000 such U.S. companies in this space. Major players are Accenture (ACN), Computer Sciences (CSC), and the technology consulting arms of International Business Machines (IBM) and Xerox (XRX).

The industry is highly competitive, mature, and characterized by rapid technological changes, evolving industry standards, and changing customer preferences. Companies compete on service quality, product performance, technological innovation, and pricing. Demand is affected by the IT spending budget of clients, which in turn, is affected by the level of economic activity in the industries and markets they serve. IT spending has shifted from hardware to software and services.

The emergence of business process outsourcing has altered the competitive landscape within the industry by making high quality services available at reduced costs. The 50 largest companies hold more than 80% of the market. Industry players use outsourcing as a tool to drive revenue growth by expanding service offerings that are costly to develop and deliver internally.

Consolidation is on the rise as large companies strive to expand their geographical footprint and service portfolio.

The economic may add to IT spending in the coming quarters and spurring the growth of existing and new business. Another major challenge is anti-outsourcing as part of immigration reform legislation under discussion in Congress, aimed at limiting or restricting outsourcing to address unemployment concerns in the US. Certain instances of theft and misappropriation of sensitive client information have marred growth.

The outlook for the IT services industry remains positive as spending on technology products and services is expected to grow, albeit at a slower rate in the immediate future. However, companies’ sustainability in an intense competitive environment will depend on their ability to fulfill demand in a cost-competitive and efficient manner.

PEER GROUP: IT Services

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company Name</th>
<th>Recent Price ($)</th>
<th>Market Cap ($M)</th>
<th>Price/Earnings</th>
<th>Net Sales TTM ($M)</th>
<th>Net Income TTM ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADP</td>
<td>AUTOMATIC DATA PROCESSING</td>
<td>161.67</td>
<td>70,428</td>
<td>39.24</td>
<td>13,840.70</td>
<td>1,815.40</td>
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<tr>
<td>FIS</td>
<td>FIDELITY NATIONAL INFO SVCS</td>
<td>112.90</td>
<td>36,482</td>
<td>44.10</td>
<td>8,423.00</td>
<td>846.00</td>
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<tr>
<td>WP</td>
<td>WORLDPAY INC</td>
<td>113.23</td>
<td>35,239</td>
<td>NA</td>
<td>3,925.40</td>
<td>12.80</td>
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<td>FISV</td>
<td>FISERV INC</td>
<td>85.54</td>
<td>33,539</td>
<td>29.91</td>
<td>5,823.00</td>
<td>1,187.00</td>
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<td>PAYX</td>
<td>PAYCHEX INC</td>
<td>81.35</td>
<td>29,237</td>
<td>28.54</td>
<td>3,663.20</td>
<td>1,032.50</td>
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<td>V</td>
<td>VISA INC</td>
<td>157.86</td>
<td>276,283</td>
<td>34.02</td>
<td>21,253.00</td>
<td>10,756.00</td>
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<tr>
<td>SQ</td>
<td>SQUARE INC</td>
<td>75.50</td>
<td>24,713</td>
<td>NM</td>
<td>3,298.18</td>
<td>-38.45</td>
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<td>MA</td>
<td>MASTERCARD INC</td>
<td>236.04</td>
<td>239,401</td>
<td>42.15</td>
<td>14,950.00</td>
<td>5,859.00</td>
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<tr>
<td>GPN</td>
<td>GLOBAL PAYMENTS INC</td>
<td>137.07</td>
<td>21,837</td>
<td>48.43</td>
<td>3,366.37</td>
<td>452.05</td>
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<tr>
<td>FLT</td>
<td>FLEETCOR TECHNOLOGIES INC</td>
<td>249.92</td>
<td>21,458</td>
<td>28.30</td>
<td>2,433.48</td>
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<tr>
<td>PYPL</td>
<td>PAYPAL HOLDINGS INC</td>
<td>106.46</td>
<td>124,792</td>
<td>62.28</td>
<td>15,451.00</td>
<td>2,057.00</td>
</tr>
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</table>

The peer group comparison is based on Major Data Processing & Outsourced Services companies of comparable size.
COMPANY DESCRIPTION
Automatic Data Processing, Inc. provides business process outsourcing services worldwide. It operates through two segments, Employer Services and Professional Employer Organization (PEO) Services. The Employer Services segment offers various human resources (HR) outsourcing and technology-based human capital management solutions. Its offerings include payroll, benefits administration, talent management, HR management, time and attendance management, insurance, retirement, and compliance services. This segment provides a range of solutions, which businesses of various sizes can use to activate talent, as well as recruit, pay, manage, and retain their workforce. It serves approximately 630,000 clients through its cloud-based strategic software as a service offering. The PEO Services segment provides HR outsourcing solutions through a co-employment model. This segment offers HR administration services, including employee recruitment, payroll and tax administration, time and attendance management, benefits administration, employee training and development, online HR management tools, and employee leave administration. It also provides employee benefits that enable eligible workforce employees with access to a 401(k) retirement savings plan, health savings accounts, flexible spending accounts, group term life and disability coverage, and an employee assistance program, as well as group health, dental, and vision coverage. In addition, this segment offers employer liability management services comprising workers’ compensation programs, unemployment claims management, safety compliance guidance and access to safety training, access to employment practices liability insurance, and guidance on compliance with the United States federal, state, and local employment laws and regulations. The company was founded in 1949 and is headquartered in Roseland, New Jersey.

STOCK-AT-A-GLANCE
Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of ADP shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock’s strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock’s valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR SCORE

Growth
Measures the growth of both the company’s income statement and cash flow. On this factor, ADP has a growth score better than 90% of the stocks we rate.

Total Return
Measures the historical price movement of the stock. The stock performance of this company has beaten 90% of the companies we cover.

Efficiency
Measures the strength and historic growth of a company’s return on invested capital. The company has generated more income per dollar of capital than 90% of the companies we review.

Price volatility
Measures the volatility of the company’s stock price historically. The stock is less volatile than 90% of the stocks we monitor.

Solvency
Measures the solvency of the company based on several ratios. The company is more solvent than 90% of the companies we analyze.

Income
Measures dividend yield and payouts to shareholders. The company’s dividend is higher than 60% of the companies we track.

THE STREET RATINGS RESEARCH METHODOLOGY
TheStreet Ratings’ stock model projects a stock’s total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.
## Consensus EPS Estimates² ($)
IBES consensus estimates are provided by Thomson Financial

<table>
<thead>
<tr>
<th></th>
<th>Q3 FY19</th>
<th>2019(E)</th>
<th>2020(E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.69</td>
<td>5.38</td>
<td>6.04</td>
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</tr>
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</table>

## FINANCIAL ANALYSIS
AUTOMATIC DATA PROCESSING’s gross profit margin for the second quarter of its fiscal year 2019 has increased when compared to the same period a year ago. Even though sales increased, the net income has decreased. AUTOMATIC DATA PROCESSING has very weak liquidity. Currently, the Quick Ratio is 0.18 which clearly shows a lack of ability to cover short-term cash needs. The company’s liquidity has increased from the same period last year, indicating improving cash flow.

During the same period, stockholders’ equity (‘net worth’) has increased by 21.18% from the same quarter last year. The key liquidity measurements indicate that the company is in a position in which financial difficulties could develop in the near future.

STOCKS TO BUY: TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit www.TheStreetRatings.com.
The Street Ratings

AUTOMATIC DATA PROCESSING

Sector: Technology | Data Processing & Outsourced Services | Source: S&P

<table>
<thead>
<tr>
<th>Annual Dividend Rate</th>
<th>Annual Dividend Yield</th>
<th>Beta</th>
<th>Market Capitalization</th>
<th>52-Week Range</th>
<th>Price as of 4/11/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.16</td>
<td>1.95%</td>
<td>0.95</td>
<td>$70.4 Billion</td>
<td>$112.58-$162.71</td>
<td>$161.67</td>
</tr>
</tbody>
</table>

RATINGS HISTORY

Our rating for AUTOMATIC DATA PROCESSING has not changed since 1/22/2009. As of 4/11/2019, the stock was trading at a price of $161.67 which is .6% below its 52-week high of $162.71 and 43.8% above its 52-week low of $112.58.

VALUATION

BUY. This stock’s P/E ratio indicates a premium compared to an average of 37.47 for the IT Services industry and a significant premium compared to the S&P 500 average of 21.82. Conducting a second comparison, its price-to-book ratio of 14.80 indicates a significant premium versus the S&P 500 average of 3.32 and a premium versus the industry average of 14.50. The price-to-sales ratio is well above the S&P 500 average, but well below the industry average. After reviewing these and other key valuation criteria, AUTOMATIC DATA PROCESSING proves to trade at a premium to investment alternatives.

Price/Earnings

1 2 3 4 5

ADP 30.24 Peers 37.47

- Average. An average P/E ratio can signify an industry neutral price for a stock and an average growth expectation.
- ADP is trading at a valuation on par with its peers.

Price/CashFlow

1 2 3 4 5

ADP 25.49 Peers 73.17

- Discount. The P/CF ratio, a stock’s price divided by the company’s cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
- ADP is trading at a significant discount to its peers.

Price/Projected Earnings

1 2 3 4 5

ADP 26.78 Peers 44.31

- Discount. A lower price-to-projected earnings ratio than its peers can signify a less expensive stock or lower future growth expectations.
- ADP is trading at a significant discount to its peers.

Price/Book

1 2 3 4 5

ADP 14.80 Peers 14.50

- Average. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- ADP is trading at a valuation on par with its peers.

Price/Sales

1 2 3 4 5

ADP 5.10 Peers 8.96

- Discount. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- ADP is trading at a significant discount to its industry on this measurement.

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